UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/12**

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)

3954581408

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.

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1 Economics is primarily concerned with

A allocating scarce resources for unlimited wants.

B controlling unemployment and inflation.

C determining the level of government expenditure.

D studying how new wants and economic resources can be produced.

2 Which statement about the factors of production is correct?

A Capital includes factories and machinery but not roads and ports.

B Enterprise is more often found in the public sector rather than the private sector.

C Labour is the factor that takes risks and can become unemployed.

D Land is the natural factor that can be improved by human action.

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 true of a mixed economy but is **not** true of a free market economy?

A There is a mixture of agricultural, manufacturing and service industries.

B There is a mixture of central authorities, firms and consumers.

C There is a mixture of external benefits and private costs.

D There is a mixture of large and small companies.

5 Journeys in city centres may be made by bus or by car.

What is an external cost of this?

A bus fares

B car fumes and noise

C licence fees for cars

D purchase of buses

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

A the incomes of consumers

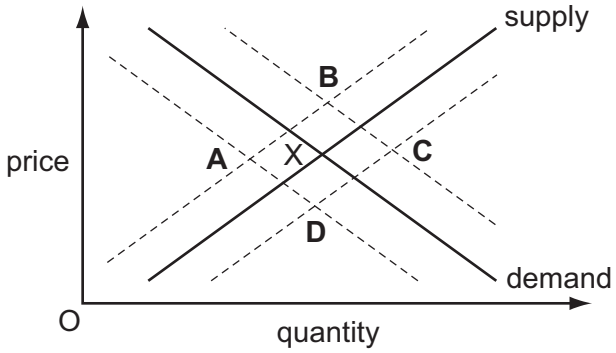
B the prices of complementary goods

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 The table shows the demand for chocolates at two different prices.

price $	quantity demanded
0.50	400
0.45	480

What is the price elasticity of demand when the price falls from $0.50 to $0.45?

A less than 0.5

B between 0.5 and 1

C between 1 and 1.5

D greater than 1.5

9 What is an example of market failure?

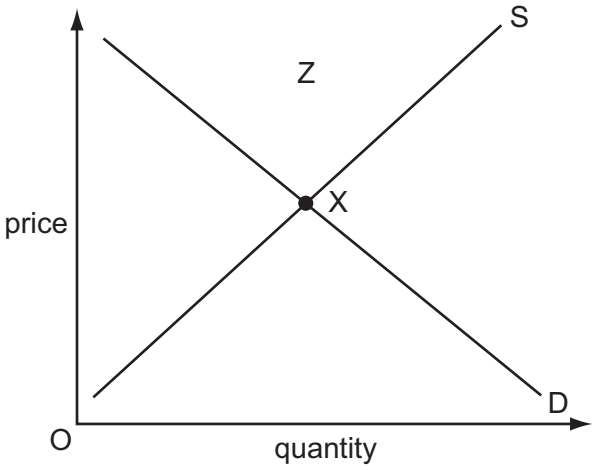
A a monopoly making abnormal profit

B prices charged to cover social cost

C the closure of small, independent shops in a rural area

D the inability of a car producer to achieve economies of scale

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 Cleaning the streets can be an unpleasant job and yet in many countries it is badly paid.

What is likely to be the reason for this?

A There is a high degree of trade union membership among these workers.

B There is a high supply of labour because the work is unskilled.

C There is a high demand for staff in busy urban areas.

D There is a long working year because there are few holidays.

12 What might be an advantage to a trade union when arguing for an increase in its members' pay?

A an increase in imports of a similar product

B the development of a new and profitable brand of the company's product

C the development of new machines requiring fewer workers

D the establishment of a local college providing training

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13 In 2008–2009 the central bank of a developed country reduced interest rates from 5 % to 0.5 % per year to stimulate the economy.

How would this policy have affected the amount saved and the cost of borrowing by individuals?

	amount saved	cost of borrowing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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

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

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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 When would a firm achieve maximum profits?

