UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/11**

Paper 1 Multiple Choice **May/June 2012**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

* 0 4 1 2 5 2 7 3 4 2 *

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **forty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **13** printed pages and **3** blank pages.

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1 Which combination of resources and wants causes the economic problem?

	resources	wants
A	limited	limited
B	limited	unlimited
C	unlimited	limited
D	unlimited	unlimited

2 What does an economist mean by capital?

A man-made goods that do not directly satisfy human wants

B money used to set up new businesses and expand existing businesses

C natural resources that will not be replaced

D the ability to earn profits by combining resources to produce goods

3 A student leaves school and decides to spend the next two years at a college to improve her qualifications.

What is the opportunity cost to the student of taking this decision?

A the cost of the course fees at the college

B the increase in job opportunities she will have as a result of her extra qualifications

C the lost production due to her not being in work

D the money she would have earned if she had been in work for the two years

4 What is found in a mixed economy but **not** a free market economy?

A banks

B division of labour

C price controls

D profit motive

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5 A large shop selling clothes opened in a town. Its prices were much cheaper than other shops selling similar items. As a result many more customers came to the area. They also visited restaurants near the shop. The restaurants reported a 10 % increase in sales.

What economic concept does the above statement best illustrate?

A external benefit

B inelastic demand

C market failure

D perfect competition

6 What is **not** held constant in constructing a demand schedule?

A the incomes of consumers

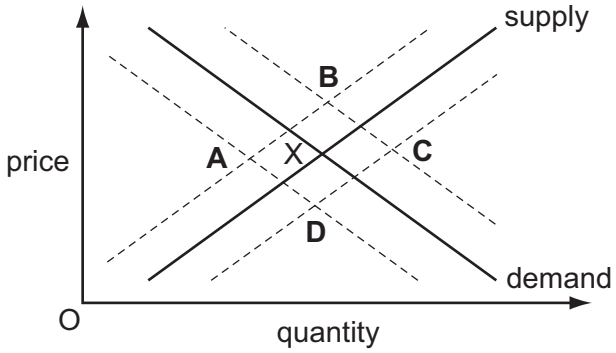
B the prices of complementary goods

C the price of the good itself

D the tastes of consumers

7 The diagram shows the demand and supply curves for digital cameras. The original equilibrium point is X.

What will be the new equilibrium point if these cameras become more fashionable and the rate of sales tax rises?



8 A shop sells chocolate birthday cakes. When the price was $15 it sold 40 cakes. It reduced the price to $10 and sold 60 cakes.

What can be concluded from this?

A The firm will make less profit because the price has fallen.

B The firm will make more profit because sales have increased.

C The price elasticity is inelastic because demand only increased by 50 %.

D There is unit price elasticity because the firm's revenue remained the same after the price change.

9 In 2010, a major oil leak from an oil rig affected many people living around the Gulf of Mexico.

What type of market failure did they experience?

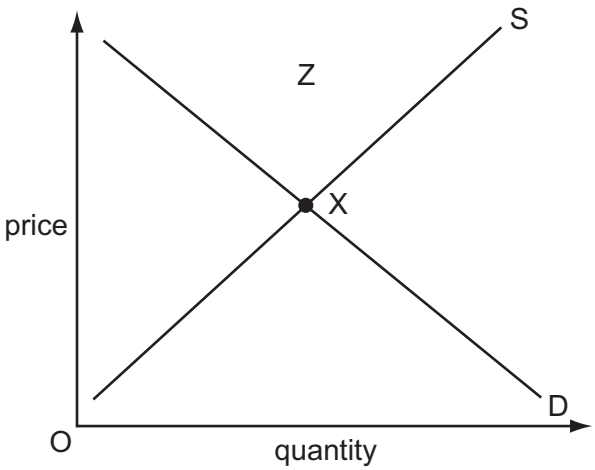
A monopoly exploitation

B negative externality

C price discrimination

D rising tax burden

10 What changes would move the equilibrium in the diagram from point X to a new point within area Z?



A a decrease in demand with a decrease in supply

B a decrease in demand with an increase in supply

C an increase in demand with a decrease in supply

D an increase in demand with an increase in supply

11 What is likely to cause wages in an occupation to be high?

A a low level of responsibility

B high unemployment

C pleasant working conditions

D the need for special skills

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12 A trade union negotiates a basic weekly wage for its members with all employers in an industry. In addition to the basic wage, one company also operates a production bonus at factory level.

What is the aim of this company?

A to give equal wages to all workers

B to increase the efficiency of the workers

C to introduce a minimum wage

D to reduce its total wage bill

13 What might cause a rise in the proportion of income that a person saves?

A a fall in interest rates

B a fall in population

C a fall in real incomes

D a fall in the income tax rate

14 For anything to be used as money, it must be

A a fixed value.

