Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/11**

Paper 1 Multiple Choice **May/June 2017**

45 minutes

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

6101459133

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 **10** printed pages and **2** blank pages.

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1 Which combination of terms gives the general definition of the economic problem?

A bigger families, less food, starvation

B falling supply, rising demand, shortage

C higher population, fewer jobs, unemployment

D limited resources, unlimited wants, scarcity

2 Helium is a gas that is limited in supply. It takes thousands of years to form from decaying radioactive rocks. The US government holds 35% of the world's supply and has been selling its stocks. Helium is essential in medical scanners. It is also used for party balloons which some say is a wasteful alternative use of a valuable good.

Which concepts can be applied to the above statement?

A demand and supply, government subsidy

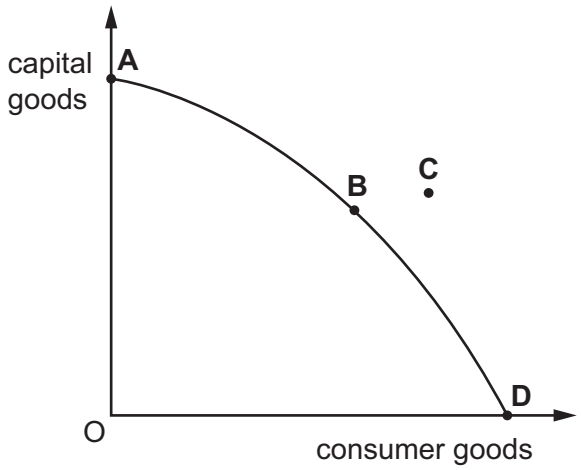
B excess demand, resource allocation

C factors of production, private monopoly

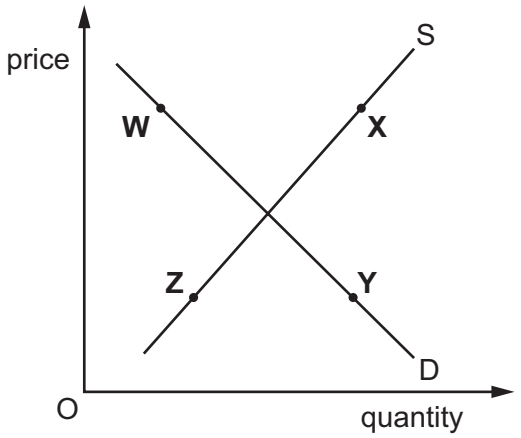
D opportunity cost, public sector

3 The diagram shows a production possibility curve for an economy.

Which point on the diagram is the most efficient for the economy to produce both consumer goods and capital goods?



4 The diagram shows the market for a product.



Which statement about the points marked on the diagram is correct?

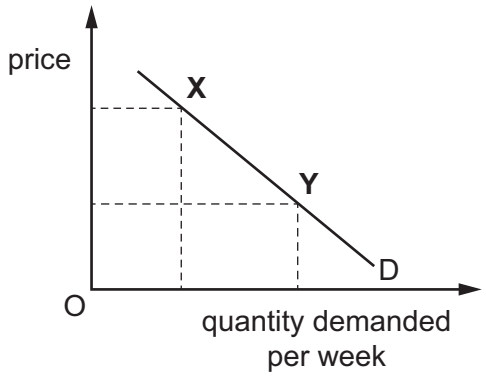
A The distance from **W** to **X** shows a shortage of the product.

B The distance from **Z** to **Y** shows a surplus of the product.

C The movement from **W** to **Y** shows a fall in the quantity demanded of the product.

D The movement from **X** to **Z** shows a fall in the quantity supplied of the product.

5 The diagram shows the demand for chocolate.



What could cause the movement from point **X** to point **Y**?

A a change in tastes

B a fall in the price of chocolate

C an increase in income

D a successful advertising campaign for chocolate

6 A football club raises all stadium seat prices by 5%. The stadium is divided into four zones. The demand for seats falls by 1% in zone W, by 3% in zone X, by 5% in zone Y and by 6% in zone Z.

In which zone is the responsiveness of demand for seats to the price change elastic?

A zone W

B zone X

C zone Y

D zone Z

7 A project to build one of the world's biggest coal mines was planned in Australia. The project was estimated to cost $US12.5 million. It would create employment but threaten endangered species as large coal ships would damage the Great Barrier Reef.

