Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **May/June 2014**

45 minutes

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

* 2 5 9 6 1 6 4 4 2 8 *

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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 **thirty** 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 **9** printed pages and **3** blank pages.

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1 What is the cause of economic scarcity?

A limited wants with limited resources

B limited wants with unlimited resources

C unlimited wants with limited resources

D unlimited wants with unlimited resources

2 How is an immediate effect of an increase in unemployment illustrated on a production possibility curve diagram?

A a movement of the production point closer to the curve

B a movement of the production point further inside the curve

C a shift of the production possibility curve inwards

D a shift of the production possibility curve outwards

3 What is a factor of production?

A a semi-skilled, young worker

B direct taxes received by a government

C shares in a manufacturing company

D stocks of money held a bank

4 A supply curve shows the link between the quantity supplied and

A demand.

B equilibrium output.

C the price of the product.

D the scale of production.

5 Which headline could apply to a mixed economy but **not** a free market economy?

A ‘Cheap imports put domestic producers out of business.’

B ‘Local government planning decision angers residents.’

C ‘Many fish die as a company pollutes a river with waste material.’

D ‘Small shops close as large supermarkets open in the area.’

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6 In 2012 the local government of a city decided to increase parking charges for motorists. It was intended to raise money to correct a deficit in the local government's budget. The local government said if they did not increase charges they would not be able to provide all their current services. Businesses complained about the likely loss of revenue if parking charges were increased.

Which concepts does this statement involve?

A inflation and the private sector

B opportunity cost and public expenditure

C private benefit and the free market

D unlimited resources and a centrally planned economy

7 In 2011 the US Government declared that the country must increase the manufacture of fuel from crops such as corn that have previously only been used for food.

What is likely to happen in the market for corn?

A a movement along the demand curve for corn

B a movement along the supply curve for corn

C a shift to the left in the demand curve for corn

D a shift to the left in the supply curve for corn

8 What may cause an individual to save a higher proportion of their income?

A a belief that the price of goods will rise in the future

B a fall in the rate of interest paid by the country's banks

C a fear that income will fall in the future

D a rise in the individual's wish to enjoy higher consumption immediately

9 In a particular industry, male workers on average are paid more than female workers.

What might explain this?

A Female workers are less likely to take time off work.

B Female workers are more likely to be in trade unions.

C Male workers have higher qualifications.

D Male workers live nearer to their place of work.

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10 In South Africa, the rate of consumer spending is relatively high compared with other developing countries. However, the unemployment rate is high at 25% and only 27% of students complete the 12 years of basic education.

As a result, what is also likely to be found in South Africa?

A a high average standard of living

B a high current rate of savings

C a high level of debt among consumers

D a high supply of skilled workers

11 A trade union is negotiating a wage rise for its members.

What will increase the chance of the wage rise being granted?

A The company's product has many substitutes.

B The economy is entering a period of recession.

C The government has made strike action illegal.

D Wages are a small part of the company's costs.

12 When a shoe manufacturer doubles all factors of production output more than doubles.

Which economic concept does this illustrate?

A diseconomies of scale

B economies of scale

C increasing profits

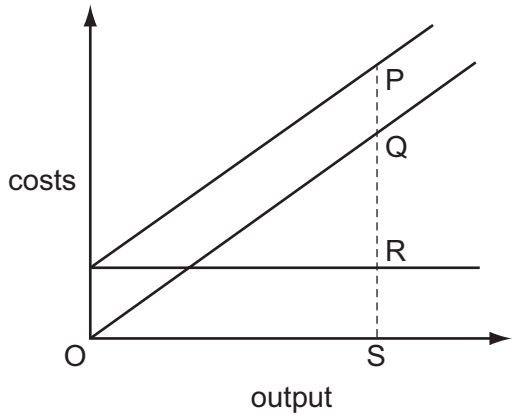
D opportunity cost

13 Which market conditions apply to firms that operate in perfect competition and which to a monopoly?

	perfect competition	monopoly
A	demand influenced by advertising	demand not influenced by advertising
B	many barriers to entry	no barriers to entry
C	no influence on price	strong influence on price
D	sales of branded products	sales of unique products

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14 The diagram shows the fixed costs, variable costs and total costs of a firm.