B in fixed supply.

C legal tender.

D readily acceptable.

15 Which is a major function of a commercial bank?

A acting as the lender of last resort

B collecting direct and indirect taxes

C issuing bank notes and coins

D lending money to its customers

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16 The table shows information for two workers.

	doctor	window cleaner
annual income ($)	50 000	20 000
total deductions ($)	10 000	8 000

Both workers save 10 % of their disposable income.

How much is this in each case?

	doctor	window cleaner
A	$12 000	$40 000
B	$1 200	$4 000
C	$40 000	$12 000
D	$4 000	$1 200

17 Which is a diseconomy of scale?

A Bulk buying reduces costs.

B Communications deteriorate.

C Employees are more motivated.

D Technological improvements take place.

18 The financial director of a company adds up the cost for the firm of rent, insurance, new machinery and the chief executive's basic salary. The director then divides that total by the firm's output.

What has the director calculated?

A average fixed cost

B average revenue

C average total cost

D average variable cost

19 A manufacturing firm wishing to have better control of its raw materials would seek to grow

A horizontally.

B laterally.

C vertically backwards.

D vertically forwards.

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20 Amit and Pardeep set up in business together. Each has half of the shares in the business and limited liability.

What type of business organisation is this?

A a co-operative

B a partnership

C a private company

D a public company

21 The table shows a firm's average revenue and average cost.

What level of output, **A**, **B**, **C** or **D**, gives maximum profit?

	output (units)	average revenue ($)	average cost ($)
A	5	10	30
B	10	20	20
C	15	25	15
D	20	30	18

22 If a perfectly competitive market becomes a monopoly, what will be likely to increase and what will be likely to decrease?

	increase	decrease
A	barriers to entry	economies of scale
B	long-run profits	competition
C	output	market share
D	consumer choice	prices

23 What would be **most** likely to reduce the rate of inflation?

A an increase in direct taxes

B an increase in government expenditure

C an increase in indirect taxes

D an increase in the budget deficit

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24 A government decides to sell to a private firm its monopoly supply of gas to households.

How could the government protect the interests of households after selling a large company to the private sector?

A by excluding all competition from foreign companies

B by imposing a tax on excess profits

C by introducing a quota system for imports of gas

D by removing price controls on gas

25 Why are schools sometimes built and run with government money?

A The private sector could not afford the cost of investment to build schools.

B The private sector would have lower standards than government schools.

C The provision of schools by the government ensures the widest choice for students.

D There are external benefits from the provision of education.

26 Changes in demand mean that the government of Bangladesh hopes to switch some production from clothes made by low-paid, unskilled workers to medicines produced by highly-trained technicians.

Which policies would enable Bangladesh to achieve this switch in employment and production?

A close clothes factories and decrease imports

B encourage immigration of foreign labour and introduce tariffs on clothing

C invest in education and purchase new machines

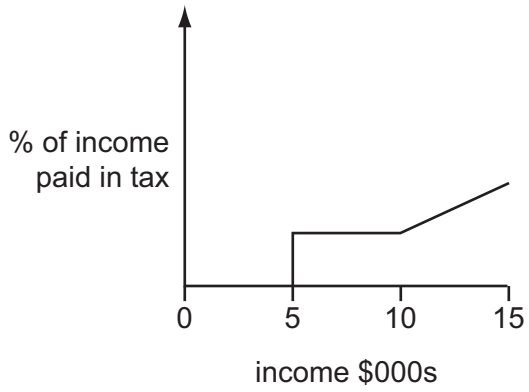
D substitute labour for machines and encourage emigration of workers from Bangladesh

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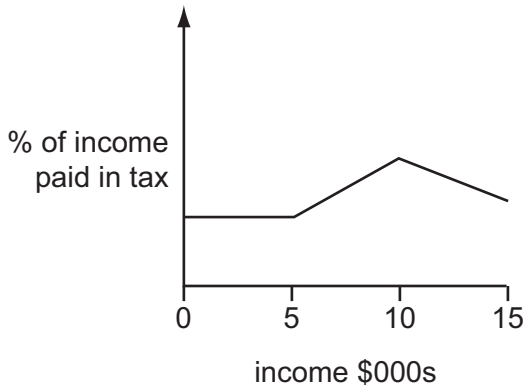
27 A country has a tax system which places no tax on incomes below $5000, is proportional on incomes between $5000 and $10 000 and is progressive on incomes above $10 000.

Which graph illustrates this tax system?