What effects would this project have on the following costs and benefits?

	private cost	private benefit	external cost
A	decrease	uncertain	uncertain
B	increase	decrease	increase
C	increase	increase	increase
D	uncertain	increase	increase

8 What is likely to happen when the rate of interest increases?

A consumer spending increases

B firms buy fewer machines

C people hold more cash

D savers earn lower rewards

9 In which type of work are employees most likely to earn their highest income at a relatively young age?

A manual building work

B professional legal work

C skilled craft work

D university teaching work

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10 Individuals produced their own goods. They then decided to specialise. They formed a group and offered their skills to each other but without the use of money.

What is **not** likely to be the result for the group?

A It will enjoy a rise in its material standard of living.

B It will have a wider choice of goods and services.

C It will need to use a system of barter.

D It will save time in obtaining goods and services.

11 Tea is a very popular drink in Turkey and Morocco but coffee is an alternative drink preferred by many people. Many cafés provide a small biscuit with either a cup of tea or coffee. Some people put sugar in the drinks to sweeten them.

How would the relation between these goods be classified?

	tea and coffee	tea and biscuits	coffee and sugar
A	complement	complement	complement
B	complement	substitute	substitute
C	substitute	complement	complement
D	substitute	complement	substitute

12 To achieve horizontal integration, a firm producing tyres could merge with another firm producing

A motor cars.

B rubber.

C tyre-producing machinery.

D tyres.

13 Which cost would be considered variable by a bus company?

A a new bus

B diesel fuel

C loan repayment

D rent

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14 A monopoly takes over an industry from competitive firms.

What is **not** likely to be true about a 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.

15 The table shows how a firm's production changes as it employs more workers.

number of workers	10	20	30	40
total production (kilos)	50	100	300	600

What happens to productivity as more workers are employed?

A It is constant then falls.

B It is constant then rises.

C It rises then becomes constant.

D It rises continuously.

16 When is a tax progressive?

A when some goods have a higher tax than others

B when the rate of tax increases as income increases

C when the tax is linked to the rate of inflation

D when the tax is on incomes rather than on goods or services

17 A government intends to improve skills by offering free training to school leavers at age 16 until they reach 18 years. It proposes to pay for this by taxing the profits of firms.

Which policies do these proposals involve?

	provision of skills training	payment for skills training
A	fiscal	fiscal
B	monetary	monetary
C	supply-side	fiscal
D	supply-side	monetary

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18 In trying to achieve one of its aims a government may make it difficult to achieve another aim.

What is an example of this conflict?

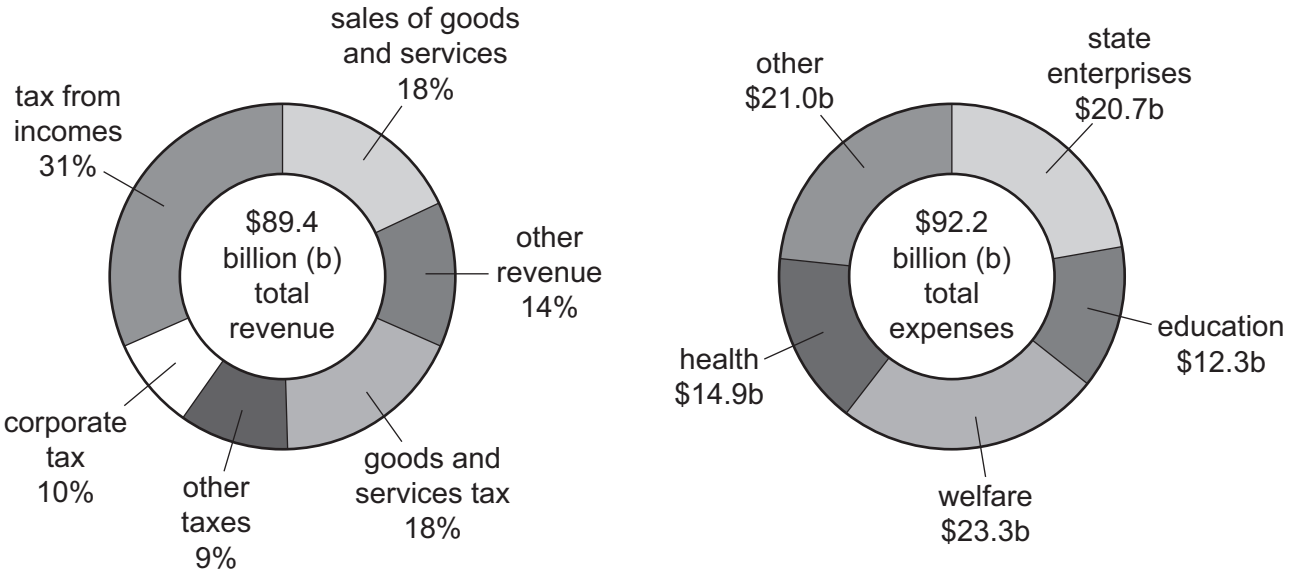
A Achieving a more even distribution of income may prevent a rise in the average standard of living.

