UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/13**

Paper 1 Multiple Choice **October/November 2010**

1 hour

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

* 3 2 6 9 5 2 2 9 8 9 *

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, 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.

There are **forty** 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.

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UNIVERSITY of CAMBRIDGE International Examinations

1 A government is faced with the choice of spending on either education or healthcare.

Of what is this an example?

A conservation of resources

B monetary policy

C opportunity cost

D substitution of factors

2 A farmer pays a landowner for the use of a field.

What is the income to the landowner called?

A interest

B profit

C rent

D wages

3 The table shows the contribution to Gross Domestic Product made by different sectors for four countries.

country	services %	industry %	agriculture %
Bangladesh	40	13	47
China	18	45	37
Philippines	42	36	22
US	66	32	2

Which statement is correct?

A Most production in Bangladesh was in the tertiary sector.

B Most production in China was in the primary sector.

C Most production in the Philippines was in the secondary sector.

D Most production in the US was in the tertiary sector.

4 What makes choice an important element in the basic economic problem?

A Increased demand leads to higher market prices.

B Limited resources have many alternative uses.

C Reaching a market equilibrium may take a long time.

D Scarce economic resources are distributed equally.

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5 What is a factor of production?

A an advantage of producing on a large scale

B a resource used to produce goods and services

C a sub-section of a manufacturing process

D a unit of output

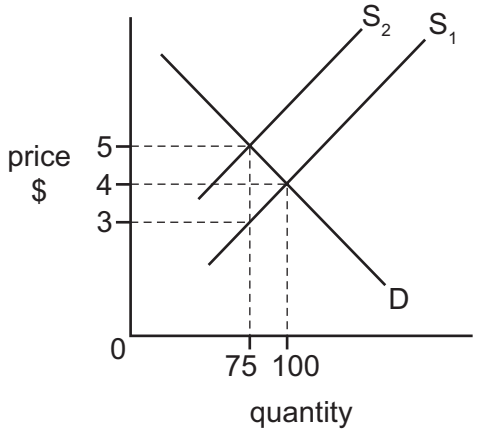
6 The table illustrates the demand and supply for rice in a market in Africa.

price per kg ($)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40

When the price rises from $20 to $30 per kg, what is the approximate price elasticity of demand for rice?

A 0.25 **B** 0.5 **C** 1.0 **D** 2.0

7 The diagram shows that when a tax of $2 on a good raises the supply curve from S_1 to S_2, the price to the consumer rises from $4 to $5.

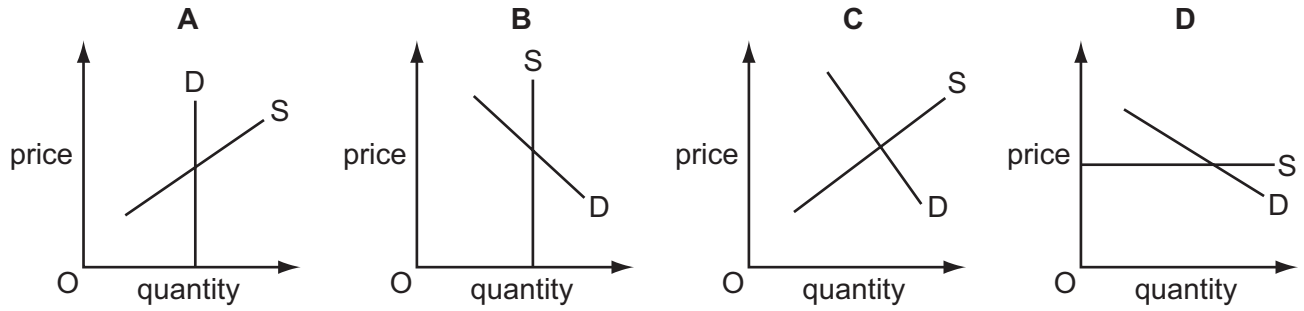


What is the total tax yield to the government?

A $75 **B** $150 **C** $200 **D** $375

8 The diagrams show different conditions of demand and supply for an agricultural product.

In which diagram would market price remain unchanged if consumers' incomes fell?



9 A government intends to build a new international airport in an area of outstanding natural beauty.

What would be an external cost of this decision?

