



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

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ECONOMICS

2281/01

Paper 1 Multiple Choice

October/November 2009

1 hour

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

* 8 8 5 0 4 2 2 3 5 7 *

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 **13** printed pages and **3** blank pages.



- 1 Nlwazi lived in a rural area in Botswana and made baskets to sell to the tourists. The government gave her a loan to buy a car to take the baskets to the city market.

Which factor of production increased?

- A capital
 - B enterprise
 - C labour
 - D land
- 2 What, according to the definition of opportunity cost, is sacrificed when a decision is taken?
- A an identical alternative
 - B any possible alternative
 - C the least valuable alternative
 - D the next best alternative
- 3 A friend said his French grandmother kept switching off the lights but left the tap running. His Namibian relative left the lights on while shouting at him to turn off the water.

Which availability of resources and level of prices would make economic sense of these consumer actions?

	in France	in Namibia
A	adequate water supplies	expensive electricity
B	cheap electricity	adequate water supplies
C	expensive electricity	scarce water supplies
D	scarce water supplies	cheap electricity

- 4 The table shows the value of output for some parts of an economy.

	\$ billion
fishing	25.0
mining	23.0
manufacturing	130.5
financial services	100.3
other services	170.0

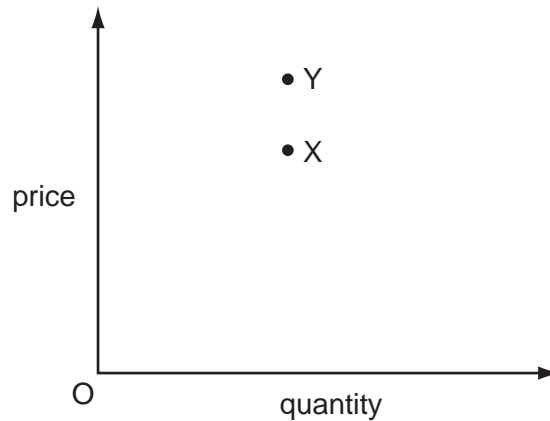
Which conclusion may be drawn from these statistics?

- A The tertiary sector was the most valuable.
 - B The value of the primary sector was \$25.0 billion.
 - C The value of the secondary sector was \$153.5 billion.
 - D The value of the secondary sector was worth less than the value of the primary sector.
- 5 What is **not** one of the basic questions in Economics?
- A For whom will goods be produced?
 - B How will goods be produced?
 - C How will goods be transported?
 - D What goods will be produced?
- 6 A government decides that an economy should make more use of the market.

Which policy might help to achieve this?

- A a decrease in controls on imported goods
- B an increase in government ownership of land
- C an increase in subsidies to industry
- D the fixing of minimum wage levels for workers

- 7 The diagram shows an initial equilibrium point (X) in a market and a new equilibrium point (Y).



Which combination of changes in demand and supply could have caused the movement from X to Y?

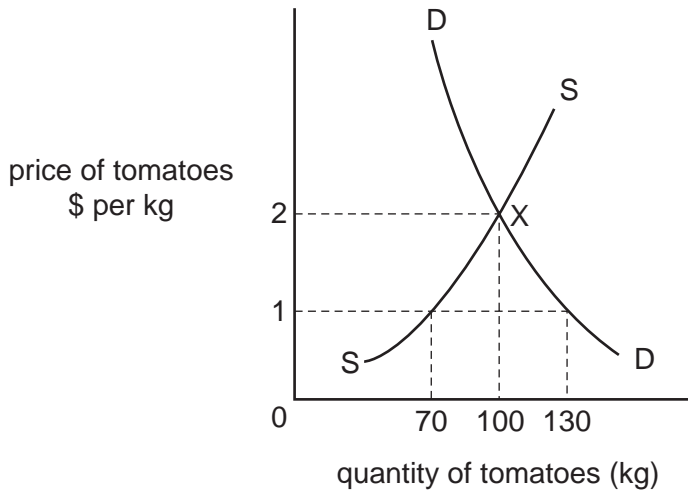
	demand	supply
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 8 A large supermarket applied to build on land which was an area of natural beauty. The local government allowed the building, even though the natural beauty of the area would be lost, because many jobs would be created and much needed income would be brought to the local community.

Which economic ideas **cannot** be found in the above statement?

- A** external cost and private enterprise
B free market and the conservation of resources
C opportunity cost and improved standards of living
D public sector and external benefit
- 9 For what would price elasticity of demand be used?
- A** calculating current disposable income
B calculating the rate of price inflation
C estimating changes in a company's cost
D identifying changes in consumer spending patterns

- 10 What is an external benefit when a charge is made for vehicles entering a city centre?
- A increased government revenue
 - B increased traffic
 - C reduced air pollution
 - D reduced business activity
- 11 The diagram shows a demand and supply schedule for tomatoes. The market is in equilibrium at point X.



What will happen if the government imposes a maximum price of \$1 per kg?

