UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **May/June 2013**

1 hour

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

* 5 5 8 9 4 2 9 5 6 3 *

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.
DO NOT WRITE IN ANY BARCODES.

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 **11** printed pages and **1** blank page.

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1 Why will the economic problem never be solved?

A People will always want more products than can be produced.

B People will never agree on what is the best economic system.

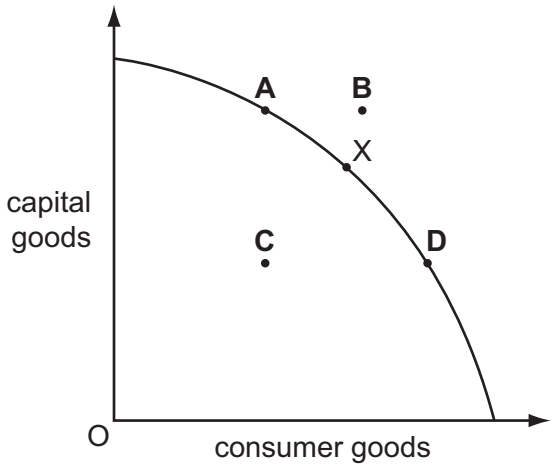
C There will always be an uneven distribution of income.

D There will always be some people unemployed.

2 A country is producing at point X on its production possibility curve which shows how it can allocate its production between capital goods and consumer goods.

A period of recession then causes some of its factories to close.

Which point could represent the country's new position?



3 Reena makes a living by selling paintings of the town in which she lives. She sells them in an open-air market once a week.

In order to be able to sell more pictures in a week she decides to buy a studio, pay someone to help in the studio and try to increase demand by advertising in the local paper.

Which factors of production were changed?

A capital and enterprise

B enterprise and labour

C labour and capital

D labour only

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4 A country needs extra nurses. How could this be encouraged in a mixed economy but not in a market economy?

A Extra part-time nursing courses could be arranged by private colleges.

B Nurses could be given a higher statutory minimum wage.

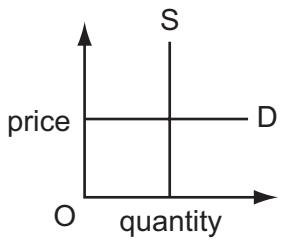
C Nursing students could be asked to pay increased fees.

D Nursing training colleges could have their subsidies reduced.

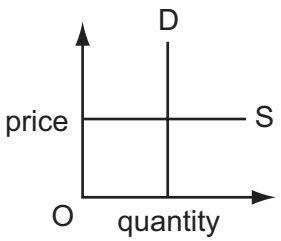
5 There are a fixed number of seats at a concert. Most of the audience would continue to attend even if the seat prices were increased.

Which demand and supply diagram represents this situation?

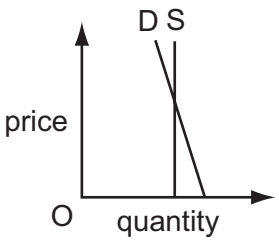
A



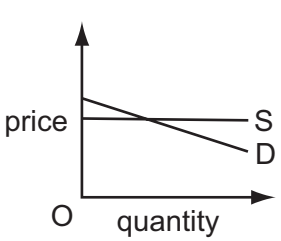
B



C



D



6 Many countries buy oil from Saudi Arabia.

Which change is most likely to lead to a fall in the price of a barrel of oil?

A an increase in demand of 10% with no change in supply

B an increase in demand of 10% with an increase in supply of 10%

C no change in demand with a 10% decrease in supply

D no change in demand with a 10% increase in supply

7 A recent study has found that the price elasticity of demand for cigarettes in the USA is –0.7.

What can be concluded from this information?

A A fall in the price of cigarettes would lead to a fall in the revenue of cigarette producers.

B A rise in the price of cigarettes would lead to a fall in consumer expenditure on cigarettes.

C A 7% increase in the price of cigarettes would reduce the quantity demanded by 10%.

D A 10% increase in the cost of producing cigarettes would lead to a 7% fall in the quantity demanded.

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8 A government makes public transport free to try to reduce car use in a city.

What might explain why people continue to use their own cars?

A Cars are less crowded than public transport.

B Car use does not cause external costs.

C Public transport has a better safety record than cars.

D Public transport networks require high capital costs.

9 When the price of a good doubles the demand falls by less than half, and the revenue received by the seller increases.

What does this suggest about the good?

A it has substitutes

B it is a necessity

C it is in fixed supply

D it is perfectly elastic in demand

10 What is an example of market failure?

A a balance of trade deficit

B monopoly profits

C rapidly rising price levels

D the production of non-essential goods

11 A function of money is to act as a measure of value.

What does this mean?

