UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/12**

Paper 1 Multiple Choice **October/November 2013**

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.
DO **NOT** WRITE IN ANY BARCODES.

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 **12** printed pages.

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1 Sam wrote a list of how he would prefer to spend his Saturday afternoon.

first choice	go to a cricket match
second choice	watch the annual town parade
third choice	go to the cinema
fourth choice	visit relatives

Unfortunately a thunderstorm caused the cricket match and the town parade to be cancelled. Sam went to the cinema.

What was the opportunity cost of going to the cinema?

A going to the cricket match

B watching the town parade

C visiting his relatives

D losing his Saturday free time

2 How does a production possibility curve show that scarcity exists?

A It shows that a rise in demand for one of the products increases its price.

B It shows that as more resources are used to produce a product, its price rises.

C It shows that at any point outside the production possibility curve an economy is wasting resources.

D It shows that there is a limit to the quantity of products that can be produced with existing resources and technology.

3 In which case is it possible to set the level of reward before production takes place for the first factor of production but **not** for the second?

	first factor	second factor
A	capital	land
B	enterprise	labour
C	labour	capital
D	land	enterprise

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4 In the 2016 Olympics in Brazil, the opening ceremony will take place in the Maracana Stadium, which can seat 82 000 spectators. It is expected that all tickets for the ceremony will be sold quickly, leaving many people dissatisfied.

What can be concluded from this?

A Price elasticity of demand for tickets will be perfectly elastic.

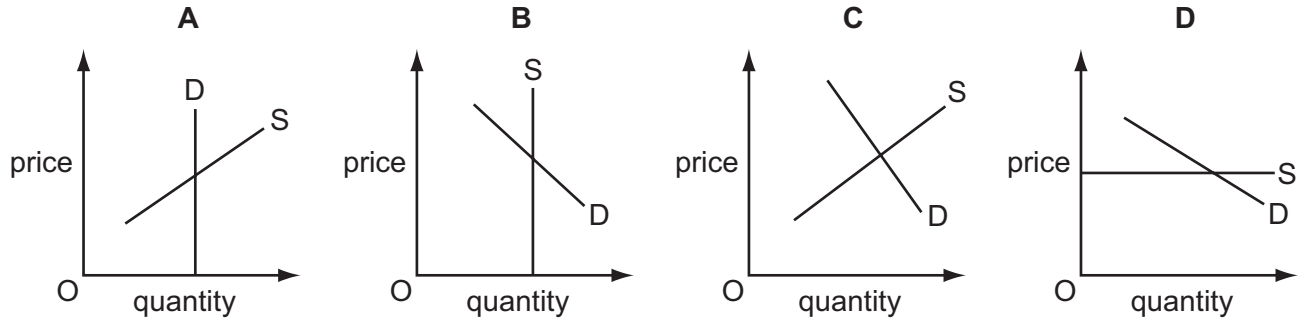
B Some people will be able to resell their tickets at a higher price than they paid for them.

C The Olympic authority will make more tickets available for sale.

D This will be an example of market failure.

5 The diagrams show different conditions of demand and supply for a product.

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



6 In 2011, a company selling milk in glass bottles replaced them with new plastic bottles. When they were introduced, the equilibrium quantity on the market fell.

What could be a reason for this fall?

A Consumers preferred the new bottle because it was lighter to carry.

B Milk from the farms used to fill the bottle cost more.

C The bottle was cheaper than the existing glass bottle to produce.

D The new bottle was introduced with a successful advertising campaign.

7 Which change would make the supply of a product more price elastic?

A an increase in the number of close substitutes for the product

B an increase in the proportion of firms working at full capacity

C a reduction in the time taken to make the product

D a reduction in the time that the product can be stored

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8 Developers want to increase the size of a major retail shopping area in a city. It is thought that the proposal would create hundreds of jobs, be profitable for the shops but cause major traffic congestion.

What economic concepts are involved in this statement?

A external cost and private benefit

B income distribution and inelastic demand

C private investment and a decrease in supply

D social benefit and perfect competition

9 Which will encourage domestic producers to grow more maize?

A granting subsidies to maize producers

B increasing the sales tax on maize

C removing guaranteed minimum prices for maize

D removing quotas on imported maize

10 There is a sales tax (VAT) on a good which has a price elasticity of demand greater than 1 (>1).

Which of the following correctly matches a change in sales tax to the change in total expenditure on the good?

	sales tax	total expenditure on the good
A	decrease	increases
B	decrease	remains the same
C	increase	increases
D	increase	remains the same

11 What will be the most likely effect of a fall in interest rates on saving and borrowing?

	saving	borrowing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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12 A worker's choice of occupation can be influenced by wage and non-wage factors.