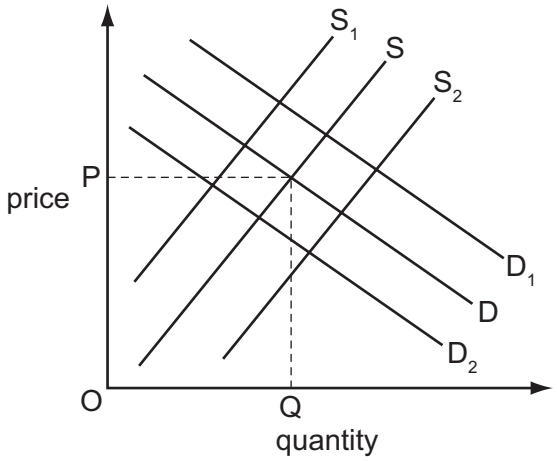
A the cost of importing construction materials

B the countryside that is lost

C the increase in profits for local businesses

D the wages paid to the construction workers

10 The diagram shows demand and supply curves for a product at its equilibrium price P.



How would the introduction of a subsidy be shown?

A Demand would shift to D_1.

B Demand would shift to D_2.

C Supply would shift to S_1.

D Supply would shift to S_2.

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11 Which statement could explain a decrease in the demand for natural rubber?

A Demand for car tyres has increased.

B New techniques of producing substitutes for rubber have been introduced.

C Productivity of rubber plantations has increased.

D The area of land on which rubber is grown has increased.

12 'There are actors who earn extremely high incomes.'

What best explains this?

A Acting is a popular career.

B Actors have regular employment.

C Actors work short hours.

D Some actors have a unique talent.

13 What might be a direct benefit to the individual worker of a specialised job?

A Specialisation can enable the worker to become more skilled.

B Specialisation enables a better quality product to be produced.

C Specialisation enables the firm to introduce more machinery.

D Specialisation makes better use of resources.

14 Which change would be most likely to cause the earnings of hotel managers in Mauritius to rise more than the earnings of sugar cane workers in Mauritius?

A a decrease in the number of tourists visiting Mauritius

B a decrease in the supply of sugar cane workers in Mauritius

C an increase in the price of sugar cane from Mauritius

D an increase in the productivity of hotel managers in Mauritius

15 A stock exchange is a market in which

A a system of barter operates.

B the interest rate is fixed.

C the value of the exchange rate is determined.

D shares are bought and sold.

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16 'Savers suffer as inflation rises to 4.4 %.'

Which function of money is most involved in this statement?

A means of deferred payments

B medium of exchange

C store of value

D unit of account

17 What is the most likely reason for a worker preferring to be employed by the government rather than by a firm in the private sector?

A more chance of a fast changing environment

B more chance to work in a large organisation

C more opportunity to gain from successful risk taking

D more possibility of productivity bonuses

18 In 2008, the world's largest metal mining company, BHP, increased its profits by 20 %.

What could have helped that happen?

A a decrease in economic growth in the UK and the US

B an increase in demand from China

C more competition from other companies

D more difficult mining conditions

19 The table shows a firm's fixed and variable costs at four levels of output.

output (units)	fixed costs ($)	variable costs ($)
2	50	110
3	50	130
4	50	210
5	50	300

At which level of output is average cost at its lowest?

A 2 **B** 3 **C** 4 **D** 5

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20 What is **unlikely** to be a feature of a large firm in a monopoly position in a market?

A It achieves economies of scale.

B It charges high prices.

C It removes barriers to entry.

D It will attract government attention.

21 A milk processing company takes over a group of dairy farms before merging with a chain of supermarkets.

Which types of integration have taken place?

A diversification followed by horizontal

B horizontal followed by vertical backward

C vertical backward followed by vertical forward

D vertical forward followed by diversification

22 What is usually an advantage of a small firm?

A the ability to benefit from bulk buying arrangements

B the ability to raise finance from a stock exchange

C the ability to respond quickly to changes in consumer demand

D the ability to run a national advertising campaign

23 In 2008, XL, the UK's third largest tour operator went out of business.

What would have been the effect of this on the level of competition in the industry, the external economies of scale experienced by the remaining firms and the level of business confidence in the UK?

	level of competition	external economies of scale	UK business confidence
A	increase	increase	reduce
B	increase	reduce	increase
C	reduce	increase	increase
D	reduce	reduce	reduce

24 What is most likely to be the responsibility of a central government?

A the provision of immigration officials at an airport

B the provision of security cameras in a shopping centre

C the provision of security staff at a bank

D the provision of ticket inspectors on a train

25 In September 2008, the Chinese government increased the sales tax on cars with large engines whilst it reduced the sales tax on cars with small engines. Most cars in China with large engines are imported whilst most cars with small engines are home produced.

