Cambridge Assessment International Education

Cambridge O Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **May/June 2022**

45 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.

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1 What is an example of a free good?

A defence

B education

C health services

D sunshine

2 A student has nothing to do on a Friday evening. She withdraws $5 from the $100 she has in a savings account and buys a present to take to a party, to which admission is free.

What does this involve?

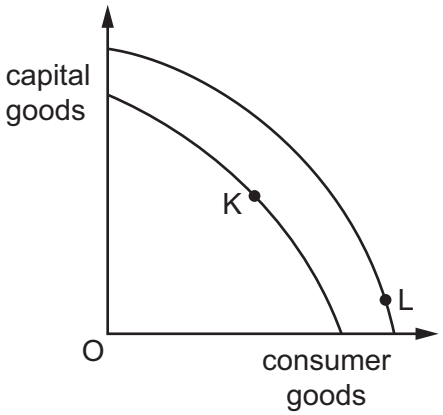
A an opportunity cost equal to $95

B an opportunity cost equal to other goods she could have bought for $5

C no opportunity cost, as entrance to the party is free

D no opportunity cost, as she had no better way of using the time

3 The diagram shows two production possibility curves for a country.



What might cause a shift from point K to point L in the country's production?

A a change in what consumers want to buy

B a recession

C more investment

D the use of previously unemployed resources

4 Which relationship would be studied by an economist specialising in macroeconomics?

A the relationship between the inflation rate and the unemployment rate

B the relationship between the output of a firm and its costs of production

C the relationship between the price of a product and the quantity demanded by a consumer

D the relationship between the wage rate of workers and demand for labour in an occupation

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5 In recent years, a government has started to make more use of the free market system. However, they are doing it very slowly to avoid the disadvantages that a free market system might bring.

What is a possible disadvantage of the free market system?

A decreased incentive to work

B decreased levels of pollution

C increased efficiency

D increased inequality of income

6 What will cause the demand curve for a good to shift to the right?

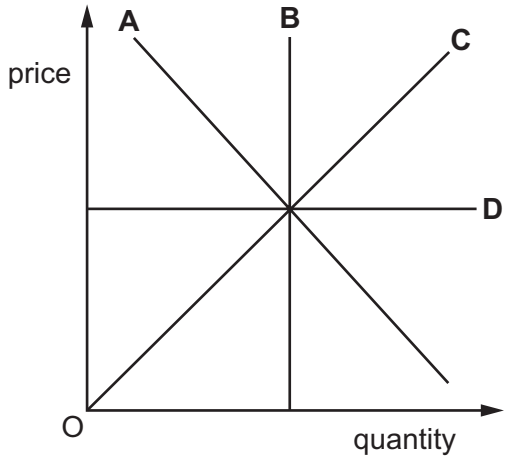
A a decrease in the disposable income of consumers

B a decrease in the price of a complement good

C a decrease in the price of a substitute good

D a decrease in the price of the good

7 In the diagram, which demand curve has perfectly elastic demand?



8 The table shows the demand and supply schedules for rice. The current price is $2.00 per kilo.

price per kilo $	quantity demanded (million tonnes)	quantity supplied (million tonnes)
2.50	5	30
2.00	10	25
1.50	20	20
1.00	30	15
0.50	40	10

What will happen if the price is reduced to $1.00 per kilo?

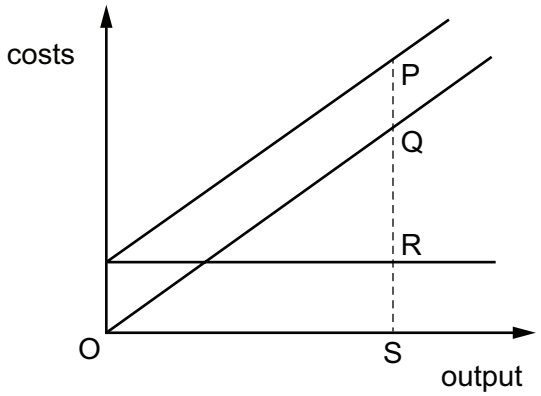
A The demand schedule will shift to the left.

B The market will move from shortage to surplus.

C The market will move from surplus to shortage.

D The supply schedule will shift to the right.

9 The diagram shows the fixed costs, variable costs and total costs of a firm at output S.



Which distance represents the firm's variable costs?

