UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/13**

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)

* 8 2 4 9 0 6 1 5 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.

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

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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 As the need for energy increases, energy suppliers use a mix of resources.

Which resource is renewable?

A coal

B gas

C oil

D water

3 A public limited company delivers groceries which customers order on the Internet.

What is an example for the firm of the factor of production called capital?

A the computers required to receive the orders

B the fuel used by the delivery vehicles

C the money required to pay the firm's costs

D the shares it sells on the stock exchange

4 What is likely to play a more important role in a mixed economy than in a free market economy?

A consumer wishes

B government intervention

C international trade

D the profit motive

5 What necessarily happens when an external benefit exists?

A Social benefit is greater than private benefit.

B Social benefit is greater than social cost.

C Social cost is equal to private cost.

D Social cost is greater than private cost.

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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 June 2010, a government published a proposal to increase Value Added Tax (Goods and Services Tax) on some goods from January 2011. Between June 2010 and January 2011 consumers bought more of those goods before the price increase occurred. After January, consumers bought less of the goods.

How would the changes be shown on a demand diagram for the goods?

	from June-January	after January
A	a movement down the curve	a shift of the curve to the right
B	a movement up the curve	a shift of the curve to the right
C	a shift of the curve to the left	a movement down the curve
D	a shift of the curve to the right	a movement up the curve

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 A developer built some large houses in a rural area which poorer people could not afford. The houses destroyed an area of natural beauty.

What type of market failure resulted from the development?

A inequality of income

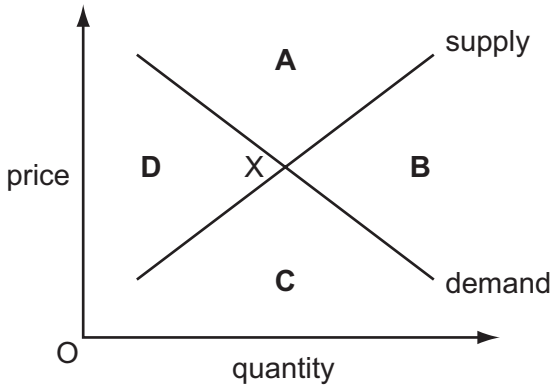
B lack of information

C negative externality

D price discrimination

10 The market for a normal good is in equilibrium at point X. Consumers' incomes rise and the government gives a subsidy to the producers of the good.

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



11 What work is in the primary sector?

A delivering milk

B designing gardens

C growing fruit trees

D selling agricultural fertiliser

12 What are the actions of a trade union intended to achieve in the long run?

A benefits to society

B harm to employers

C help for members

D reduced company profits

13 An individual has various financial assets.

What is the most easily available as cash?

A a current (checking) bank account

B government bonds

C share certificates in a public company

D time deposits in a savings bank

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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 A firm opens new branches in four different cities. As a result, it can negotiate a better deal from its foreign suppliers because it purchases larger quantities. However, it finds the distance between branches causes organisational problems.

What describes the result for the firm?

A an external economy of scale and an external diseconomy of scale

B an external economy of scale and an internal diseconomy of scale

C an internal economy of scale and an external diseconomy of scale

D an internal economy of scale and an internal diseconomy of scale

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18 As a firm increases its weekly output from 10 units to 20 units, its average cost falls from $15 to $10.

Which of its costs have risen?

A fixed costs and variable costs only

B fixed costs, variable costs and total costs

C total costs only

D variable costs and total costs only

19 Two private firms, an iron ore mining company and an iron and steel manufacturer, agree to amalgamate.

How would this action be described?

A co-operative

B horizontal take-over

C partnership

D vertical merger

20 A group of hotels, owned and operated in France, needs its staff to be able to speak a number of languages so it employs people from different countries. Different firms, providing tours from other countries, send customers to the hotels in France. The hotel group has shares issued on the stock exchange.

What type of company is the hotel group?

A a multi-national

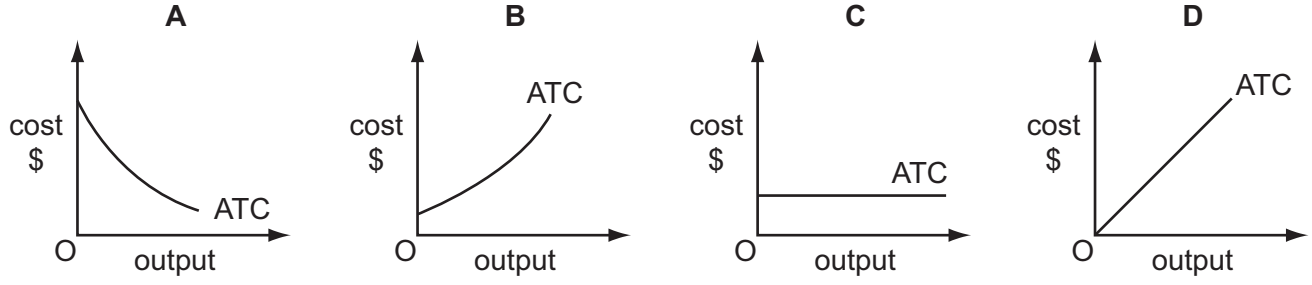
B a partnership

C a private company

D a public company

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?



22 Machu Picchu is Peru's most popular tourist destination. One train company, PeruRail, operates a monopoly service up to the site.

Why might competition on the route increase the fares paid by passengers?

A Competitive firms have more influence on price than a monopoly.

B Competitive firms never make a loss.

C Less advantage may be taken of economics of scale.