A when average revenue equals average cost

B when average revenue minus variable cost is greatest

C when fixed costs are equal to variable costs

D when total revenue minus total cost is greatest

19 Domino's, the largest US pizza chain, decided also to sell sandwiches in an attempt to increase its revenue.

Which term describes this change?

A amalgamation

B diversification

C externalities

D vertical integration

20 Which of these statements made by an Economics student about different types of business organisation is true?

A Partnerships face problems in raising large sums of finance.

B Private companies cannot have limited liability.

C Public companies operate in the public sector of the economy.

D Public corporations operate in the private sector of the economy.

21 The table shows the total costs of a firm. It can sell the units for $4 each.

quantity produced and sold (units)	5	6	7	8
total cost $	17	18	21	23

How many units will the firm produce to maximise profits?

A 5 **B** 6 **C** 7 **D** 8

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22 A monopoly takes over an industry from competitive firms.

What is **not** likely to be true about the monopoly compared with a competitive firm?

A A monopoly will earn a higher rate of profit.

B A monopoly will gain a greater share of the market.

C A monopoly will offer a wider choice to the consumer.

D A monopoly will operate on a larger scale of production.

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

24 Which statement about the meaning of government economic aims is correct?

A Economic growth means that a country's real output must rise over time.

B Full employment means that no-one must be unemployed.

C Price stability means that the price of all goods and services must remain unchanged.

D Redistribution of income means that everyone must have equal incomes.

25 Which combination of government policies would **most** likely increase the rate of growth of domestic production in an economy?

A an increase in expenditure on infrastructure and an increase in income tax

B an increase in interest rates and an increase in quotas on imported goods

C an increase in subsidies to domestic industry and an increase in tariffs

D an increase in value added tax (goods and services tax) and an increase in education expenditure

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

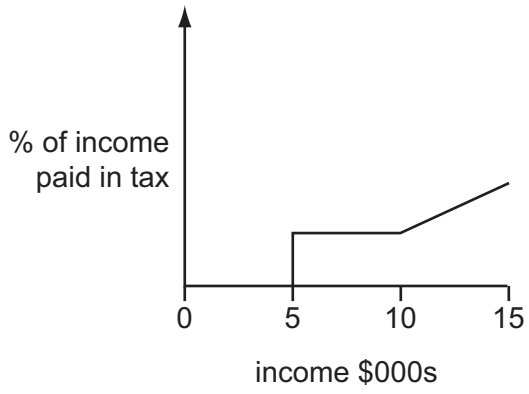
D substitute labour for machines and encourage emigration of workers from Bangladesh

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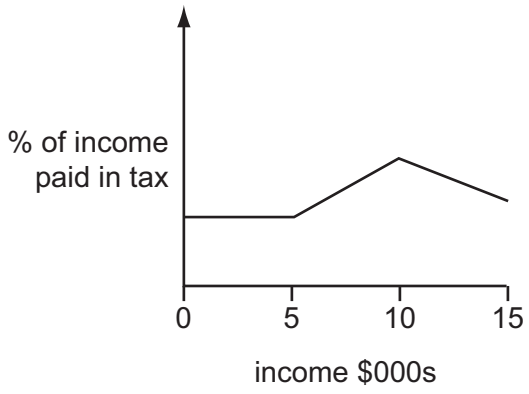
27 A country has a tax system which places no tax on incomes below $5000, is proportional on incomes between $5000 and $10 000 and is progressive on incomes above $10 000.

Which graph illustrates this tax system?