B Achieving an increase in economic growth may prevent full employment.

C Achieving full employment may prevent stable prices.

D Achieving stable prices may prevent a current account surplus on the balance of payments.

19 The charts relate to the Financial Statement of the government of New Zealand for 2014.



What can be concluded?

A Expenditure on welfare was higher than the combined expenditure on education and health.

B The government was $2.8 billion in surplus.

C The largest source of the government's income was from direct taxation.

D The number of business corporations was very small.

20 A newspaper reported that a country's economy had grown by 3% during the last year.

What must have increased in that year?

A costs of production

B gross domestic product

C unemployment

D wage levels

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21 A country has a low GDP and a large population but ranks relatively highly on the HDI.

Which combination may exist in the country?

	income per head	provision of education and healthcare (merit goods)
A	high	high
B	high	low
C	low	low
D	low	high

22 The information below refers to an economy for a financial year.

government expenditure = $2866 million

government revenue = $1940 million

What was the budget balance of the government in that year?

A $926 million in deficit

B $4806 million in deficit

C $926 million in surplus

D $4806 million in surplus

23 In a developing country real incomes have risen.

Which situation would definitely have caused this?

	price level	money incomes
A	fell	fell
B	fell	rose
C	rose	unchanged
D	rose	fell

24 Which characteristic do developed and developing economies have in common?

A participation in international trade

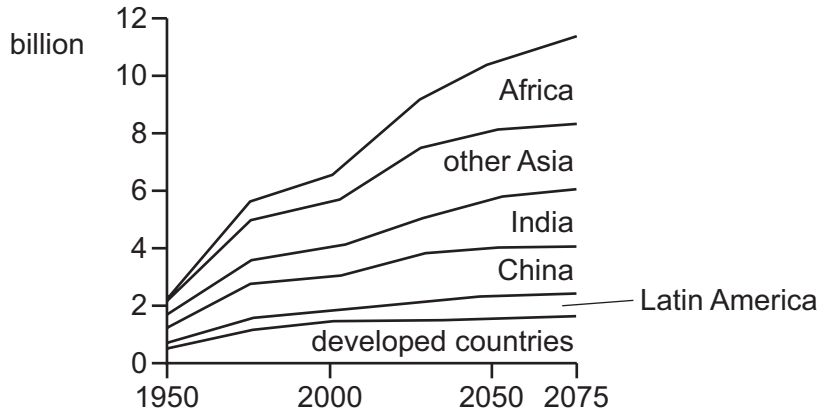
B high birth rates and high death rates

C rapid economic growth

D stable financial conditions and institutions

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25 The diagram shows population projections until the year 2075 for selected areas.



Assuming no migration, which situation must exist if the population is to change in the manner shown in the diagram?

A birth rate falling and death rate falling

B birth rate greater than death rate

C death rate greater than birth rate

D death rate rising and birth rate falling

26 The table gives information about four countries.

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

	life expectancy	GDP per head ($)	% of labour force in service industries
A	51	250	48
B	51	400	52
C	61	450	52
D	61	400	40

27 Which government policy is most likely to increase the volume of exports?

A devaluation

B embargoes

C quotas

D tariffs

28 What is necessarily involved in international free trade?

A the absence of transport costs

B the gift of foreign aid from charities

C the supply of zero interest rate government loans

D the unrestricted exchange of goods and services

29 In recent years, the US has experienced a deficit on its overall current account of the balance of payments.

What could have led to an increase in the size of the deficit?

A increased competitiveness of goods made in the US

B increased earnings by US investors in foreign companies

C increased numbers of overseas visitors to the US

D increased spending on US military bases abroad

30 In 2015, China was the world's largest exporter of manufactured goods and a major importer of oil and minerals. China devalued the yuan (renminbi) by 2%.

According to economic theory, what would have been a consequence of this devaluation?

A China paid less in foreign currencies for imports.

B China reduced its demand for oil and minerals.

C China's exports became less competitive.

D China's trading partners improved their balance of trade with China.

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