UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **October/November 2012**

1 hour

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

* 0 3 9 7 7 3 0 5 7 0 *

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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1 In China the government is concerned about the level of poverty and the need for more resources in the poorer regions of the country. As a result, it is increasing its expenditure there and reducing it in the wealthier regions.

Which economic concept does this government policy illustrate best?

A diseconomies of scale

B market forces

C opportunity cost

D specialisation

2 A country with a low income per head discovers large quantities of oil, which eventually makes everybody better off.

Why is the basic economic problem of scarcity **not** solved by this discovery?

A People may not get jobs in the oil industry.

B People's wants are always changing and increasing.

C Prices of oil can fluctuate on the world market.

D Production of oil can damage the environment.

3 Two telecommunications companies are to merge to finance investments in new technology, which will be more efficient and require smaller buildings. Three hundred workers will lose their jobs.

What will happen to the factors of production used?

	land	labour	capital	enterprise
A	fall	fall	rise	fall
B	fall	fall	uncertain	rise
C	rise	rise	rise	rise
D	uncertain	rise	fall	fall

4 Why might a free market economy be more advantageous than a mixed economy?

A Equality of income is encouraged.

B In a mixed economy, governments use taxes which are inefficient.

C Production is determined solely by consumer wishes.

D Social costs are taken into consideration.

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5 An international company drilled for oil in deep water and caused a major oil leakage, which affected the jobs of the fishing community. The government ordered the company to close the well and to stop drilling in the area.

What are the external costs of this incident?

A the costs borne by the fishing community

B the costs of closing the well

C the costs to the company of drilling the well in deep water

D the loss of revenue when the oil company stopped drilling

6 A supply curve for a commodity is drawn to show how quantity supplied varies with

A government taxes.

B income.

C tastes.

D the price of the commodity.

7 In 2010, floods caused severe damage to wheat production.

How would this be shown on a market demand and supply diagram for wheat?

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

8 The demand for a good is totally inelastic with regard to price.

What will happen to the firm's revenue if the price rises by 20 %?

A It will fall by 20 %.

B It will fall to zero.

C It will remain unchanged.

D It will rise by 20 %.

9 Which is a type of market failure?

A a general increase in the price of hotel rooms in busy summer seasons

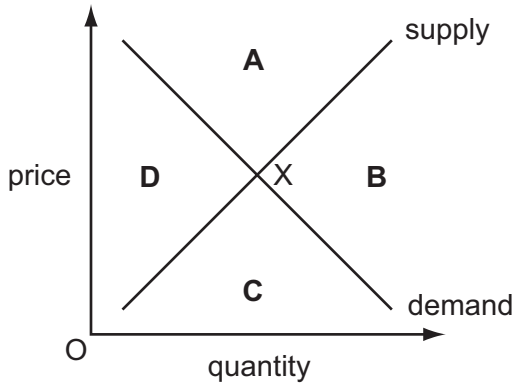
B an increase in house prices caused by easier borrowing for house buyers

C an increase in travel time caused by a road accident

D an increase in unsold goods because of a change in tastes

10 The market for a normal good is in equilibrium at point X. Consumers' incomes fall and the cost of producing the good rises.

In which area of the diagram will the new equilibrium be?



11 On average, doctors earn more than bus drivers.

Which change would be likely to reduce the earnings gap between doctors and bus drivers?

A a decrease in the profits earned by bus companies

B a decrease in the qualifications needed to be a doctor

C an increase in demand for medical care

D an increase in the number of people passing the driving test

12 What could reduce the ability of a trade union to gain a pay rise for its members in a shoe factory?

A an increase in sales of shoe exports

B a rise in the demand for shoes

C a rise in the productivity of shoe workers

D more people willing to work in the shoe industry

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13 What might encourage a consumer to save rather than to spend?

A being made unemployed

B discounts on products

C government subsidies to producers

D high interest rates

14 Why do banknotes function as money?

A They are backed by gold.

B They are durable.

C They are generally acceptable.

D They have intrinsic value.

15 Which function is performed by **both** commercial banks and central banks?

A acting as bankers to the government

B advising the government on monetary policy

C dealing in foreign exchange

D fixing the main interest rate

16 The table shows the proportion of income saved for different age groups.

age	15 – 29	30 – 39	40 – 49	50 – 62	63+
% of income saved	–34 %	– 4 %	18 %	29 %	–23 %

What can be concluded from this data?

A The 50 – 62 age group has the highest level of income.

B The 50 – 62 age group saves the highest proportion of its income.