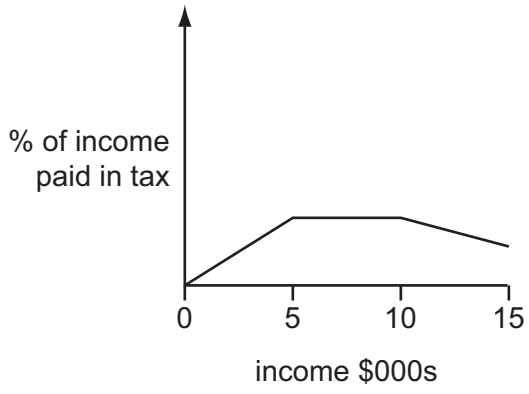
A



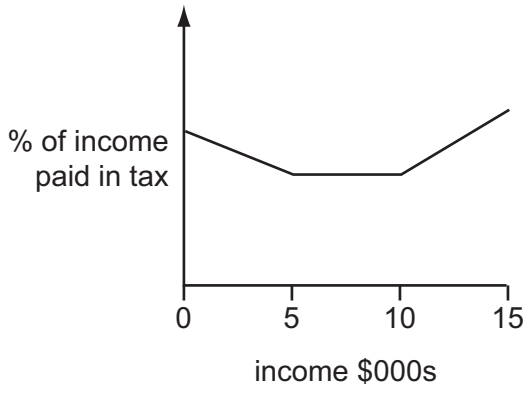
B



C



D



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

	$m
tax on company profits	100
income tax	600
import duties	30
sales tax (VAT)	250

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

A $280m **B** $700m **C** $730m **D** $950m

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29 Why is it difficult for a government to measure economic growth in an economy based on subsistence farming?

A Farmers' families consume most of their own produce.

B Farmers have low rates of saving.

C The size of harvest is dependent on the weather.

D The surplus produce is sold to the government.

30 A country experiences a significant fall in unemployment.

What is a possible advantage and a possible disadvantage of such a fall?

	possible advantage	possible disadvantage
A	fall in government spending on unemployment benefits	fall in labour disputes
B	fall in tax revenue	fall in poverty
C	rise in living standards	rise in inflation rate
D	rise in output	rise in labour mobility

31 The inhabitants of an economy experience an increase in their cost of living, their living standards and their leisure time.

Which combination of events could explain these changes?

	price level	real GDP	average working week
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	decrease

32 What must have happened in a country when it experienced an annual rate of inflation of 100 %?

A The money supply doubled.

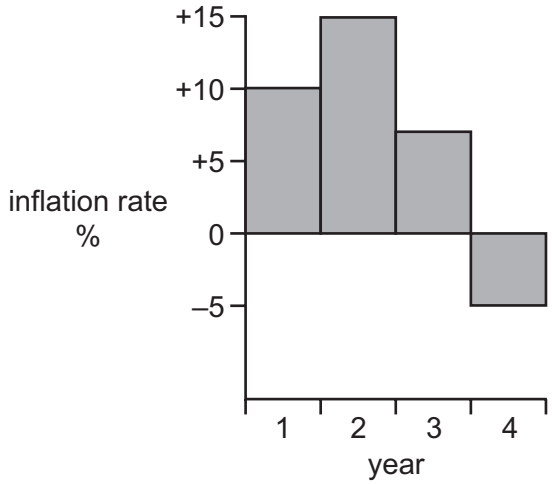
B The price level halved.

C The purchasing power of money halved.

D The real value of money doubled.

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33 The diagram shows a country's inflation rate in four successive years.



In which year was the country's general price level lowest and highest?

	lowest general price level year	highest general price level year
A	1	3
B	3	2
C	3	4
D	4	2

34 What level of unemployment and what distribution of income are often found in developing economies?

	level of unemployment	distribution of income
A	high	evenly distributed
B	high	unequal
C	low	evenly distributed
D	low	unequal

35 Why is the size of the average family higher in developing countries than in developed countries?

A In developing countries babies are more likely to survive at birth.

B In developing countries parents start families at a later age.

C In developing countries there is often a shortage of family planning advice.

D In developing countries the government provides a higher level of child support.

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36 Which combination of factors might cause a country to be classified as developing rather than developed?