What is a non-wage factor when choosing to work in a factory?

A bonuses paid for increases in productivity

B changes in hourly rates for items produced

C financial rewards for length of service

D opportunities for promotion and advancement

13 When will a trade union find it easier to achieve higher wages for its members?

A when consumers demand more of the product made

B when the company has a decrease in profits

C when the cost of raw materials increases

D when unemployment increases

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

A Specialisation enables a better quality product to be produced.

B Specialisation enables the firm to introduce more machinery.

C Specialisation enables the worker to become more skilled.

D Specialisation makes better use of resources.

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15 The table shows the change in real incomes for a number of occupations between 1978 and 2008.

occupation	change in real income %
doctors	153
lawyers	114
accountants	60
bricklayers	37
bus and coach drivers	19
fork-lift truck drivers	–5

What can be concluded from the table?

A All occupations were better off in 2008 than in 1978.

B Fork-lift truck drivers earned the lowest wages in 2008.

C Doctors have earned more than lawyers since 1978.

D Professionals received higher percentage increases in income than manual workers.

16 Which function of money enables people to compare the worth of different products?

A medium of exchange

B standard for deferred payments

C store of value

D unit of account

17 What is a reason why firms making similar products sometimes locate near each other?

A competition is decreased

B there are external economies of scale

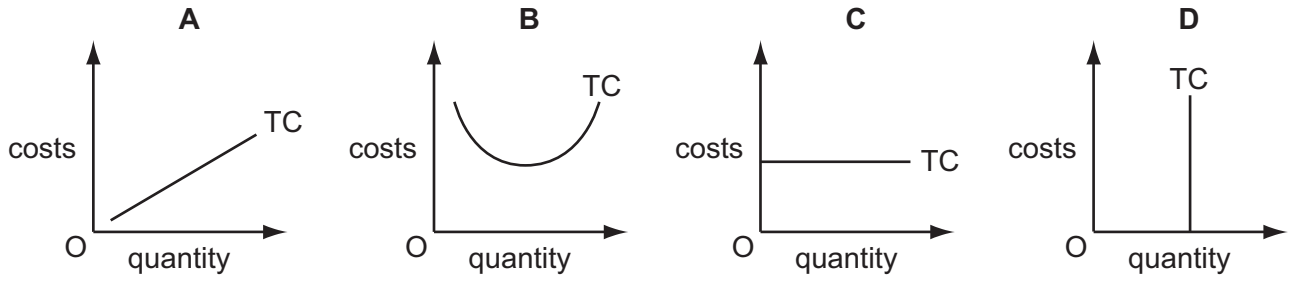
C there are internal economies of scale

D transport costs may be eliminated

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18 The diagrams represent total cost curves (TC) of four firms in the short run.

Which firm has only fixed costs?



19 To achieve horizontal integration a record company producing compact discs (CDs) could merge with another firm.

What would this firm most likely be doing?

A owning shops selling CDs

B producing CDs

C producing CD players

D producing machinery used in the making of CDs

20 What is a difference between a monopoly and a perfectly competitive firm?

A A monopoly always has economies of scale and a perfectly competitive firm has diseconomies of scale.

B A monopoly always operates in the public sector and a perfectly competitive firm always operates in the private sector.

C A monopoly is a price maker and a perfectly competitive firm is a price taker.

D A monopoly seeks to maximise profits and a perfectly competitive firm seeks to maximise output.

21 An entrepreneur started a small business making candles. In the first month 1000 candles were made. The costs were

	$
raw materials	1000
packaging	800
insurance	100
depreciation	100
rent	500

What were the average variable costs for the month?

A $1.00 **B** $1.80 **C** $1.90 **D** $2.00

22 In a competitive industry, a firm's aim is to become a monopoly supplier.

Which policy is it most likely to use to eliminate competition?

A adopt price reductions and advertising

B avoid diseconomies of scale

C maximise output and profit

D reduce financial barriers to entry

23 A country's only income tax rate is 50 % on all incomes above $10 000 and its sales tax (VAT) is 20% on all spending.

What type of taxes are these?

	income tax	sales tax (VAT)
A	progressive and direct	regressive and indirect
B	progressive and indirect	regressive and direct
C	proportional and direct	proportional and indirect
D	proportional and indirect	proportional and direct

24 Which aim of government policy is most likely to be achieved by an increase in interest rates?

A economic growth

B greater equality of income

C full employment

D price stability

25 Why might a government encourage a monopoly?

A It can have high average costs.

