Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **May/June 2016**

45 minutes

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

6819512628

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

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1 What economic concept must be at work when there is movement by a country along its production possibility curve?

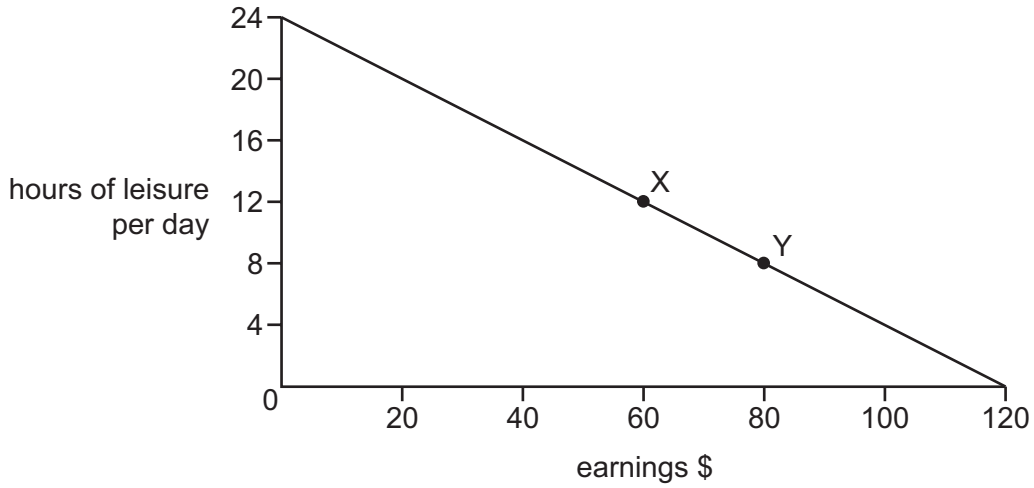
A economies of scale

B equilibrium price

C maximum profit

D opportunity cost

2 The diagram shows the choices for an individual between leisure and earnings.



The person decides to take a job that gives more leisure time.

What is the opportunity cost to the individual of moving from position Y to position X?

A $20

B $80

C 4 hours of leisure per day

D 12 hours of leisure per day

3 What is the best example of the existence of the economic problem?

A A government provides accommodation for all those who are homeless.

B A police force has a lengthening list of unsolved crimes.

C Janitha hands her homework in at the last permitted deadline.

D Musa completes his journey without putting petrol in his car.

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4 A government taxes the production of cars.

What is likely to decrease?

A the cost of supplying cars

B the price of cars

C the revenue for the government

D the supply of cars at every price

5 Which pair of economic institutions is most likely found in a market economy?

A free accident and emergency hospitals and charities

B partnerships and public corporations

C stock exchange and monopolies

D trade unions and local government schools

6 Developers want to increase the size of a major retail shopping area in a city. It is thought that the proposal would create hundreds of jobs, be profitable for the shops but cause major traffic congestion.

What economic concepts are directly involved in this statement?

A external cost and private benefit

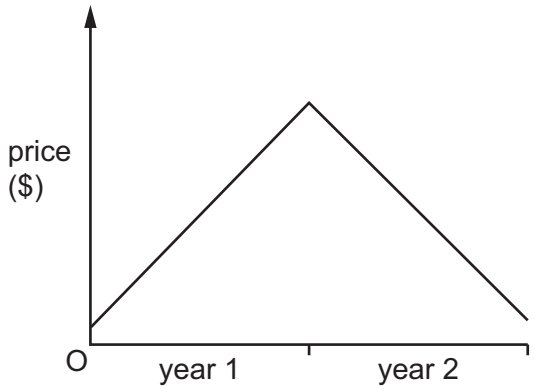
B income distribution and inelastic demand

C private investment and a decrease in supply

D social benefit and perfect competition

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7 The diagram shows the price of a product during year 1 and year 2.



