UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **October/November 2011**

1 hour

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

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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.

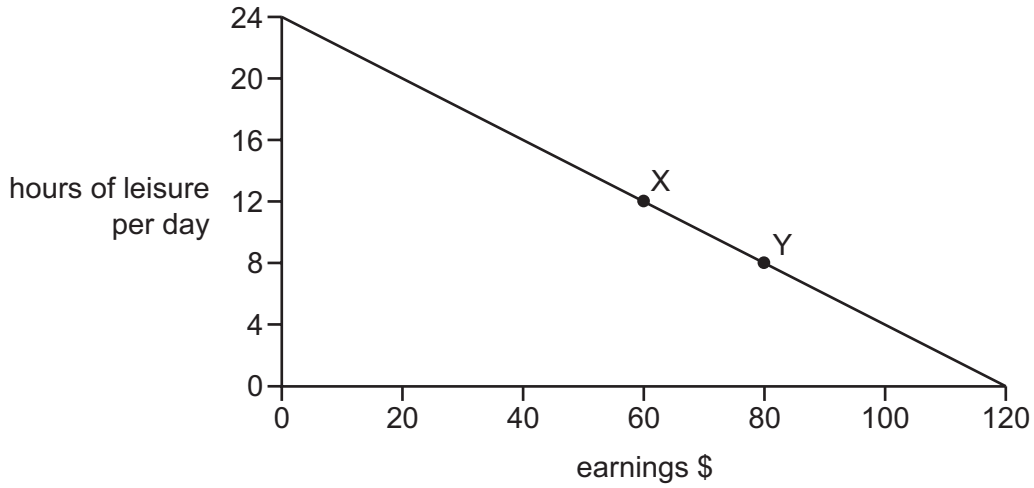
Read the instructions on the Answer Sheet very carefully.

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.

This document consists of **11** printed pages and **1** blank page.

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1 The diagram shows the choices for an individual between leisure and earnings.



What is the opportunity cost to the individual of the extra earnings when moving from position X to position Y?

A $20

B $80

C 4 hours of leisure per day

D 8 hours of leisure per day

2 The table shows how employment in selected industries changed in a country between 2000 and 2010.

	year 2000 (thousands employed)	year 2010 (thousands employed)
banking and finance	2336	2881
distribution and catering	4678	5323
farming	2278	1594
manufacturing	4102	3128

According to the table, which type of employment has increased?

A primary

B secondary

C tertiary

D total

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3 Every business organisation faces the problem of satisfying wants.

What is the reason why wants are **not** fully satisfied?

A An economy can only produce a limited amount of goods and services.

B Governments cannot print enough money to pay for goods and services.

C There is an over-production of goods and services by business organisations.

D Workers are too skilled for the requirements of the jobs available.

4 A university rejects 2000 qualified applicants who wish to study there.

What factor of production could have caused the university to make this decision?

A infinite quantity of capital

B scarcity of labour

C surplus of land

D unlimited supply of enterprise

5 What is an example of an external cost?

A a company's transport costs

B the cost of bringing about a merger

C the cost of buying components from suppliers

D the cost of industrial pollution

6 How are economic decisions determined in a pure market system?

A by a mixture of market forces and government regulation

B by central planners of production and consumption

C by government regulation of the price mechanism

D by the forces of demand and supply

7 What is always a feature of a mixed economy?

A All capital goods are produced in the public sector.

B Resources are used in the public sector and the private sector.

C The allocation of all resources is determined by the price mechanism.

D The public sector is larger than the private sector.

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8 Wet weather in 2009 led to a fall in the sales of summer clothes. To support businesses the government reduced the sales tax (VAT).

How would these events be shown on a demand and supply diagram for summer clothes?

	demand curve	supply curve
A	move to the left	move to the right
B	move to the left	no change
C	move to the right	move to the left
D	no change	move to the right

9 Drought in African countries often results in poor harvests. Other countries then help by sending quantities of food.

What are the likely results of these events for the price of food in the drought-affected countries?

A It will fall and then rise.