A It is used to compare the worth of different goods.

B It is used to enable monthly payments for expensive goods.

C It is used to pay the price of a good.

D It is used for future savings.

12 Why may a rise in the rate of interest cause some people to save less?

A They may be saving for a fixed 10 year term.

B They may be saving out of habit.

C They may be saving to leave as much money as possible to their children.

D They may be saving to raise a particular sum of money.

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13 Which of the following is most likely to limit wage increases in an industry?

A an increased demand for the industry's product

B a rise in the industry's profits

C a rise in wages for workers in similar jobs

D the replacement of workers with robots

14 What is a function of a trade union?

A to negotiate workers' contracts

B to promote workers to more responsible jobs

C to recruit workers for the firm

D to supervise the workers in the firm

15 Each worker in a firm specialises in performing one task. The firm then decides that each worker should carry out a variety of tasks.

Which benefit will the firm be expecting to gain from the change?

A a decrease in the equipment workers need to be given

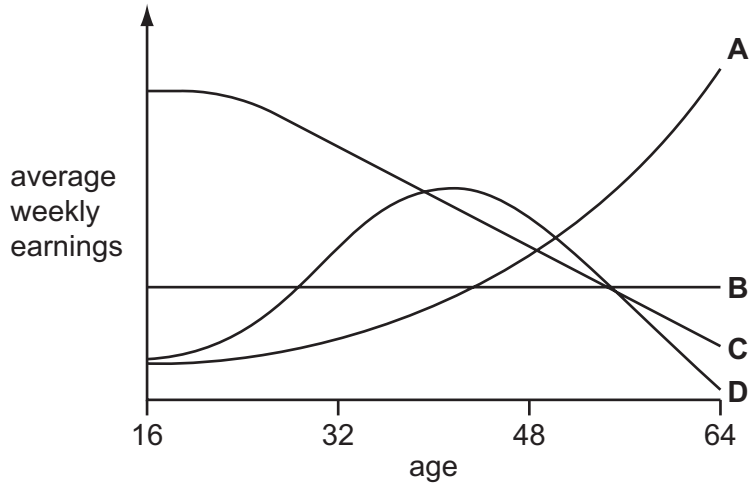
B a decrease in the time it takes to train workers

C an increase in the ability to cover for absent staff

D an increase in the skill gained from repetition

16 The diagram shows how the weekly earnings of four workers changed between ages 16 and 64.

Which line is most likely to represent the change in the weekly earnings of an unskilled, manual labourer?



17 Why is a firm in perfect competition a price taker?

A Demand for its product is perfectly inelastic.

B Demand for its product is unaffected by changes in market conditions.

C It is one of a small number of firms in the industry.

D Its output is too small to have any effect on a proportion of the total market.

18 What will happen to a firm that expands to take advantage of economies of scale?

A Average costs of production will decrease.

B Average costs of production will increase.

C Profits will decrease.

D The price of the firm's products will increase.

19 Cocoa and sugar are used in a factory to produce chocolate.

What is a fixed cost in the production of chocolate?

A cocoa

B electricity

C rent

D sugar

20 In August 2008, Infosys, an Indian information technology company, bought Axon, a UK information technology company.

Which type of integration is this?

A conglomerate

B horizontal

C vertical backwards

D vertical forwards

21 In a city, both large and small shops sell clothes.

Why do large and small shops exist together?

A Large clothing shops create barriers to entry.

B Small shops always sell clothes at lower prices.

C The market for clothing operates under perfect competition.

D There is demand from consumers for a range of fashions.

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22 An entrepreneur buys a workshop for $200 000 to make plastic boxes. In the first year of operation he spends $70 000 on materials, employs ten production workers paid by the amount produced (piece rate) at a total cost of $80 000 and buys two delivery vehicles for $10 000 each.

What are his total variable costs?

A $100 000 **B** $150 000 **C** $220 000 **D** $370 000

23 Goods and Services Tax (GST) is charged on purchases at 15% in New Zealand and 10% in Australia.

This tax is considered to be

A direct.

B progressive.

C proportional.

D regressive.

24 What is the most likely result of an increase in interest rates?

A a rise in investment

B a rise in borrowing

C a fall in consumer spending

D a fall in productivity

25 What is most likely to be the responsibility of a central government?

A the provision of immigration officials at an airport

B the provision of security cameras in a shopping centre

C the provision of security staff at a bank

D the provision of ticket inspectors on a train

26 A government reduces the interest rate to encourage economic growth.

Which other aim of government policy might now become more difficult to achieve?