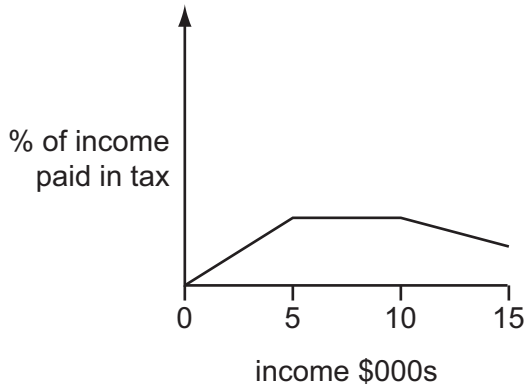
A



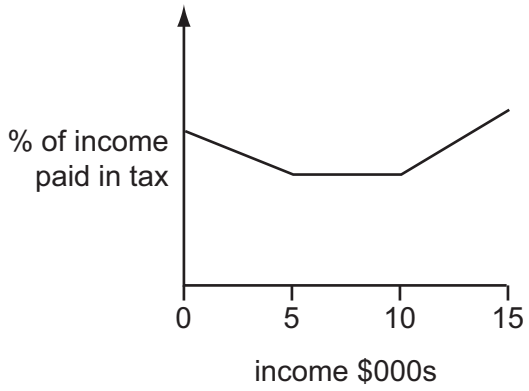
B



C



D



28 The following are a government's receipts from taxation.

	$m
tax on company profits	90
income tax	500
import duties	25
sales tax (VAT)	200

What is the total amount of revenue raised by direct taxes?

A $315m **B** $525m **C** $590m **D** $700m

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29 An increase in which of the following is **least** likely to cause inflation?

A consumer spending

B government spending

C income tax

D wages

30 Why might an increase in employment reduce a country's productivity?

A The cost of employing workers may increase.

B The new workers employed may be less skilled.

C The new workers employed may work with more advanced technology.

D The price of goods produced may fall.

31 Between 2009 and 2010, an economy grew by 2.1 %.

What is **most** likely to have increased during this period?

A population

B production

C unemployment

D wages

32 A country experienced its usual yearly increase in the rate of unemployment. Unfortunately this was followed by the loss of jobs resulting from the regular downturn in global economic activity.

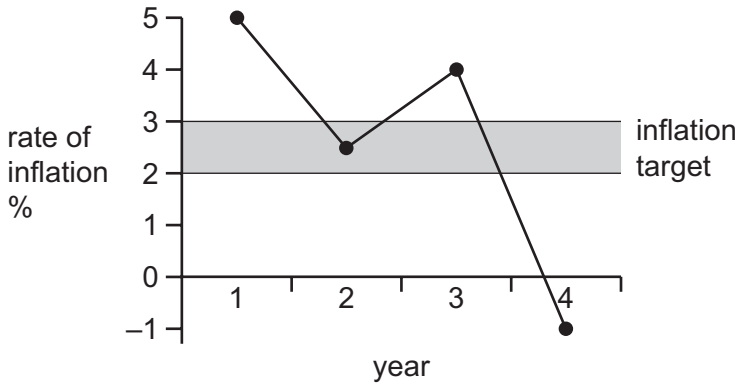
Which types of unemployment occurred?

	first type of unemployment	second type of unemployment
A	cyclical	structural
B	frictional	seasonal
C	seasonal	cyclical
D	structural	frictional

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33 A government has a target of keeping inflation between 2 % and 3 %.

The diagram shows the rate of inflation over a four year period.



What can be deduced from the diagram?

A The government target was missed in two years.

B The price level fell in two years.

C The price level was at its highest in the first year.

D The real value of money fell in three years.

34 After more than 70 years of production, a German car manufacturer, Volkswagen, has decided to locate the production of its biggest selling car in developing countries, rather than Germany.

What is the main advantage of this policy?

A to access new management techniques

B to make use of better infrastructure

C to sell the car only to customers in developing countries

D to train and employ labour at a lower cost

35 What is usually a characteristic of a developed country?

A a dependency on primary product exports

B high rates of economic growth

C low levels of productivity

D low rates of population growth

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36 What is most likely to be found in **both** developed and developing economies?

