Cambridge
O Level

**Cambridge International Examinations**
Cambridge Ordinary Level

**ECONOMICS** **2281/12**

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)

* 1 9 5 2 9 7 7 1 3 5 *

**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.



IB17 06_2281_12/FP
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**1** Which is **not** a factor of production?

**A** a farm

**B** a farmer

**C** a farmer's bank account

**D** a second-hand tractor

**2** Heavy rain caused floods in an area of a country.

What may be an opportunity cost of repairing the damage caused?

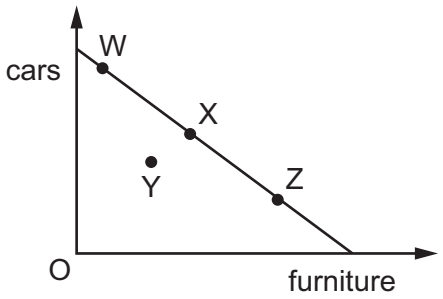
**A** the allocation of government funds to the area instead of on a new airport

**B** the cost of providing shelter for those made homeless

**C** the decline in the tourist industry in the area

**D** the loss of profits from businesses affected by the flood

**3** The diagram shows a production possibility curve for cars and furniture.




A recession causes a decrease in production in both cars and furniture.

Which movement would represent this change?

**A** X to W **B** X to Y **C** Z to W **D** Z to Y

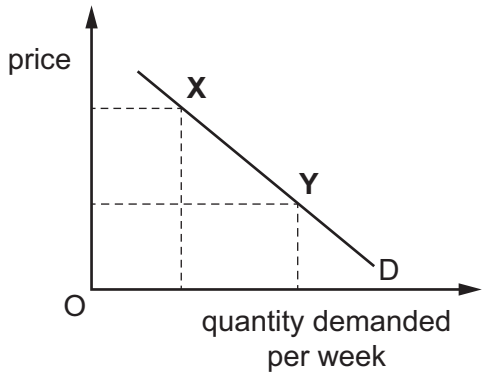
**4** In response to an increase in price from $5 per kilo to $6 per kilo a chicken farmer increased supply from 400 kilos to 500 kilos per week.

What is the price elasticity of supply?

**A** 0.8 **B** 0.9 **C** 1.2 **D** 1.25

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**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 bee-keeper maintains hives of bees to produce honey. The bees can pollinate neighbours' fruit trees but also give a painful sting to gardeners.

If both of these events occur, how will costs and benefits be affected?

**A** External benefits will fall and social costs will fall.

**B** External costs will rise and social benefits will fall.

**C** Social costs and social benefits will fall.

**D** Social costs and social benefits will rise.

**7** In 2015 there was a significant fall in the world price of petrol (gasoline).

What would **not** have been a cause of the price fall?

**A** the continuing global recovery from the world economic recession

**B** the increasing exploitation of US oil reserves

**C** the re-entry of Iranian producers to the world oil market

**D** the shorter journeys from using the new Suez Canal

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**8** Which statement about financial matters is correct?

**A** Commercial banks' main activity is the finance of international trade.

**B** Paper banknotes possess all the desirable properties needed to act as money.

**C** Stock exchanges trade mainly in second-hand stocks and shares.

**D** The central bank acts as the lender of last resort to companies facing bankruptcy.

**9** What is most likely to be used to support a claim for wage increases in an industry?

**A** a decrease in the industry's sales

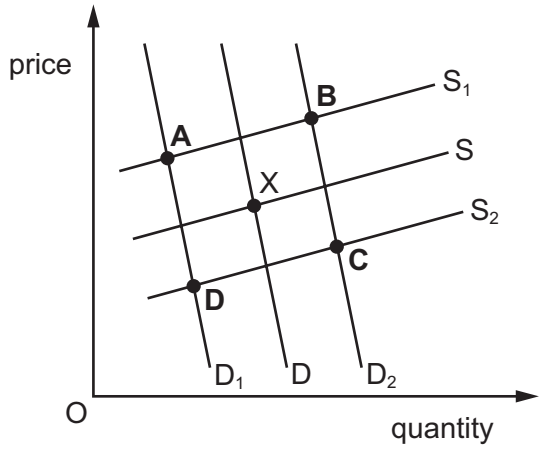
**B** a decrease in the need for specialist training

**C** an increase in cheap imports of a rival product

**D** an increase in wages in a similar industry

**10** The government increases the rate of income tax and decreases the rate of a sales tax (VAT).

From the initial equilibrium point of X, which letter indicates the new equilibrium point in a market for normal goods?




**11** In South Africa, the number of skilled workers is relatively low. However, average wages in South Africa are double the average wage in Brazil and Turkey and they are 1.6 times higher than in Malaysia.