Which effects would the changes in sales tax be expected to have on China's trade surplus and the demand for home produced cars?

	trade surplus	demand for home produced cars
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

26 Which policy would be most likely to reduce the rate of inflation in Malaysia?

A an increase in income tax

B an increase in sales tax (GST)

C an increase in the budget deficit

D an increase in the money supply

27 Which government policy would most likely lead to a redistribution of income?

A a change in the rate of exchange

B control of commercial bank lending

C control of interest rates

D expenditure on unemployment benefits

28 Direct taxes can be used to

A place the burden of tax on sellers not buyers.

B protect domestic industries from foreign competition.

C raise revenue without affecting the number of hours employees work.

D redistribute incomes from rich to poor.

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29 Brazil is a highly taxed economy. Some Brazilian economists have suggested that if the government were to cut tax rates, the government would actually receive more tax revenue.

Why may cutting taxes increase revenue?

A It may encourage emigration.

B It may increase the tax burden.

C It may lead to a fall in investment.

D It may reduce tax evasion.

30 How is the pattern of employment likely to change when a country becomes more developed?

A from rural employment to urban employment

B from skilled employment to primary employment

C from technical employment to manual employment

D from tertiary employment to secondary employment

31 In 2008, the US had a higher GDP per head than Iceland, but a lower Human Development Index ranking than Iceland.

What could explain this difference?

A Average family size is higher in Iceland.

B Life expectancy is higher in Iceland.

C School enrolments are higher in the US.

D The population of the US is larger.

32 The number of people unemployed in an economy fell by 600 000 and the number employed rose by 400 000.

Which change could explain this difference?

A Some of the unemployed have entered full-time education.

B Some of the unemployed have experienced a loss of skills.

C The length of the working week has declined.

D The size of the labour force has increased.

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33 In Germany's 2007 retail price index, transport received a higher weighting than clothing and footwear.

What does this difference indicate?

A Households spent more on transport than on clothing and footwear.

B The price of transport rose by more than the price of clothing and footwear.

C Transport is more of a luxury good than clothing and footwear.

D Wage rises in the transport industry were higher than wage rises in the clothing and footwear industry.

34 What will be the likely effect on the remaining population of a developing country when newly trained, skilled workers migrate to developed countries?

A Its average age will increase.

B Its mobility will increase.

C Its productivity will increase.

D Its total size will increase.

35 What is most likely to indicate that an economy is developed rather than developing?

A a high birth rate and a low death rate

B a large primary sector and a high population growth

C a large service sector and capital intensive production

D a low level of investment and a high rate of savings

36 What is more likely to result from rather than cause economic development?

A a depletion of non-renewable resources

B a move towards free trade

C a stable political and legal system

D more private and less public sector activity

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37 The table shows four countries in 2007.

Which country is most likely to have the lowest standard of living?

	country	GDP (US$ billion)	population (million)
A	Bangladesh	206.7	153.5
B	India	2989.1	1147.9
C	Nigeria	292.7	138.3
D	South Africa	467.1	43.8

38 Firms often advertise saying that they specialise in providing a certain product or service.

What is an advantage of such specialisation to the firm?

A Its workers are motivated by more varied tasks.

B Production is dependent on other firms supplying components.

C The firm's average cost of production is likely to fall.

D The firm can quickly adapt production if their product or service is no longer required.

39 One argument for protectionism is to prevent dumping.

What is meant by dumping?

A countries paying low wages to their workers to gain price advantage

B countries providing poor working conditions for their employees to keep costs low

C countries selling products abroad at less than the cost of production

D countries selling products abroad that do not meet health and safety standards

40 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 Portuguese ships

C increased spending by Mauritians on holidays in Goa

D increased spending by tourists in Mauritian hotels

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