Which changes in demand and supply are consistent with the price behaviour in year 2?

	demand	supply
A	falls by 5%	falls by 10%
B	falls by 10%	falls by 5%
C	unchanged	falls by 10%
D	rises by 15%	falls by 5%

8 A trade union agrees on a 'closed shop' policy with employers in an industry.

How does this operate?

A All workers will be members of the trade union.

B Employment will be open only to skilled workers.

C The employers cannot make workers redundant.

D Workers cannot move between employers.

9 When will a central bank act as lender of last resort to a commercial bank?

A when a commercial bank faces a liquidity crisis

B when a commercial bank fails to make a profit

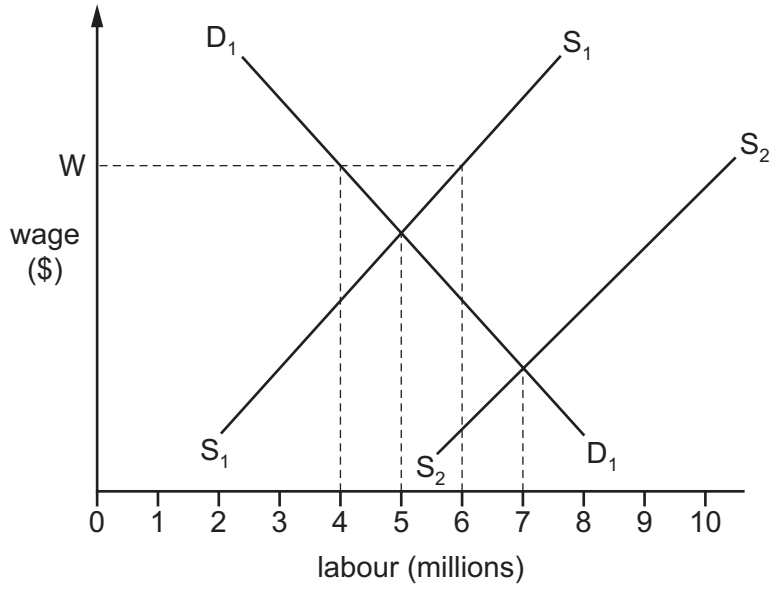
C when a commercial bank needs to raise share capital

D when a commercial bank reduces its lending rates

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10 In the diagram, D_1D_1 and S_1S_1 represent the demand for and the supply of labour. W indicates a legal minimum wage.

An influx of immigrant labour causes the supply curve for labour to shift from S_1S_1 to S_2S_2.



How many people will be employed if the minimum wage legislation is then abolished?

A 4 million **B** 5 million **C** 6 million **D** 7 million

11 The table shows how three people spend their income.

	person X	person Y	person Z
food, clothing and housing	35%	50%	20%
entertainment and leisure	25%	20%	40%
luxury goods	40%	30%	40%

For these three people, what is the most likely order of income, from lowest income to highest income?

A $X \rightarrow Y \rightarrow Z$

B $Y \rightarrow X \rightarrow Z$

C $Y \rightarrow Z \rightarrow X$

D $Z \rightarrow X \rightarrow Y$

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12 How does a firm guarantee that it makes the maximum profit?

A by maximising the difference between its total revenue and total cost

B by maximising the number of goods that it sells

C by minimising the number of goods that it keeps in stock

D by minimising the difference between average revenue and average cost

13 Two firms agree to integrate their activities.

What must result?

A a change in their ownership structure

B a lowering of average costs of production

C a move from national to international markets

D a reduction in the level of market risk

14 The table shows the units of factors of production that a firm needs to employ for two different levels of output.

land	labour	capital	output
6	8	4	100
9	12	6	200

What is the firm experiencing?