C The older age groups earn more than the younger age groups.

D The youngest age group spends more than the oldest age group.

17 Which is an external economy of scale?

A availability of training facilities in local colleges

B greater production from employees

C increased credit facilities from banks

D lower costs through bulk buying

18 What is a variable cost to a firm producing bicycles?

A the component parts of the bicycles

B the interest on money borrowed

C the rent of the bicycle factory

D the salaries of the senior managers

19 In January 2008, ICI, a major UK chemical firm, was bought by its rival, a Dutch chemical firm.

What definitely occurred when the Dutch firm bought ICI?

A a partnership

B economies of scale

C horizontal integration

D increased profits

20 Partnerships in the United States of America (US) can now issue tradable shares and can limit the amount of money that shareholders may lose.

To which type of business organisation do these changes make US partnerships similar?

A co-operatives

B public corporations

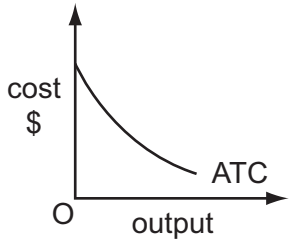
C public limited companies

D sole traders

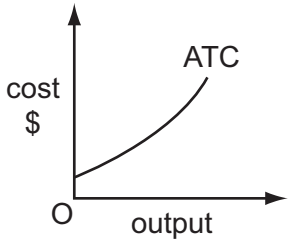
21 The graphs show the average total cost (ATC) curves of four firms and how they change as output increases.

Which firm has the highest fixed costs?

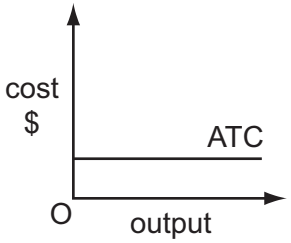
A



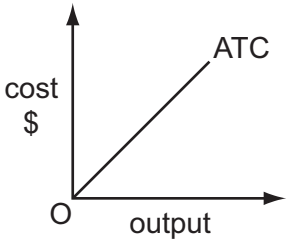
B



C



D



22 What is a possible advantage to the consumer of a monopoly supplier in a market?

A It achieves average costs which are lower than if there were many suppliers.

B It achieves profits which are higher than if there were many suppliers.

C It conducts advertising campaigns to discourage competition.

D It decides which retail outlets may sell and distribute its goods.

23 Which government policy would best protect the environment?

A encouraging economic growth

B exploiting natural resources

C increasing tax on fuel

D removing controls on industry

24 In 2010, the Brazilian Government stated it was concentrating on making the country the world's fifth biggest economy by 2025, and on narrowing the gap between the rich and the poor in the country.

What does the statement indicate were the main aims of the Brazilian Government?

A balance of payments stability and price stability

B economic growth and redistribution of income

C price stability and economic growth

D redistribution of income and balance of payments stability

25 A government wishes to stimulate economic recovery.

Which action will assist this?

A decreasing government investment

B decreasing income tax

C increasing indirect taxation

D increasing interest rates

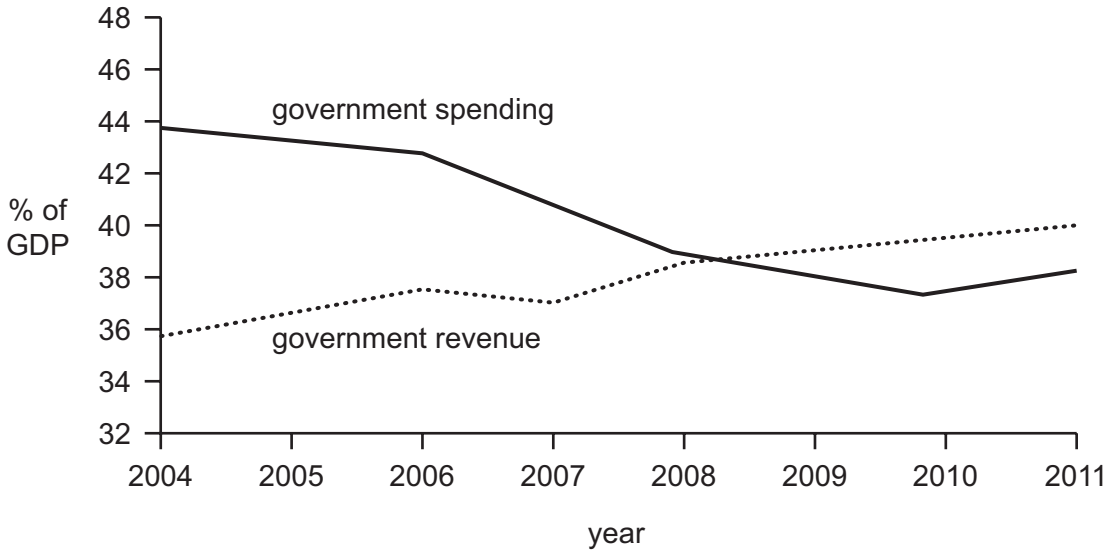
26 A country has a proportional system of taxation.