- A Demand will exceed supply by 30 kg.
 - B Demand will exceed supply by 60 kg.
 - C Market price will fall to \$1 but quantity will remain at 100 kg.
 - D Market price will remain unchanged but quantity will fall to 70 kg.
- 12 A product has a price elasticity of demand that is greater than one.
- What will happen to total revenue if the price of the product is reduced by 3%?
- A It will fall by more than 3%.
 - B It will fall to zero.
 - C It will be unchanged.
 - D It will rise.

- 13** In August 2007 the Central Bank of Swaziland increased its interest rate from 9.5% to 11.5%. Which effect would this be likely to have on producers and consumers?

	producers	consumers
A	borrow less	save more
B	borrow less	spend more
C	invest more	save more
D	invest more	spend more

- 14** Why might a family increase the proportion of its income it spends on food?
- A** Some of the children start work.
 - B** The government increases the benefits it pays to families.
 - C** The number of children in the family increases.
 - D** The second parent becomes employed.
- 15** In 2007 the average annual pay of a scientist in the UK was £37 290. The average annual pay of a laboratory technician was £26 157.

What could explain this difference in earnings?

- A** Laboratory technicians have stronger bargaining power than scientists.
 - B** Laboratory technicians have to work more unsociable hours than scientists.
 - C** The period of training for scientists is longer than that for laboratory technicians.
 - D** The supply of scientists is high relative to demand for their services.
- 16** The workers in a company belong to a trade union.

Which change might the union use to support a claim for an increase in its members' wages?

- A** a decrease in demand for the company's product
- B** a decrease in the rate of inflation
- C** an increase in company profits
- D** an increase in the supply of workers

17 What distinguishes a multi-national company from other companies?

- A It has agents in other countries.
- B It produces in other countries.
- C It takes part in international trade.
- D It uses raw materials and components from more than one country.

18 Cadbury Schweppes, the confectionery business, is reported to want to reduce the number of its offices in an attempt to decrease its general and administrative costs.

Which type of cost does Cadbury Schweppes hope to decrease?

- A average variable cost
- B marginal cost
- C total fixed cost
- D total variable cost

19 Prices tend to be lower in a competitive industry than in a monopoly.

Why is this?

- A A monopoly has less influence on the market.
- B Competitive industry has more economies of scale.
- C New firms are free to enter the competitive industry.
- D Profits are lower in a monopoly.

20 India is experiencing rapid growth in air travel. The number and size of airlines is increasing every year.

Which effect arising from this growth is an external economy of scale?

- A Banks are more prepared to lend to large airlines rather than small airlines.
- B Fuel suppliers charge less to airlines that buy in bulk.
- C Institutions are established to train flight crew.
- D Larger airlines operate aircraft which can carry more passengers.

- 21 The table shows the total cost of a firm. It can sell the units for \$4 each.

quantity produced (units)	5	6	7	8
total cost \$	17	18	21	23

How many units will the firm produce to maximise profits?

- A 5 B 6 C 7 D 8
- 22 A firm has fixed costs of \$20 and the following total variable costs.

output	10	20	30	40
total variable costs (\$)	40	60	80	100

What happens to average total cost over this output?

- A It falls continuously.
 B It falls, then rises.
 C It rises continuously.
 D It rises, then falls.
- 23 Economic growth can be defined as
- A an increase in a country's exports.
 B an increase in a country's population.
 C an increase in the productive capacity of an economy.
 D a reduction in inflation.
- 24 A country has different rates of income tax depending on the level of income earned.
- The highest rate of income tax is cut from 40% to 38%.
- From this statement it can be deduced that taxation will become
- A less indirect.
 B less progressive.
 C less regressive.
 D more difficult to evade.

- 25 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?

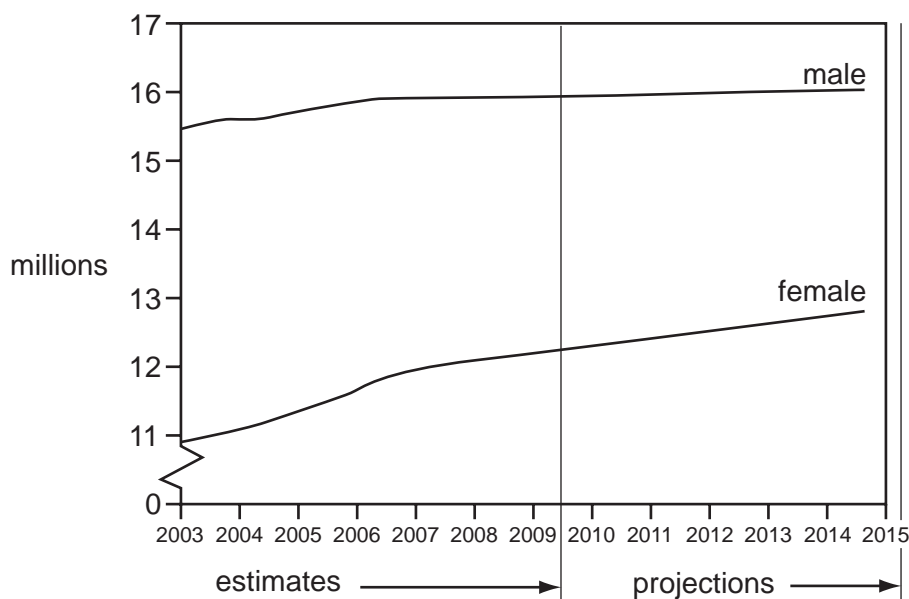
- A when the firm is capital-intensive
 B when the firm is labour-intensive, requiring mainly unskilled labour
 C when the firm provides professional services
 D when the firm requires mainly specialist, skilled labour
- 26 What is the main reason why indirect tax is thought to be unfair?
- A Not everyone pays an indirect tax.
 B The consumer is unaware of the rate of tax.
 C The retailer is forced to collect the tax for the government.
 D The tax burden is greater for people on low incomes.
- 27 The table shows some of Japan's expenditure on social services (actual and projected) as a percentage of Gross Domestic Product.