Which distance represents the firm's fixed costs?

A PS **B** QR **C** QS **D** RS

15 When it produces 100 units, a firm's total variable cost is $300 and its total fixed cost is $2700.

What is the average cost?

A $3 **B** $24 **C** $27 **D** $30

16 Which policy is an example of an expansionary monetary policy?

A lower interest rates

B lower money supply growth

C lower public sector spending

D lower taxation

17 What is **not** a public sector expenditure?

A claims paid on travel insurance for cancelled flights

B collections of rubbish by a local council to meet regulations on recycling waste

C grants from central funds to compensate people whose property has been damaged by storms

D the establishment of a national database to assist the police in finding criminals

18 Which pair of government actions combines a fiscal policy with a supply-side policy?

A changing government spending with changing interest rates

B cutting tax rates with providing information on job vacancies

C limiting bank lending with the privatisation of industry

D restricting credit with less control over labour markets

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19 A government collects the following revenue in a year.

	$m
taxes on goods	30
taxes on income	500
taxes on services	20
customs and excise duties	50

What is the amount of indirect tax revenue?

A $30 m **B** $70 m **C** $100 m **D** $500 m

20 Which type of unemployment occurs when the total demand for goods and services in the economy falls?

A cyclical

B frictional

C seasonal

D structural

21 Why is the Human Development Index (HDI) often considered to be better than GDP per head as a measure of living standards?

A GDP per head excludes economic growth.

B GDP per head ignores population growth.

C HDI includes more than the production of goods and services.

D HDI is calculated by the national government.

22 In 2013 there was a period of low interest rates and high inflation in an economy.

Who would be most likely to benefit and who most likely to lose during such a period?

	benefit	lose
A	borrowers	savers
B	consumers on fixed incomes	firms wishing to invest
C	credit card companies	sellers of luxury goods
D	exporters	banks

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23 In which case is success for the government in achieving the first aim likely to cause problems in achieving the second?

	first aim	second aim
A	full employment	price stability
B	high economic growth	full employment
C	price stability	stable balance of payments
D	stable balance of payments	more even distribution of income

24 Which combination of influences must have occurred for a population to be falling when there is **no** migration?

	birth rate	death rate	fertility rate
A	falling	falling	falling
B	falling	rising	falling
C	falling	rising	rising
D	rising	falling	falling

25 Developing countries often wish to prevent the population in rural areas moving to the towns. Investment grants are given to companies if they set up their businesses in rural areas.

What is this policy intended to achieve?

A decreased transport costs

B decreased external cost

C increased economies of scale

D increased use of labour

26 Increasing numbers of qualified medical workers from developing economies migrate to developed economies.

What explains this migration?

A There are better working conditions in hospitals and clinics in developed economies.

B There are fewer patients requiring medical treatment in developing countries.

C There is a lack of training opportunities for medical staff in developed economies.

D There is an oversupply of qualified medical workers in developing countries.

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27 The table gives information about four countries.

Which country has the lowest standard of living?

	life expectancy	GDP per head (US $)	% of labour force in agriculture
A	48	120	80
B	48	250	70
C	54	350	75
D	60	380	60

28 The citizens of a country which avoids international trade may benefit from

A an increase in specialisation.

B better political and cultural ties.

C competitive pressure to improve the quality of goods.

D more employment in their industries.

29 In 2012, Nokia, a mobile phone manufacturer, produced 18% of Finland's exports.

Why might this be undesirable for Finland?

A Foreign demand for mobile phone firms may grow continuously.

B Nokia may introduce new technology which raises total costs by less than output.

C There may be a reduction in trade restrictions on mobile phones.

D There may be an industrial dispute at Nokia.

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30 The table shows the values of the items in a country's current account in two years.

item	year 1 ($m)	year 2 ($m)
balance of goods and services	–30	0
net income	–30	–20
net transfers	?	?
balance of current account	–50	+10

How did the value of the net transfers change between year 1 and year 2?

A decreased by $10m

B decreased by $20m

C increased by $20m

D increased by $30m

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