A reducing a balance of trade in goods surplus

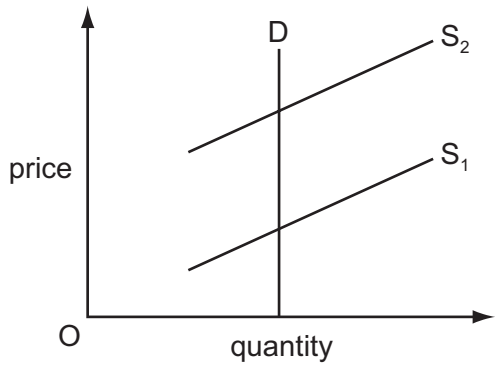
B reducing a government budget deficit

C reducing the level of unemployment

D reducing the rate of inflation

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27 The graph shows the impact of a tax on the supply of petrol (gas).



What can be concluded from this graph?

A the government will receive no tax revenue

B the impact of the tax will be shared between the consumer and the producer

C the impact of the tax will fall entirely upon the consumer

D the impact of the tax will fall entirely on the producer

28 A government wants to reduce basic food prices without making the current account of the balance of payments worse.

What should it do?

A ban food exports

B put duties on food imports

C ration basic foods

D subsidise local food producers

29 In an economic recession, which policy might be adopted to reduce unemployment?

A an increase in foreign exchange rates

B an increase in interest rates

C a reduction in import duty

D a reduction in tax rates

30 In 2010 there was an increase in net emigration from Ireland.

What is most likely to have caused this increase?

A a decrease in job security abroad

B a decrease in wage rates abroad

C an increase in Ireland's real GDP

D an increase in unemployment in Ireland

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31 In the United States (US) Consumer Price Index (CPI), food has a weighting of 13.7%. In the Indian CPI, food's weighting is 46.2%.

What can be concluded from this?

A Consumers in India spend more on food than US consumers.

B Food is a bigger proportion of consumer spending in India than in the US.

C The farming sector's output of food is higher in India than in the US.

D The price of food is rising more rapidly in India than in the US.

32 In July 2011 the monthly rate of inflation decreased to 2%. At that time it was expected that it would be 1% in August but would not continue to decline in September.

If this occurred, what happened to prices in July, August and September?

	July	August	September
A	fell	fell	uncertain
B	fell	rose	rose
C	rose	fell	uncertain
D	rose	rose	rose

33 Which is most likely to lead to a fall in the rate of inflation?

A a decrease in import prices

B a decrease in income tax

C an increase in consumer spending

D an increase in unemployment benefits

34 In Botswana, better health care has meant that birth rates have been falling faster than death rates. Also the number of children born, on average, to each woman has declined. In 1981, women had 6.4 children on average; by 2006, the average was 3.2

What may be concluded from this information?

A Government spending on education will need to increase.

B Medical improvements have resulted in falling child mortality rates.

C There will be a decline in income for each person working.

D There will, in future, be an increase in the proportion of working population compared with non-working population.

35 The table shows data for four countries in 2006.

	life expectancy (years)	computers per 100 population	percentage of labour force employed in agriculture	crude birth rate
Bangladesh	64.1	1.2	66	24.8
Egypt	71.3	3.7	27	24.2
India	64.8	1.5	60	23.0
Pakistan	65.6	1.6	42	27.2

On the basis of the information given, what is the likely ranking order of the four countries in terms of development, starting from the most developed to the least developed?

A Bangladesh → India → Pakistan → Egypt

B Egypt → Pakistan → India → Bangladesh

C India → Egypt → Bangladesh → Pakistan

D Pakistan → Bangladesh → Egypt → India

36 Which combination of changes is most likely to result in a rise in the average living standard in a country?

	Gross Domestic Product	population	general price level
A	falls	falls	rises
B	falls	rises	falls
C	rises	falls	falls
D	rises	rises	rises

37 In the short-run, which investment is likely to be the most successful in improving living standards?

A investment in capital intensive production

B investment in education

C investment in labour intensive production

D investment in research and development

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38 A country says that it wishes to increase its trade protection policies.

What might that involve?

A conservation of resources and taxes on external costs

B eliminating waste in the use of resources and the encouragement of multinational companies

C increased self sufficiency and barriers to trade

D price controls and increased regulations on domestic monopoly industries

39 The recent world recession has resulted in fewer tourists from other countries visiting the United States (US).

How would this be recorded in the current account of the US balance of payments?

A a decrease in services exported

B a decrease in services imported

C an increase in services exported

D an increase in services imported

40 The table gives the retail price of a product in four countries in 2012.

New Zealand	$20.00	(New Zealand dollars)
Pakistan	1500	Rupees
South Africa	125	Rand
United Kingdom	£10.00	

What is needed to make a clear comparison of the price in the four countries?

A direct tax rates

B exchange rates

C import tariff rates

D transport costs

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