expenditure	actual	projections	
	2000	2010	2025
medical care	6.2	7.2	8.4
pensions	10.4	14.3	15.3
education	4.0	4.3	3.8
unemployment	0.3	0.3	0.3
family benefits	1.0	1.0	1.0
total	21.9	27.1	28.8

Which population group will benefit most from the projected changes?

- A children below school age
 B children of school age
 C people over retirement age
 D unemployed workers

28 The graph shows the labour force of a country from 2003-2015.



What may be concluded from the graph?

- A Between 2003 and 2015, women will become a higher percentage of the labour force.
 - B It is estimated that more girls than boys will be born between 2003 and 2005.
 - C The labour force will remain relatively unchanged after 2006 at approximately 16 million.
 - D The total population of the country in 2010-2011 will be approximately 28 million.
- 29 In 2008 inflation was close to 100 000 % in Zimbabwe. In a bid to reduce this high rate, the Zimbabwean Government imposed maximum prices on a range of products. This caused price rises amongst those goods sold unofficially or illegally.

What could explain this?

- A The maximum prices increased demand whilst reducing supply.
- B The maximum prices reduced demand whilst increasing supply.
- C The maximum prices were set above the equilibrium price levels.
- D The maximum prices were set at the equilibrium price levels.

30 The table shows a number of economic indicators for four countries in 2004.

Which country best fits the description of 'the fastest real economic growth with the strongest international position'?

	country	GDP (annual % change)	prices (annual % change)	trade balance (\$bn)	foreign reserves (\$bn)
A	Chile	4.8	1.1	+6.2	15.9
B	Hungary	4.2	7.5	-4.2	12.6
C	Peru	4.2	4.3	+1.5	10.4
D	Philippines	6.4	5.1	-1.3	13.0

31 As a result of a decrease in the demand for coal, several coal mines were closed.

What type of unemployment would this cause?

- A** cyclical
- B** frictional
- C** seasonal
- D** structural

32 Which factor is **most** likely to reduce the average age of a population in a developed country?

- A** a lower birth rate
- B** a lower death rate
- C** emigration
- D** immigration

33 What is **most** likely to be found in a typical developing country?

- A** a good education sector
- B** a small average family size
- C** a small percentage of very old people
- D** high spending on entertainment

- 34** The Chinese Government is concerned about two population problems – overpopulation and gender imbalance, with males outnumbering females.

In 2007 it reduced the number of babies that foreigners are allowed to adopt; almost all of the babies are girls.

What effect might this have on the size of China's population and gender imbalance in the short run?

	size of population	gender imbalance
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

- 35** The expansion of the European Union has caused net migration into the UK.

What is the most likely effect in the UK in the short run?

- A** an ageing population
 - B** a rising birth rate
 - C** reduced pressure on public services
 - D** reduced pressure on the labour supply
- 36** What benefit is likely to result from the extension of specialisation within manufacturing?
- A** For a consumer, there are more individually made goods available.
 - B** For a consumer, there could be a lower cost of living.
 - C** For an employee, job satisfaction will increase.
 - D** For an employee, the nature of work is more varied.
- 37** Which two items, as well as trade in goods and services, are included in the current account of the balance of payments?
- A** foreign reserves and international investment
 - B** government spending and international borrowing
 - C** incomes and current transfers
 - D** taxation and foreign aid

- 38 Drinks producers in India are resisting plans to remove tariffs on imported drinks. They argue that a reduction in tariffs would destroy the emerging drinks industry with large-scale imports of drinks.

Which argument for protectionism are they putting forward?

- A the declining industry argument
 - B the infant industry argument
 - C the strategic industry argument
 - D the sunset industry argument
- 39 Which is an invisible export in France's balance of payments?
- A aid to foreign disaster areas
 - B contributions to the European Union
 - C fee-paying patients from abroad in French hospitals
 - D maintenance of French embassies in other countries
- 40 The United States is the most important destination of India's exports. In 2006, 29 % of India's exports went to the United States.

Which change in economic policy in the United States is **most** likely to increase employment in India?

- A a cut in government spending
- B a cut in income tax
- C a rise in interest rates
- D an increase in tariffs