What may be concluded from this information?

**A** Malaysian workers are more skilled than South African workers.

**B** Prices in South Africa are double those in Brazil.

**C** South Africa's labour productivity is low.

**D** South African trade union bargaining power is strong.

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**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 costs will necessarily fall continuously as output increases?

**A** average fixed costs

**B** average variable costs

**C** opportunity costs

**D** repayment costs of borrowing

**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 the costs of a firm.

| units of output | variable cost ($) | total cost ($) |
|---|---|---|
| 10 | 15 | 85 |
| 20 | 25 | 95 |
| 30 | 35 | 105 |
| 40 | 45 | 115 |

What is the value of the firm's fixed costs?

**A** $10 **B** $15 **C** $70 **D** $85

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**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 wishes to try to make the distribution of income in the country more equal.

Which policy would be most likely to achieve this?

**A** reducing housing subsidies

**B** reducing indirect tax on food

**C** reducing inheritance tax

**D** reducing tax on the dividends on stocks and shares

**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** Which policy combination will be the **most** effective if a government wishes to increase the level of employment?

**A** decrease general taxation and decrease the rate of interest

**B** decrease general taxation and increase the rate of interest

**C** increase general taxation and decrease the rate of interest

**D** increase general taxation and increase the rate of interest

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**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

**21** What is meant by deflation?

**A** a fall in the general price level

**B** a fall in the international value of a currency

**C** a fall in the rate of inflation

**D** a fall in the real value of money

**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** What is the change in GDP per head, after taking account of price increases (real change), between 2000 and 2013?

| year | population million | consumer prices index (CPI) | GDP $billion |
|---|---|---|---|
| 2000 | 3 | 100 | 4000 |
| 2013 | 4 | 120 | 6000 |

**A** from $15 to $125

**B** from $1250 to $1333

**C** from $1333 to $1250

**D** from $1333 to $1500

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**24** Which statement about the poorest families in developing economies is **not** likely to be correct?

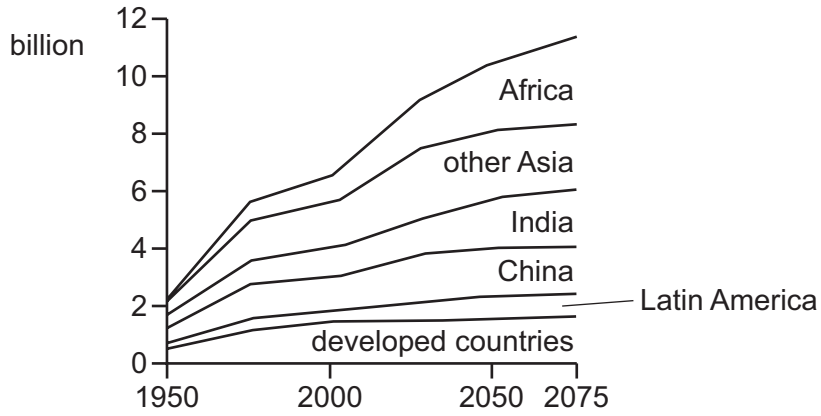
**A** The children will be expected to work to help provide income.

**B** The family will find it easy to obtain loans to develop their farms.

**C** The family will have a low earning capacity.

**D** The family will suffer from malnutrition and lack of medical care.

**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 shows information about four countries.

Which country is likely to be least developed?

| | % of labour force in service industries | life expectancy | GDP per head ($) |
|---|---|---|---|
| **A** | 20 | 49 | 380 |
| **B** | 35 | 49 | 350 |
| **C** | 40 | 53 | 350 |
| **D** | 45 | 63 | 450 |

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

**A** devaluation

**B** embargoes

**C** quotas

**D** tariffs

**28** What might encourage international specialisation between countries?

**A** free trade

**B** inefficiencies in production

**C** labour immobility

**D** tariffs

**29** In 2015, Russia banned the imports of food, such as milk, from the European Union (EU).

Which outcomes are most likely to happen as a result?

| | milk market in Europe | price of milk in Russia | profits of EU farmers |
|---|---|---|---|
| **A** | excess demand | fall | rise |
| **B** | excess demand | rise | rise |
| **C** | excess supply | fall | fall |
| **D** | excess supply | rise | fall |

**30** In 2010, Vietnam experienced a deficit in the value of its trade in goods (visible) despite exporting a greater number of goods than it imported.

What could explain this?

**A** The average price of its goods imported exceeded the average price of its goods exported.

**B** The average value of its goods exported exceeded the average value of its goods imported.

**C** The country had a deficit on its trade in services.

**D** The country's government imposed tariffs on imports.

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