Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **May/June 2018**

45 minutes

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

* 3 9 6 8 8 7 5 7 7 6 *

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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International Examinations

1 In economics, natural sunlight is classified as a free good.

What is the reason for this?

A Sunlight is a gift of nature.

B Sunlight is a renewable resource.

C There is no opportunity cost of using sunlight.

D Unlimited amounts of sunlight can be consumed.

2 What would be classified as the factor of production capital for an airline?

A the aircraft operated by the airline

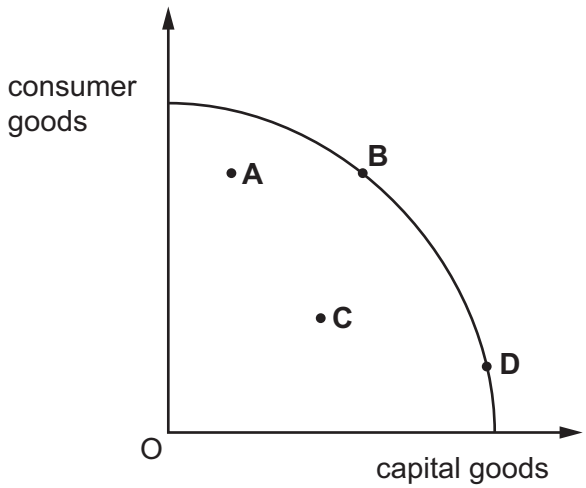
B the money the airline keeps in the bank

C the pilots the airline uses

D the shares of the airline quoted on the stock market

3 The diagram shows a production possibility curve (PPC).

Which position is **most** likely to lead to the greatest outward shift of the PPC?



4 What is a major advantage of a market economic system over a mixed economic system?

A All production of goods and services is determined by consumer demand.

B Ownership of resources is divided between private and public sectors.

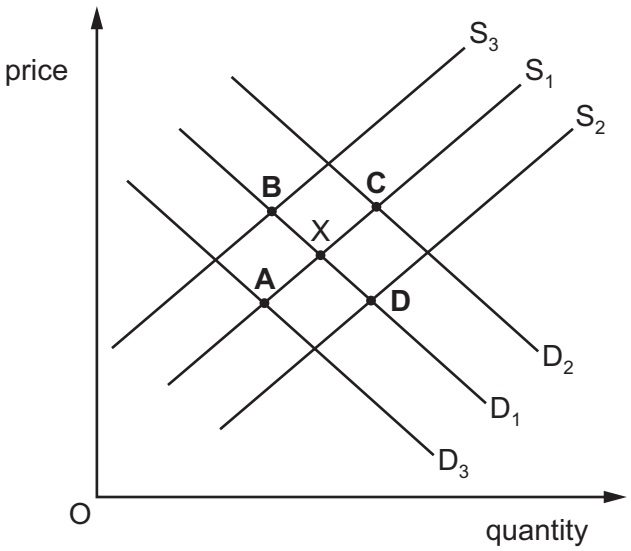
C Producers include any external costs they create in the price of the good.

D There will always be an even distribution of income and wealth.

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5 The diagram shows the market for beef in the US with the original equilibrium at X.

What will be the new equilibrium position if incomes in the US rise?



6 The table shows government estimates of the private and external benefits and costs of building a new dam.

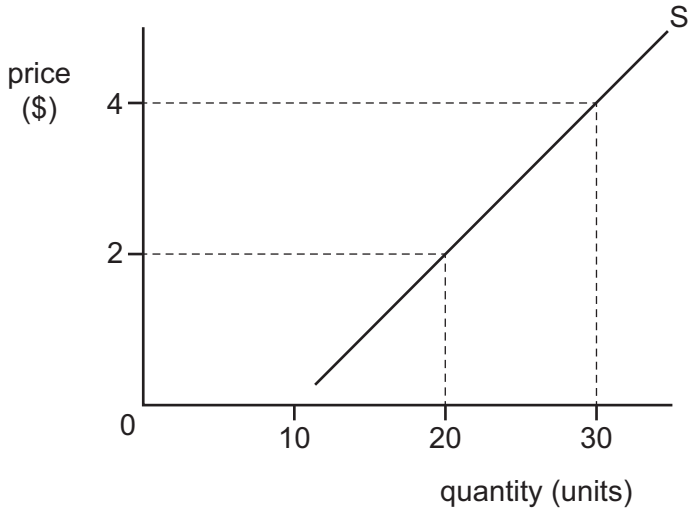
	$ million
private benefits	250
external benefits	325
private costs	200
external costs	150

What is the difference between the social benefits and social costs of building the dam?

A $25 million **B** $50 million **C** $175 million **D** $225 million

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7 The diagram shows the supply curve for a good.



What is the price elasticity of supply when the price rises from $2 to $4?

A 0.2 **B** 0.5 **C** 1 **D** 2

8 What does a commercial bank **not** provide?

A cash

B bonds

C loans

D mortgages

9 What will be likely to increase the wages of airline pilots?

A Incomes increase in the world's major economies.

B Terrorist attacks decrease tourist travel.

C The cost of aviation fuel rises.