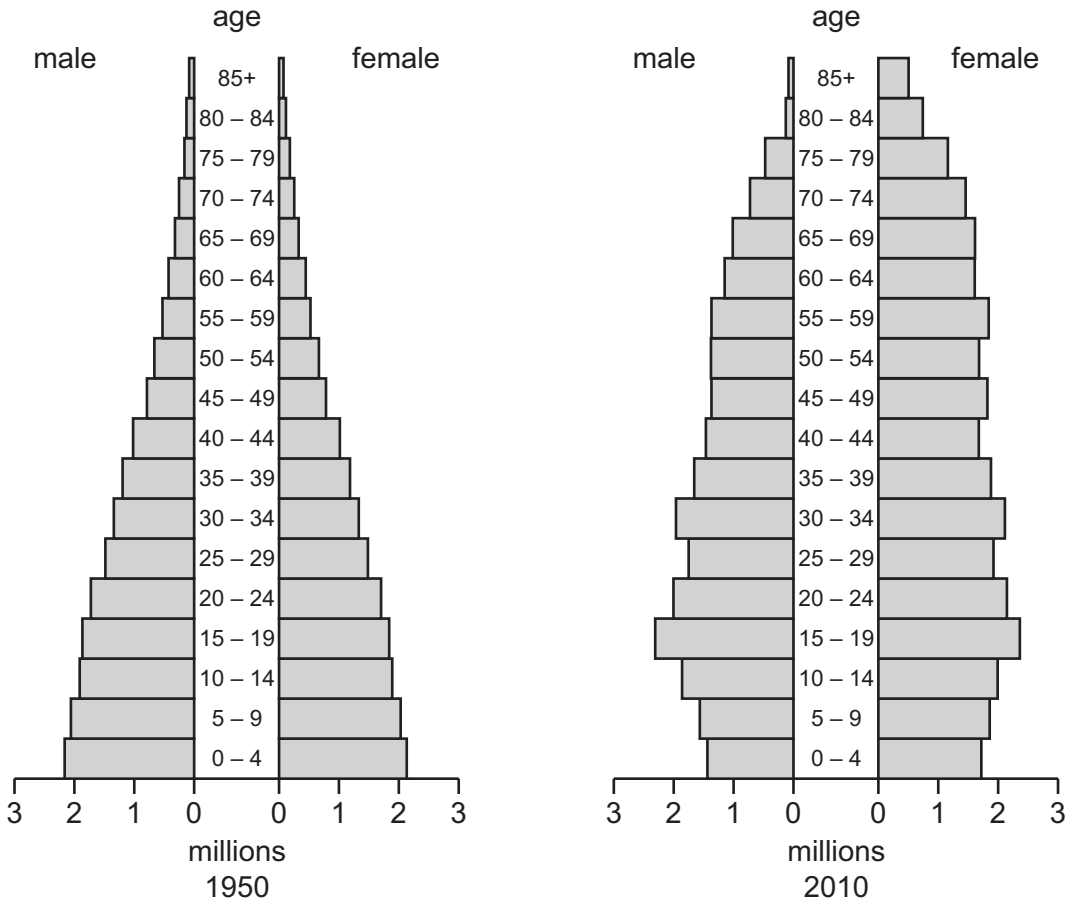
A Adult literacy rates are more than 90 %.

B A high proportion of wealth is owned by a few people.

C Earnings from agriculture and mining contribute most to GDP.

D Those who live in rural areas have access to proper sanitation.

37 The charts show the population structure of a country in 1950 and 2010.



What **decreased** between 1950 and 2010?

A average age

B number of people below 15

C number of people over 60

D total population

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38 What is an advantage to a country of free trade?

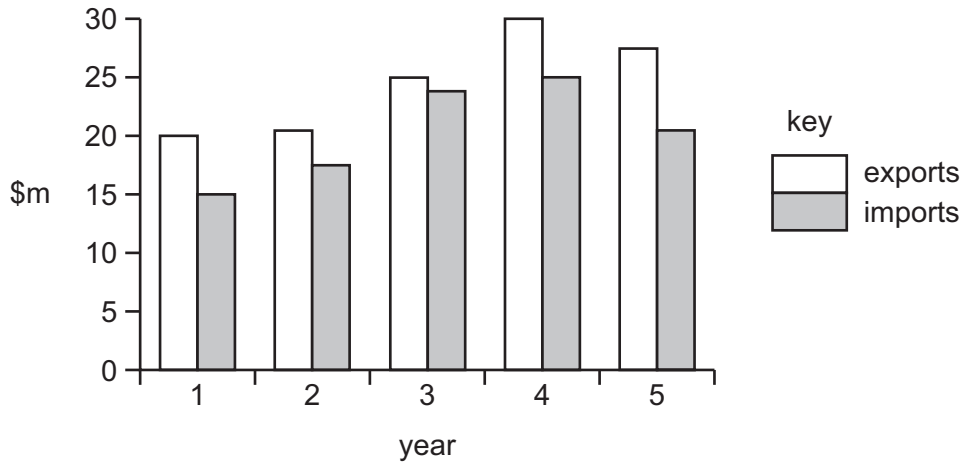
A greater international diversification of production

B greater range of domestically produced goods

C greater reliance on other countries

D greater specialisation in the use of resources

39 The diagram shows the value of exports and imports of goods of a country in five years.



Between which two years did the country have an increase in the value of imports and an improvement in its trade balance?

A 1 and 2 **B** 2 and 3 **C** 3 and 4 **D** 4 and 5

40 Which factor would cause a country's exchange rate to fall?

A demand for imports increase

B domestic interest rates rise

C domestic savings increase

D more tourists visit the country

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