D More profit may be available to spend on new technology to reduce costs of production.

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 Greek Government proposed the introduction of a restrictive fiscal policy to reduce its budget deficit.

What does this mean the government was **most** likely to do?

A increase exports

B increase interest rates

C increase its spending

D increase taxes

25 Russia exports wheat. In 2010, because of a bad harvest, the Russian Government prevented the export of wheat to keep enough supplies for domestic use.

What happened as a result of the government's action?

A Prices were fixed by the wheat producers.

B The amount produced was determined by the government.

C The price of wheat abroad fell.

D There was a redistribution of domestic production.

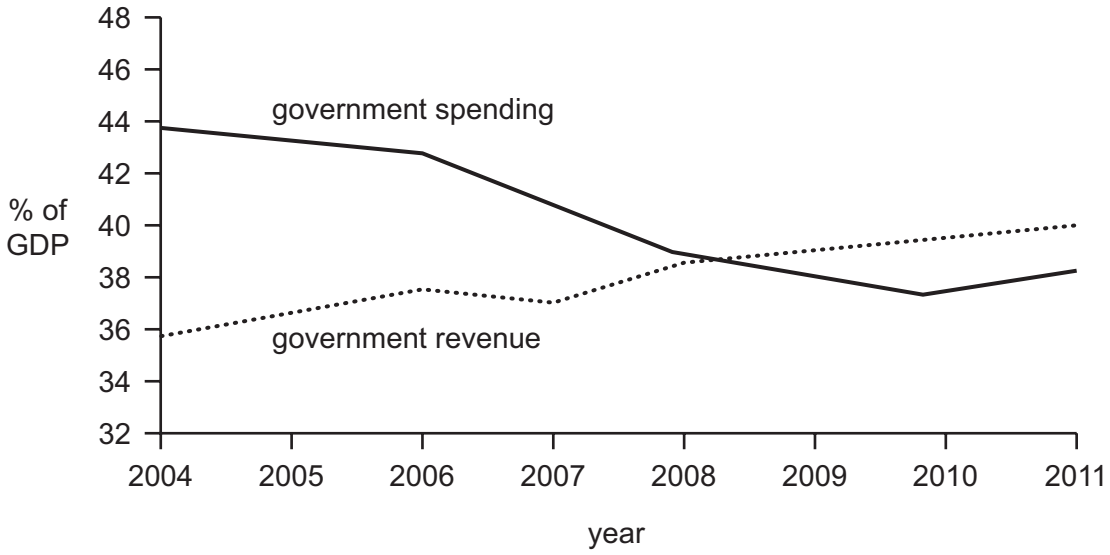
26 A country has a proportional system of taxation.

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 does **not** necessarily change with inflation?

A distribution of income

B employment income received as a salary

C revenue from exports

D the value of money

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30 What is GDP divided by to calculate Gross Domestic Product (GDP) per head?

A the adult population

B the non-dependent population

C the total population

D the working population

31 An increase in online banking by customers using home computers has reduced the level of employment in the banking sector of developed countries.

What describes this kind of unemployment?

A frictional

B regional

C seasonal

D technological

32 An economy is experiencing rising prices.

Which government policy will help reduce aggregate expenditure?

A introducing compulsory savings for income earners

B investing more on building infrastructure

C issuing more banknotes and coins

D reducing indirect taxes

33 China has become South Africa's largest trading partner. In 2009, 16 % of South Africa's imports came from China while 11 % of its exports went to China.

China is also investing in infrastructure designed to help increase production in South Africa.

What can be concluded from this information?

A China is investing more in South Africa than in other countries.

B China's GDP will grow more slowly than South Africa's GDP.

C GDP in South Africa is likely to rise.

D South Africa imported a greater number of goods and services from China than it exported to China.

34 What is usually true of workers approaching retirement when they are compared with new entrants to the workforce?

A They will be more adaptable.

B They will be more experienced.

C They will be more mobile.

D They will be physically stronger.

35 In 2010, Nigeria had a birth rate of 36 and an infant mortality rate of 94.

What can be concluded from this information?

A Nigeria experienced a natural decrease in population.

B Nigeria's population increased.

C 36 children were born per hundred of the population.

D 94 babies died before their first birthday out of every thousand babies born.

36 The Ivory Coast is sometimes referred to as a developing country.

What would be likely to support the opinion that a country is a developing country?

A a balance of trade surplus

B a high birth rate

C a highly mechanised farming sector

D a large 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 Japanese car manufacturer decided to produce its cars in a factory in Europe.

What would **not** be a reason why they might have chosen to do this?

A cheaper wage costs in Europe

B the availability of raw materials

C to gain external economies from skilled labour in Europe

D to increase Japanese self-sufficiency

39 A country imports oil, which has risen in price and which is used for production and for distribution. There has also been an increase in unemployment in the country. Businesses have closed and total consumer demand has fallen.

What is likely to happen to the balance of trade and economic growth?

	balance of trade	economic growth
A	improve	likely to increase
B	uncertain	likely to decrease
C	worsen	likely to decrease
D	worsen	likely to increase

40 The table shows how the South African Rand's exchange rates against the US Dollar and the Euro changed during a year.

In which quarter was it cheapest for an importer in the US to pay for goods bought from South Africa, and most expensive for an importer in Europe to do the same?

	quarter	exchange rate (Rands to 1 Dollar)	exchange rate (Rands to 1 Euro)
A	first	R7.499	R9.692
B	second	R7.485	R9.710
C	third	R7.510	R9.684
D	fourth	R7.459	R9.702

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