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

10 What could cause profits to be high in a monopoly market?

A barriers to entry

B diseconomies of scale

C elastic demand for the product

D high number of substitutes for the product

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11 Which firm is **most** likely to be classified as a small firm in the tertiary sector?

A a farm

B a hairdresser

C a steelworks

D a supermarket

12 Germany is considered a capital-intensive economy while Indonesia is considered a labour-intensive economy.

What does this mean about the economies of Germany and Indonesia?

A Capital is relatively cheaper than labour in Germany while labour is relatively cheaper than capital in Indonesia.

B Germany has many primary sector workers while Indonesia has many tertiary sector workers.

C Indonesia has a higher growth in its population size than Germany.

D Relatively more low-cost labour is available in Germany while capital is more efficient than labour in Indonesia.

13 A bank continues to operate loss-making branches.

Which objective is the bank trying to achieve?

A growth

B efficiency

C profit maximisation

D social welfare

14 The table shows how three people, X, Y and Z, spend their income.

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

What is the likely order of income, from lowest income to highest income, for these three people?

A $Y \rightarrow X \rightarrow Z$

B $Y \rightarrow Z \rightarrow X$

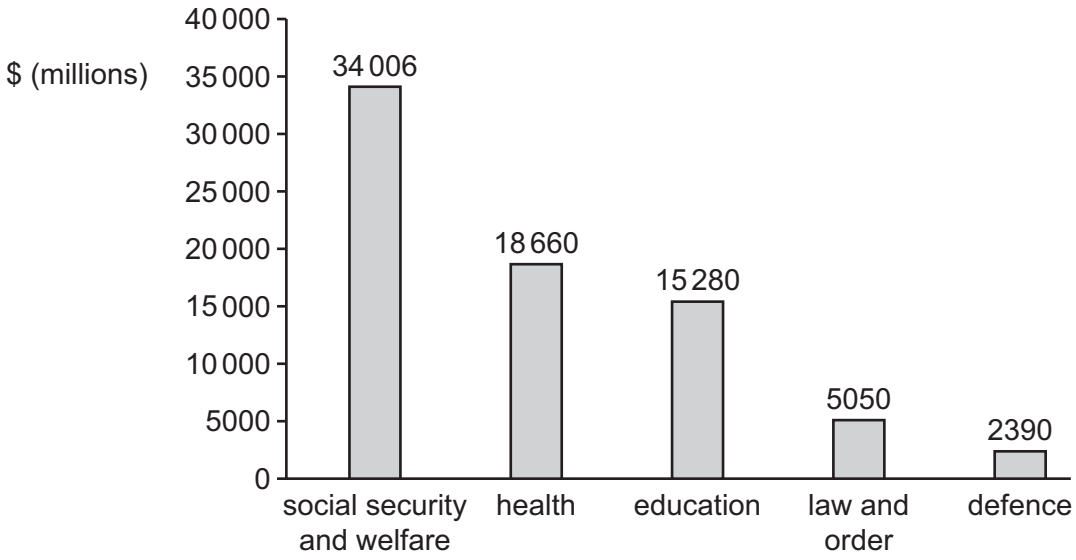
C $Z \rightarrow X \rightarrow Y$

D $Z \rightarrow Y \rightarrow X$

15 Which activity is correctly linked to the organisation that provides it?

	organisation	activity
A	central bank	regulate the rate of inflation
B	central bank	set direct tax rates
C	commercial bank	manage the government's financial accounts
D	commercial bank	safeguard the country's foreign reserves

16 The chart shows a government's spending in a year.



What was the total government spending on public goods?

A $2390 million

B $5050 million

C $7440 million

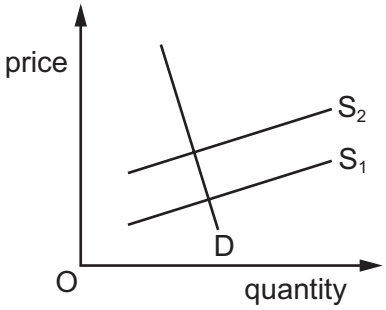
D $33 940 million

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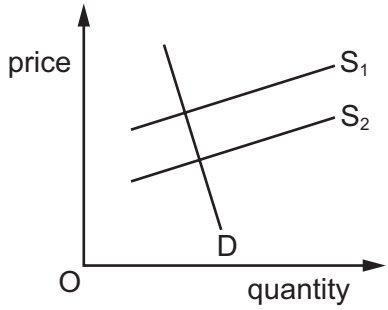
17 A government levies a specific tax on the supply of cigarettes. At the same time it starts a campaign to explain the health risks of smoking cigarettes.