B It can compete against foreign firms.

C It can prevent innovation.

D It can make excessive profits.

26 Which combination of government policies is most likely to be successful at reducing unemployment?

A budgeting for a surplus and lowering interest rates

B budgeting for a deficit and raising interest rates

C budgeting for a surplus and raising interest rates

D budgeting for a deficit and lowering interest rates

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27 A government wishes to raise the general standard of living in its country.

In the short run, which policy would be the most likely to achieve this aim?

A preventing the merger of two companies into a monopoly

B raising taxation to repay government debts

C reducing the rate of income tax while maintaining the services it provides

D spending more on roads in rural areas rather than in city centres

28 Government advisers have suggested the following policies to reduce youth unemployment.

Which would **not** increase public expenditure?

A a cut in the minimum wage paid to young people

B a rise in the school-leaving age

C a subsidy to employers to recruit young people

D national military service for all

29 Which would best indicate the start of an economic recession?

A falling interest rates

B fluctuating levels of employment

C negative growth of GDP

D steadily increasing price levels

30 The table shows the change in the labour force in Bangladesh between 2006 and 2009.

group	2006 (millions)	2009 (millions)
urban male labour force	8.9	9.7
urban female labour force	2.8	3.1
total urban labour force	*11.7*	*12.8*
rural male labour force	28.5	30.5
rural female labour force	9.3	10.4
total rural labour force	*37.8*	*40.9*

Which statement is most likely to be consistent with these statistics?

A Farming is the major employer in the economy.

B Male workers are more mobile than female workers.

C The absolute increase in the labour force is greater in urban areas than rural areas.

D The supply of female workers has fallen.

31 The table shows spending in the leisure sector of a country ($ billion).

	($ billion)		
	1995	1999	2005
leisure spending	118	154	198
as a % of total consumption	27.0	27.5	28.0

What can be concluded from the table?

A Leisure spending, in billions of dollars, increased more between 1995–1999 than between 1999–2005.

B Leisure spending is growing in line with income growth.

C Leisure spending increased by an average of $10 billion a year between 1995–2005.

D Leisure spending is taking an increasing share of total consumption.

32 Consumer spending increased in 2010.

What other economic indicator is most likely to have increased as a result of the rise in consumer spending?

A government budget deficit

B inflation

C terms of trade

D unemployment

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33 What is deflation?

A a falling general price level

B a falling wage level

C a rising output level

D a rising profit level

34 A developing country's two major sources of income from international trade are fishing and tourism.

If the country's exchange rate depreciated, what is likely to happen?

A Imported goods would become cheaper for local people.

B The country would definitely become poorer.

C The price of fish sold as exports would become cheaper.

D Tourists to the country would be discouraged by higher prices.

35 In some developing countries a large percentage of the population is involved in subsistence farming.

What can be concluded from this?

A Each family will be able to produce enough to live on.

B Production is unlikely to be capital intensive.

C Production will be efficient.

D There will be a high level of trade.

36 A country has a falling birth rate and a rising death rate while an increasing number of its working age adults (16-60 years) are seeking employment abroad.

How will this probably affect the numbers in the different age groups in the country?

	under 16 years	16-60 years	over 60 years
A	fall	fall	fall
B	fall	rise	rise
C	rise	fall	rise
D	rise	rise	fall

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37 The gap in incomes between rich and poor continues to widen in many countries.

Who would be in absolute poverty?

A those in the population without any formal employment income

B those on very low incomes compared with the rest of the population

C those who live without financial assistance from the government

D those with just the minimum level of resources needed to sustain life

38 A country's foreign exchange rate appreciates significantly.

Which group in the country will directly benefit from this change?

A a government department which only buys locally made goods

B retailers who get all their supplies from foreign producers

C workers in local companies that compete with foreign firms in the local market

D workers in local companies that sell only in foreign countries

39 Which of the following could **not** be a reason for imposing tariffs on imported goods?

A to encourage self sufficiency

B to lower the general price level within the economy

C to protect a growing domestic industry

D to reduce a balance of trade deficit

40 Which of the following is an export of Jamaica?

A a loan to Jamaica by the International Monetary Fund

B Jamaican holidays taken by American tourists

C dividends paid by a company in Jamaica to its American shareholders

D sales of Japanese cars in Jamaica

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