A person pays $500 tax when earnings are $5000.

How much tax will be paid if earnings rise to $12 000?

A $120 **B** $500 **C** $1200 **D** $7500

27 The graph shows government revenue and spending in a country, as a percentage of GDP, between 2004 and 2011.



What can be concluded from the graph?

A The balance of payments position improved.

B The borrowing of the government increased.

C The economy went into recession (economic downturn).

D The government budget moved from deficit to surplus.

28 The government pays a subsidy for each worker employed by a firm in an area of high unemployment.

When would this policy be most successful in reducing unemployment?

A when the firm is capital-intensive

B when the firm is labour-intensive, requiring mainly unskilled labour

C when the firm provides goods to the domestic market

D when the firm requires mainly specialist, skilled labour

29 What is **not** involved in the construction of a retail price index?

A a base year

B a basket of goods

C incomes

D weighting of products

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30 The Human Development Index (HDI) measures more than just average incomes.

What are two additional measures it includes?

A access to clean water number of doctors

B life expectancy years of schooling

C number of doctors poverty rate

D years of schooling poverty rate

31 Each year, extra cleaning staff were employed by a hotel on a temporary basis during the busy holiday period. They were not employed when the hotel was not busy.

What type of unemployment occurred when the hotel was not busy?

A cyclical

B frictional

C seasonal

D technological

32 A country's Gross Domestic Product (GDP) falls, while its population falls.

What happens to GDP per head?

A It falls.

B It is uncertain.

C It remains constant.

D It rises.

33 In the measurement of the UK's Retail Prices Index, a greater weight was given to bottled water in 2010 than 2009.

What does this change indicate?

A Government statisticians checked the price change of a greater range of bottled water in 2010 than in 2009.

B People spent a higher proportion of their total spending on bottled water in 2010 than in 2009.

C The price of bottled water increased more in 2010 than in 2009.

D There was an improvement in the quality of bottled water in 2010 compared with 2009.

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34 An Economics student described a typical developing country as having a large population, a low GDP per head, a relatively large primary sector and an uneven income distribution.

Which of these features is **not** necessarily accurate?

A a large population

B a low GDP per head

C an uneven income distribution

D a relatively large primary sector

35 In the developing economies of southern Africa, both infant mortality and life expectancy have fallen. Life expectancy now averages only 41 years.

What is the result of these changes?

A Current labour supply has fallen.

B Fewer primary schools are needed.

C Governments will pay for more retirement pensions.

D Less will need to be spent on health care.

36 Which feature is a typical characteristic of a developed country?

A a high death rate

B a high literacy rate

C a low number of doctors per head

D a small elderly population

37 The table shows the percentages of consumer spending on different items in four countries, which have similar geographical conditions and climate.

Which country is likely to have the highest standard of living?

country	percentage of consumer spending on each item		
	food	housing	transport
A	20	30	30
B	40	25	15
C	50	20	10
D	45	20	15

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38 A government agreed to provide $20 million to a developing country to help supply emergency aid.

In which part of the current account of the balance of payments was this payment recorded?

A current transfer flows

B income flows

C trade in goods

D trade in services

39 In some Asian countries the cost of labour is lower than in developed countries. As a result they manufacture and export clothes to Europe, where the demand for clothes is high.

The quality of these clothes, however, is not as good as some of the clothes produced in Europe.

What is likely to happen in the Asian countries and to the total expenditure on clothes in Europe?

	impact in Asian countries	change in expenditure in Europe
A	capital account will improve	increase
B	current account will improve	uncertain
C	exchange rate will fall	uncertain
D	terms of trade will fall	decrease

40 The value of the Pakistani rupee changes, from 60 rupees to US$1, to 50 rupees to US$1.

What effect will this have on the price of Pakistani products sold in the US and the price of US products sold in Pakistan?

	price of Pakistani products sold in the US	price of US products sold in Pakistan
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

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