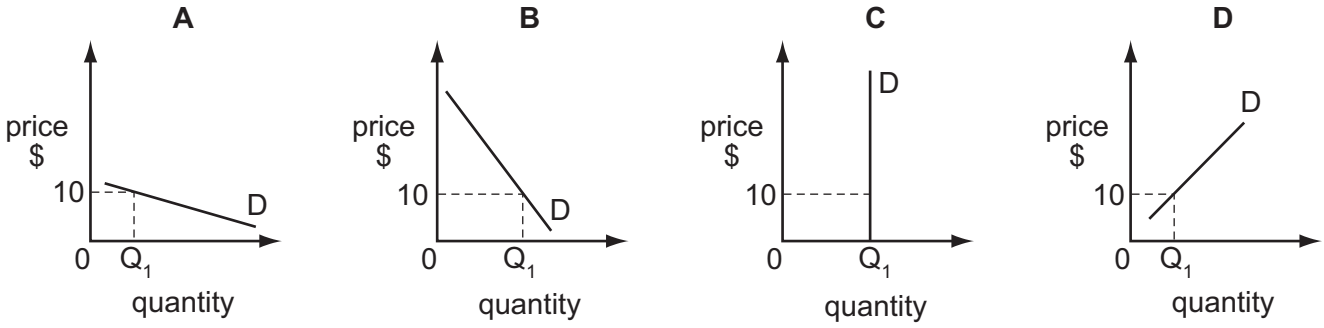
B It will rise and continue to rise.

C It will rise and remain at this higher level.

D It will rise and then fall.

10 The graphs, drawn to the same scale, show the demand curves of four firms. The market price is $10. The price then falls to $8.

Which firm will have the largest increase in total revenue?



11 Which person would wish to encourage the use of the market system?

A someone who believes that people should have equal living standards

B someone who believes that people should have freedom of action

C someone who believes that profit maximisation is wrong

D someone who believes that the government should correct peoples' bad behaviour

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12 In 2009, the Chinese Government tried to increase household spending.

Which policy measure would have been **most** likely to achieve this objective?

A an increase in both direct and indirect taxes

B a reduction in subsidies given to manufacturers

C a requirement for commercial banks to reduce their lending

D a switch from public to private sector provision of health care and pensions

13 Which motive is **most** likely to increase the wish to open a savings account?

A to have cash immediately available

B to prepare for future expenditure

C to satisfy essential needs

D to widen present consumption choices

14 In most countries, which organisation controls the banking system?

A central bank

B commercial bank

C investment bank

D World Bank

15 Share prices on the stock market are **most** likely to rise if

A employment falls.

B interest rates fall.

C interest rates rise.

D tax rates rise.

16 The ways of making and receiving payments continue to develop. As well as cash, debit cards and credit cards, mobile (cell) phones are now being used to make payments.

Which method of paying for products provides no information to sellers about their customers?

A cash

B debit cards

C credit cards

D mobile (cell) phones

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17 A group of workers in a firm join a trade union.

What would the union be expected to do?

A arrange for labour-saving technology to be introduced

B discuss safety issues in the workplace with the employer

C ensure job security by promoting the firm's products through advertising

D negotiate new contracts with major buyers of the firm's products

18 Which type of business organisation has its shares quoted on a stock exchange?

A co-operative

B private company

C public company

D public corporation

19 Mr Jones runs a small shop selling household appliances. His total revenue has declined due to the opening of a large supermarket which sells a similar range of goods.

How could Mr Jones compete with the supermarket?

A develop financial economies of scale

B engage in a price-cutting war

C introduce a massive advertising campaign

D provide personal after-sales service

20 The table shows how a firm's total cost rises with changes in output.

output	total cost ($)
0	20 000
1000	30 000
2000	35 000
3000	40 000
4000	45 000
5000	50 000

What is the average fixed cost of producing 5000 units?

A $4 **B** $5 **C** $6 **D** $10

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21 General Motors, a large multi-national company based in the United States, sold some of its European car assembly plants to other car manufacturers during the world recession (economic downturn) in 2009.

Which economic reason would have been **most** likely to influence this decision?