D The world economy goes into recession.

10 What is **most** likely to help a trade union's claim for wage increases in an industry?

A a decrease in the price of a close substitute for the product

B a decrease in the qualifications needed for the job

C an increase in the number of workers

D an increase in the profits of the industry

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11 The table shows some information for a computer engineer in 2015.

	$
salary	40 000
fees earned from consultancy	15 000
credit card repayment	5 000

Income tax is fixed at 20%. The engineer saved 10% of the disposable income.

How much was saved?

A $3200 **B** $4000 **C** $4400 **D** $5500

12 What is a characteristic of a perfectly competitive firm?

A absence of competitors

B non-price competition

C one dominant firm

D price taker

13 What is a possible cause of diseconomies of scale?

A an increase in extra administration

B an increase in raw materials costs

C an increase in taxation on company profits

D an increase in the national minimum wage

14 A firm that sells its product for $6 a unit has the following total costs.

output (units)	0	10	20	30
total costs ($)	40	100	120	150

Which statement is correct?

A Average cost is lowest when 10 units are produced.

B The firm does not make any profit when 20 units are sold.

C The firm has no fixed costs.

D Total variable costs fall continuously over these outputs.

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15 Which statement about fixed costs is correct?

A They exist only in the long run.

B They include raw material and direct labour costs.

C They increase at the same rate as output.

D They must be paid even if there is no output.

16 Which is a supply-side policy?

A increasing interest rates

B increasing taxation

C providing training courses

D selling government bonds

17 What is an aim of government policy?

A income tax

B interest rates

C stable prices

D unemployment

18 A government has the following revenue.

	revenue ($ m)
corporation profits tax	20
inheritance tax	30
duty on imports	40
income tax	50
sales tax (VAT)	200

What is the total amount of indirect tax revenue?

A $140 m **B** $200 m **C** $240 m **D** $270 m

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19 Which situation involving the building industry is **most** likely to be investigated by a government body set up to control restrictive practices?

A a builder purchasing a plot of land for development of housing

B groups of suppliers of building materials agreeing to fix prices

C several builders bidding for the same contracts

D several builders using different sources of supply

20 The table shows the change in Gross Domestic Product (GDP) of four countries.

Which country has experienced a recession?

	quarterly percentage change in GDP			
	Q1 %	Q2 %	Q3 %	Q4 %
A	−6.0	1.0	−2.0	1.0
B	0.0	−1.0	0.0	−0.1
C	0.1	0.1	0.1	−3.0
D	1.0	1.0	−0.5	−0.5

21 What determines the weights in the consumer prices index (CPI)?

A the average income received by the various households

B the average increase in the prices of the different goods

C the proportion of income spent by the average household on particular goods

D the proportion of income that the average household saves

22 There was a fall in investment spending by businesses in the third quarter of 2015.

What would be the likely result of this?

A an increase in economic growth

B an increase in exports

C an increase in incomes

D an increase in unemployment

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23 The table shows units of output, value of output and number of people employed in an industry over three years.

	output (units, millions)	output value ($ millions)	number employed (000)
year 1	10	10	5
year 2	21	25	7
year 3	32	40	8

What can be concluded from the table?

A Inflation has increased.

B Productivity has increased.

C Profit has increased.

D Working population has increased.

24 Which feature is found in a developed country rather than a developing country?

A high levels of rural to urban migration

B highly organised international financial markets

C low proportion of workforce in service industries

D low school-leaving age

25 Over two-thirds of the world's poorest people live in rural areas. They are mainly involved in subsistence agriculture.

What explains why poverty remains at a high level for subsistence farming families?

A a lack of finance to buy machinery to improve productivity

B low international prices for food due to overproduction

C the size of families is too small to work the land

D women are discouraged from doing agricultural work

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26 The government of a developing country allows a multinational mining company to mine minerals in order to improve the standard of living of the local people.

Which action by the multinational company (MNC) will **not** lead to an improvement in the standard of living of the local people?

A building roads to assist transport

B exporting mineral ore

C providing skills training

D returning profits overseas

27 A country wishes to follow a policy of trade protection.

Which action would it take?

A increase the level of import quotas

B reduce import tariffs

C remove exchange controls

D subsidise export producers

28 In 2012 the UK held the Olympic Games, which attracted a large number of visitors from foreign countries.

Which item of the UK's current account balance will have benefited directly from this event?

A export trade in goods

B export trade in services

C import trade in goods

D import trade in services

29 In 2015, the value of the South African currency (the rand) depreciated against the US dollar.

What effect did this have on the US economy?

A Exports to South Africa became more expensive.

B The current account deficit of the US decreased.

C The US experienced higher levels of inflation.

D Unemployment in the US decreased.

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30 The table shows the rice yield in four countries.

country	rice yield (kilos per hectare)
Japan	64
China	53
Bangladesh	20
Thailand	20

What may be concluded from this information?

A Bangladesh and Thailand produce the same amount of rice.

B Japan produces more than three times as much rice as Bangladesh.

C Japan produces the largest amount of rice per hectare.

D Japan produces the largest amount of rice per person employed.

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