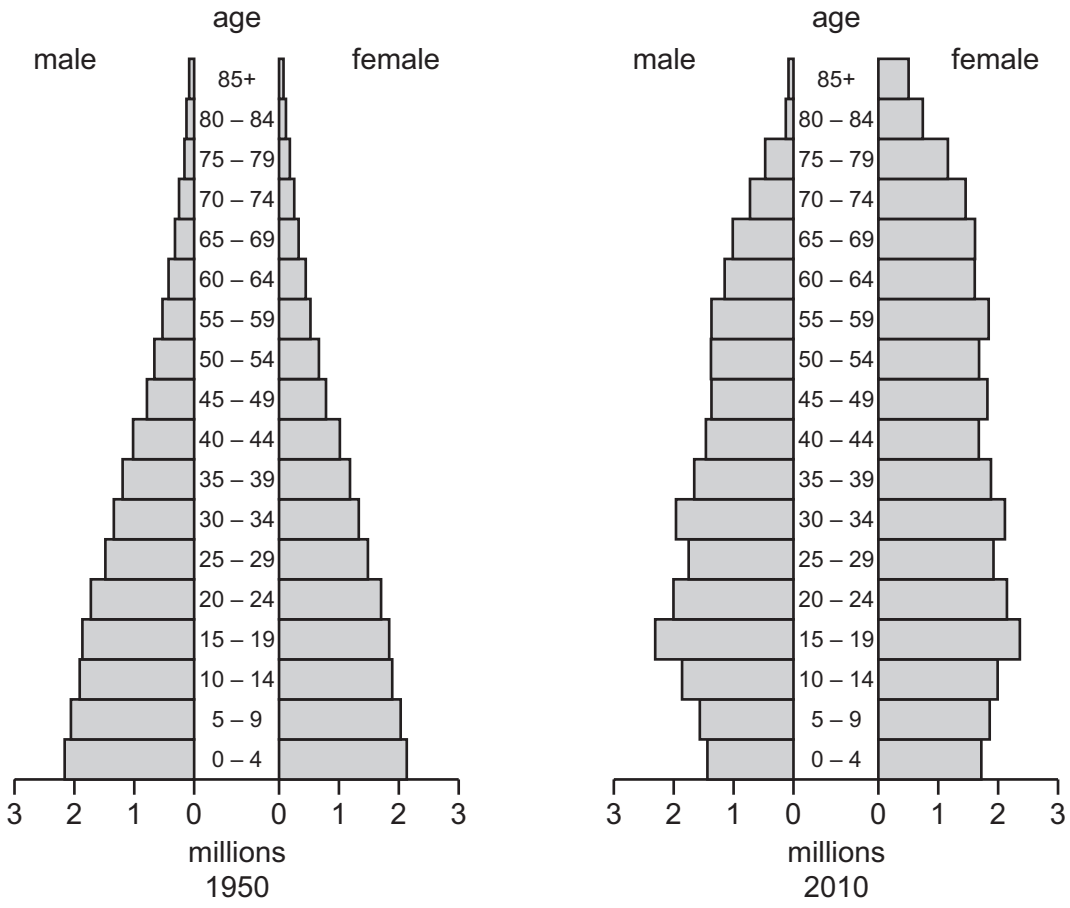
A a government budget deficit and a low death rate

B a high birth rate and a low death rate

C a large population and a current account deficit

D a poor education system and a low standard of living

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

38 What is likely to cause a rise in a country's foreign exchange rate?

A a fall in its exports of goods and services

B a fall in its imports of goods and services

C a fall in its inflow of income

D a rise in its outflow of transfers

39 A government removed the quota on goods imported into the country.

What is the **most** likely result of this?

A a decrease in demand for domestic production

B a decrease in domestic unemployment

C a decrease in exports

D a decrease in the balance of trade deficit

40 The table shows the exchange rate of the pound (£) in US dollars ($) and the UK Balance of Payments on current account from 1998 to 2001.

year	number of US $ for each £	UK current account £m
1998	1.65	–4 814
1999	1.61	–19 729
2000	1.51	–19 208
2001	1.44	–20 453

Which of the following correctly describes these trends between 1998 and 2001?

	value of £ in terms of US $	current account
A	appreciating	improving
B	appreciating	worsening
C	depreciating	improving
D	depreciating	worsening

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