A to benefit from horizontal integration of manufacturing

B to diversify and expand its product range

C to encourage vertical integration of sales and production

D to reduce its excess capacity in car production

22 A firm is producing an output which enables it to make more than normal profit.

What must be true at that output?

A Average revenue must be greater than total revenue.

B Average revenue must equal average cost.

C Total revenue must be greater than total cost.

D Variable cost must equal price.

23 Which statement about total fixed cost is correct?

A It falls as output increases.

B It is calculated by adding total cost and total variable cost.

C It is calculated by dividing total cost by output.

D It must be paid even if output is zero.

24 Between December 2008 and August 2009, the Central Bank of South Africa cut the rate of interest from 12.5 % to 7 %.

What effect would this action be expected to have on economic growth and unemployment?

	economic growth	unemployment
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

25 Which government policy would be likely to help local companies expand?

A encouraging investment by foreign companies

B increasing income tax

C providing a subsidy

D raising interest rates

26 Which type of tax is a sales tax (VAT)?

A a direct tax

B an indirect tax

C a progressive tax

D a proportional tax

27 A government decides to subsidise a major industry that is making a loss and also reduce sales tax (VAT) to increase consumer demand.

Which aim would these policies be likely to help and which aim would they be likely to hinder?

	aim policies would help	aim policies would hinder
A	balance of payments surplus	economic growth
B	economic growth	full employment
C	full employment	stable prices
D	stable prices	economic growth

28 A tax on which of the following is usually progressive and is paid by a large number of tax payers?

A company profits

B goods and services

C incomes

D sales of shares

29 What is a long-term advantage of economic growth?

A employment falls

B incomes rise

C prices rise

D savings fall

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30 What is typical of a recession (economic downturn)?

A falling Gross Domestic Product

B falling unemployment

C rising living standards

D rising retail price index

31 There was a fall in investment spending by businesses in the third quarter of 2008.

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

32 What is the most obvious sign of inflation?

A an increase in imports

B an increase in productivity

C an increase in retail prices

D an increase in total expenditure

33 A newspaper reported that there were signs of economic growth and inflation in an economy.

What would **not** be evidence of such a situation?

A an increase in employment

B an increase in the general price level

C an increase in the income tax rates

D an increase in the standard of living

34 Many sportsmen and sportswomen from developing countries go to the United States (US) to earn money, most of which they send back to their own countries.

What impact would this have on the Balance of Payments?

A The current account balance of the developing countries would improve.

B The current account balance of the US would improve.

C The trade balance of the developing countries would improve.

D The trade balance of the US would improve.

35 The table gives the retail price of a paperback book as printed on its back cover.

United Kingdom	£6.99	
Canada	$11.99	(Canadian dollars)
Australia	$14.99	(Australian dollars)
New Zealand	$20.95	(New Zealand dollars)

What is needed to make a clear comparison of the price in the four countries?

A exchange rates

B indirect tax rates

C inflation rates

D retail price indices

36 The table gives information about four countries.

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

	country	life expectancy at birth (years)	GNP per head ($)	adult literacy (%)
A	Ethiopia	43	110	66
B	India	59	350	43
C	Nigeria	51	290	43
D	Mozambique	45	80	39

37 Developing countries are sometimes given aid by charities and foreign governments.

Which aid programme would be **least** likely to lead to long-term economic growth?

A the building of an irrigation system

B the construction of a new airport

C the distribution of gifts of food

D the training of technical staff

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38 What is **most** likely to happen if there is a fall in the death rate while the birth rate and migration remain unchanged?

A The population structure will remain the same.

B The population will increase.

C There will be a change in the proportion of men to women.

D The standard of living will increase.

39 What might encourage international specialisation between countries?

A free trade

B inefficiencies in production

C labour immobility

D tariffs

40 In 2008, the Peruvian Government set itself the target of reducing the number of its people in poverty to 30 % of the population.

Which change would be **most** likely to indicate that the Peruvian Government had made progress towards this objective?

A a fall in employment

B a fall in infant mortality

C a lower level of adult literacy

D a lower life expectancy

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