Which diagram illustrates the effects on the demand and supply of cigarettes?

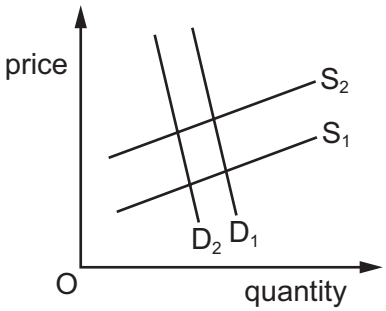
A



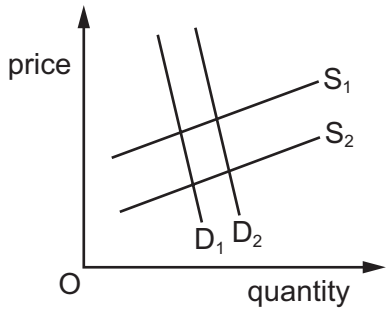
B



C



D



18 A government wishes to pursue an expansionary monetary policy.

What should it do?

A discourage bank lending

B give subsidies to firms

C lower income tax thresholds

D lower interest rates

19 A government introduces a series of economic measures.

What is a supply-side policy measure?

A building more affordable homes to improve labour mobility

B controlling consumer spending to reduce inflation

C lowering interest rates to encourage purchase of expensive goods

D raising pensions to help retired people pay their fuel bills

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20 What is identified as economic growth?

A a fall in labour productivity

B an increase in the productive capacity of the economy

C an increase in the Consumer Prices Index (CPI)

D the economy enters a period of recession

21 The retail trade in a country has unemployed workers in one region and job vacancies in another region.

What could explain this?

A Costs of employing workers are lower when there is unemployment.

B It is more expensive to live in the area where the retail jobs are available.

C Retailing demands the same skills everywhere.

D The geographical mobility of labour has increased.

22 A country wishes to reduce the level of inflation.

Which combination of policy measures will be **most** successful?

	policy measure 1	policy measure 2
A	decrease exchange rates	increase interest rates
B	decrease interest rates	increase exchange rates
C	increase government spending	decrease interest rates
D	increase interest rates	decrease government spending

23 A government wants to reduce both its budget deficit and the amount of poverty in its country.

Which fiscal policy measure is **most** likely to achieve both of these aims?

A decreasing the rate of progressive income tax

B decreasing government spending on welfare benefits

C increasing the rate of progressive income tax

D increasing government spending on welfare benefits

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24 Which components, in addition to Gross Domestic Product (GDP) per head, are included in the Human Development Index (HDI)?

A average earnings and inequalities of incomes

B balance of trade and balance of payments

C life expectancy at birth and expected years of schooling

D size of population and age structure of population

25 What is likely to cause an immediate decrease in the size of the labour force?

A a fall in the average size of families

B a fall in the birth rate

C a reduction in the age of retirement

D an increase in net immigration

26 The table shows some economic indicators.

Which increase in the first indicator is **most** likely to lead to an increase in the second indicator?

	first indicator	second indicator
A	budget surplus	consumer saving
B	consumer spending	unemployment
C	inflation	trade surplus
D	productivity	living standards

27 The price of a currency in a fixed exchange rate system is reduced.

What is this called?

A appreciation

B depreciation

C devaluation

D revaluation

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28 A government removed the quota on goods imported into the country.

What is the **most** likely result of this?

A a decrease in demand for domestic production

B a decrease in domestic unemployment

C a decrease in exports

D a decrease in the balance of trade deficit

29 What is **most** likely to result from a reduction in the value of a country's currency if there are no other changes in the economy?

A A trade in goods surplus will fall.

B Export prices will rise.

C Import prices will rise.

D The inflation rate will fall.

30 The governments of low-income countries often allow foreign multinational companies (MNCs) to mine minerals in their country.

Which conflict between benefit and cost might this cause the low-income countries?

	benefit	cost
A	improved balance of trade	training by the MNCs
B	higher employment	loss of a finite resource
C	increased profits for the MNCs	efficient production
D	more sustainable development	economic growth

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