A constant returns to scale

B economies of scale

C external diseconomies of scale

D external economies of scale

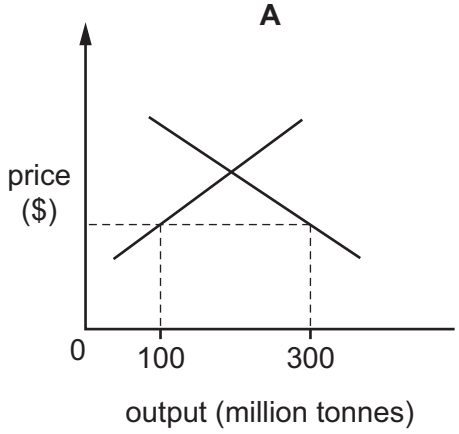
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15 By 2014, government subsidies for the Chinese steel industry led to 200 million tonnes of excess output.

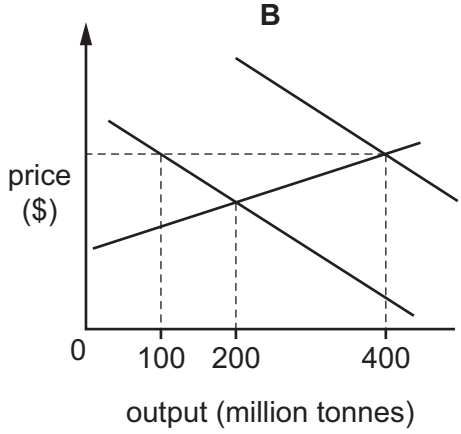
The diagrams show the market for Chinese steel.

Which would represent the position after the subsidy but before the market adjusted?

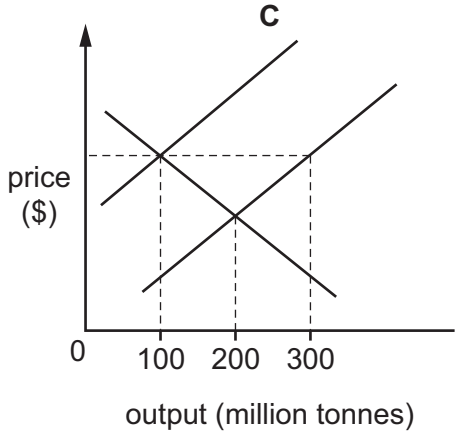
A



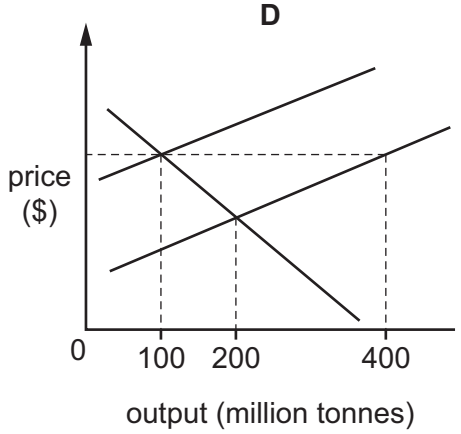
B



C



D



16 A government wishes to stimulate economic recovery.

Which action will assist this?

A decreasing government investment

B decreasing income tax

C increasing indirect taxation

D increasing interest rates

17 A government fixes the rate of income tax at $0.20 per dollar earned.

What describes this type of taxation?

A indirect

B progressive

C proportional

D regressive

18 A government introduces a law to reduce the restrictive practices of trade unions.

What would be the most likely purpose of this law?

A to change from a mixed to a planned economy

B to ensure a fairer distribution of earnings

C to increase competition in labour markets

D to reduce government expenditure on job training

19 The table shows a government's receipts from taxation.

	$m
air passenger duty	10
company profits tax	100
import duty	75
income tax	200
inheritance tax	50
sales tax (VAT)	300

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

A $300 m **B** $350 m **C** $385 m **D** $435 m

20 What would best indicate the start of an economic boom?

A negative growth of Gross Domestic Product

B rising interest rates

C rising levels of employment

D steadily falling price levels

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21 A country has a very high Gross Domestic Product and a small population but has a low standard of living.

What may be the cause of this low standard of living?

A There is a high inequality of income distribution and a high provision of merit goods.

B There is a high inequality of income distribution and a limited provision of merit goods.

C There is equality of income distribution and a high provision of merit goods.

D There is equality of income distribution and a low provision of merit goods.

22 The table gives information about three economic indicators in four countries.

	inflation %	interest rates %	unemployment %
country W	1.4	3.4	10.2
country X	3.7	8.7	12.3
country Y	3.6	7.3	14.2
country Z	2.1	6.0	7.7

What may be concluded from this information?

A Countries with higher inflation have higher interest rates.

B Countries with higher interest rates have lower unemployment.

C The country with the lowest inflation had the highest unemployment.

D The country with the lowest unemployment had the lowest inflation.

23 The weight for a product in the consumer price index was increased.

What is most likely to have caused this adjustment?

A The product has become more expensive to produce.

B The product has been offered for sale in more retail outlets.

C The product has improved in quality and performance.

D The product has taken a bigger share of consumers' income.

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24 China is classified as a developing country. Recently, contributions to its Gross Domestic Product (GDP) were agriculture 10%, construction 13%, manufacturing 32% and services 45%.

Which contribution to GDP usually decreases first when countries move to a higher level of development?

A agriculture

B construction

C manufacturing

D services

25 Some people think that the debts and interest payments of the poorest countries in the world should be cancelled.

What might be a disadvantage for the poorest countries if this were done?

A International banks might be less willing to give loans to poor countries.

B Interest payments to the lenders would fall.

C The standard of living of people in the poorest countries would fall.

D Trade between the poorest countries and the rest of the world would increase.

26 Which country is likely to have the highest standard of living?

	birth rate	death rate	infant mortality rate	life expectancy
A	41	20	31	49
B	32	14	29	59
C	25	6	25	79
D	25	5	22	79

27 What might cause the balance on the current account of Mauritius to improve?

A increased purchases of coffee from Kenya

B increased transport of Mauritian goods in Greek ships

C increased spending by Mauritians on holidays in South Africa

D increased spending by tourists in Mauritian hotels

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28 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 grants to multinational companies

C increased self sufficiency and increased tariffs

D price controls and increased regulations on domestic monopoly industries

29 It has been suggested that all countries producing arms should ban the export of weapons and cut production in order to reduce the risk of war.

What would happen if this occurred?

A The balance of payments on current account of countries exporting weapons would immediately improve.

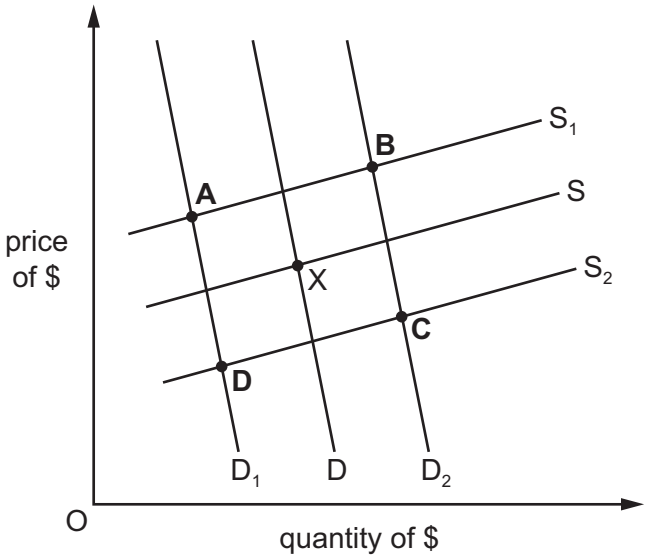
B The price of existing weapons would fall.

C There would be a risk of structural unemployment in countries that are major producers of weapons.

D There would be no overall effect on the balance of payments as countries would produce their own weapons.

30 The US currently trades in oil with the UK. The discovery of new oil and gas deposits in the US will mean that its oil imports decrease and its oil exports increase.

From the initial equilibrium point of X, which letter indicates the new equilibrium point for the US exchange rate?



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