



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS

2281/01

Paper 1 Multiple Choice

May/June 2009

1 hour

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

* 3 2 0 6 1 5 9 4 6 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.



1 What is the basic economic problem facing all societies?

- A how to achieve price stability
- B how to keep employment levels high
- C the extent to which incomes should be redistributed
- D what will be produced, how and for whom

2 A major airline needs a range of people and equipment. These can be divided into factors of production.

Which is allocated to its correct factor of production?

	people or equipment	factor of production
A	aircraft	capital
B	computer network	land
C	pilots	enterprise
D	shareholders	labour

3 Commercial companies are cutting down tropical rainforests for hardwood timber.

What is the opportunity cost to society of this activity?

- A tax revenue from the sale of the timber
- B the environment that is destroyed
- C the products made from the timber
- D the profits of the companies

4 Who is definitely employed in the primary sector?

- A a person in a firm producing goods for other firms to use
- B a person in a firm engaged in agricultural production
- C a person in an organisation which first deals with any imports into the country
- D a person in the head office of a company

- 5 A hospital cannot treat all the people that need medical care.

This is an example of

- A excess supply.
 - B limited wants.
 - C scarcity.
 - D unlimited resources.
- 6 Which argument can be used in favour of the market economy?
- A It enables consumers to show their preferences for goods.
 - B It ensures that all capital resources are used.
 - C It guarantees full employment.
 - D It leads to an equal distribution of wealth.
- 7 The market for a good was in equilibrium. A change occurred which resulted in a new equilibrium with a higher price for the good and a lower quantity traded.

What change would have caused this?

- A The demand curve moved to the left.
- B The demand curve moved to the right.
- C The supply curve moved to the left.
- D The supply curve moved to the right.

- 8 It was reported in 2002 that South Africa, a mixed economy, would face sharp increases in air and water pollution unless action was taken to develop environmentally friendly policies for its citizens.

Why is a mixed economy thought to be a satisfactory means of achieving environmentally friendly development?

- A because all development is paid for by the government
- B because it allows external costs to be considered
- C because it ensures development at lowest cost
- D because it is the most productive system

- 9 It was reported that a company producing designer clothes had increased its revenue by 20% at a time when it decreased its prices.

What does this suggest about the demand for these goods at that time?

- A It was perfectly price elastic.
 - B It was perfectly price inelastic.
 - C It was price elastic.
 - D It was price inelastic.
- 10 Which costs will be reduced if a factory decreases the amount of pollution it causes to the environment?
- A average costs
 - B external costs
 - C fixed costs
 - D variable costs
- 11 The diagram shows a change in demand for coffee.



What might cause the demand for coffee to change from D_1 to D_2 ?

- A a good coffee harvest
- B a rise in the price of alternative drinks
- C a rise in the wages of coffee workers
- D a successful advertising campaign for tea

12 A product has a totally inelastic price elasticity of demand.

What will happen to total revenue if the price of the product falls by 25 %?

- A It will fall by 25 %.
- B It will fall to zero.
- C It will remain unchanged.
- D It will rise by 25 %.

13 What function does a central bank provide for the general public?

- A accepting deposits
- B issuing banknotes
- C making loans
- D providing overdrafts

14 A person is keen to repay a large debt owed on his credit card.

What is likely to cause that person to reduce the credit card repayment and spend more from his weekly wage?

- A an increase in interest rates
- B an increase in the price of essential products
- C an increase in the range of products available
- D an increase in weekly earnings

15 Why are farm workers likely to be paid a lower wage rate than workers in manufacturing?

- A Farm workers are more likely to be in a trade union.
- B Farm workers are more likely to have a shorter working life.
- C Farm workers are more likely to have poorer working conditions.
- D Farm workers are more likely to produce goods with a lower value.

16 Which organisation is **most** likely to raise large amounts of capital through shareholders?

- A a group of lawyers
- B a local builder
- C a manufacturer and exporter of televisions
- D a safari park with a hotel

17 Three doctors decide to work together in one health centre.

What form of business organisation are they most likely to choose?

- A a partnership
- B a private company
- C a public company
- D a public corporation

18 How does a firm guarantee that it makes the maximum profit?

- A by maximising the difference between its total revenue and total cost
- B by maximising the number of goods that it sells
- C by minimising the amount of goods that it keeps in stock
- D by minimising the difference between average revenue and average cost

19 Some travellers complain about the disturbance caused when other people use their mobile (cell) phones. As a result, a UK train operator announces that it will buy some new trains that will have a device fitted to prevent the use of mobile (cell) phones.

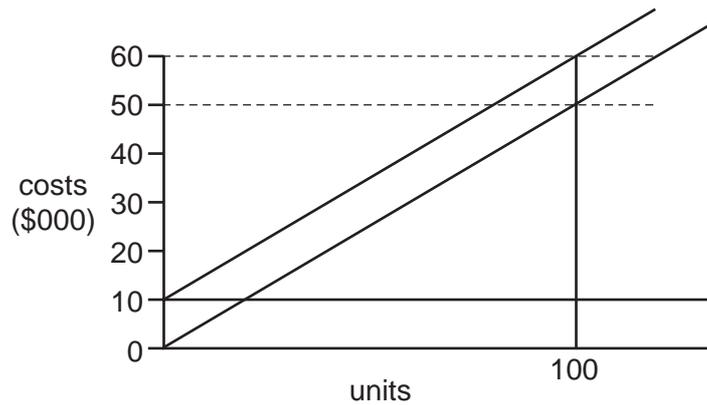
What will definitely happen to the train operator?

- A Its average revenue will decrease.
- B Its total revenue will increase.
- C Its fixed cost will increase.
- D Its total cost will decrease.

20 Which is a diseconomy of scale?

- A Bulk buying reduces costs.
- B Communications deteriorate.
- C Employees are more motivated.
- D Technological improvements take place.

21 The diagram shows the fixed costs, variable costs and total costs of a firm.



What is the firm's variable cost at an output of 100 units?

- A** \$500 **B** \$10 000 **C** \$50 000 **D** \$60 000

22 In a popular tourist city there are three large hotels but many smaller guest houses.

The company which owns one of the large hotels decides to add more rooms to its hotel and also purchase one of the other large hotels.

What will happen as a result?

- A** The company will be able to control the price of tourist accommodation in the city.
B The market for hotel accommodation will become less competitive.
C The smaller guest houses will be forced out of business.
D There will be a monopoly supply of tourist accommodation in the city.

23 What is likely to increase with economic growth?

- A** cyclical unemployment
B income per head
C the budget deficit
D the conservation of natural resources

24 A government decreased the tax on all goods imported into the country.

What is the most likely result of this?

- A** a decrease in domestic production
B an increase in economic growth
C an increase in exports
D an improvement in the balance of trade in goods

- 25** Changes in demand mean that the government of Bangladesh hopes to switch some production from clothes made by low-paid, unskilled workers to medicines produced by highly-trained technicians.

What policies would enable Bangladesh to achieve this switch in employment and production?

- A** demolish clothes factories and decrease imports
 - B** encourage immigration of foreign labour and introduce tariffs on clothing
 - C** invest in education and purchase new machines
 - D** substitute labour for machines and encourage emigration of workers from Bangladesh
- 26** In 2003 in the UK, income tax raised £110 billion at a cost of 1.4 p per £1 raised. Company tax raised £21.1 billion at a cost of 1.2 p per £1 raised.

What can be concluded from comparing this information on the two taxes?

- A** Company tax was the more productive tax.
 - B** Company tax caused less tax avoidance.
 - C** Income tax was the more progressive tax.
 - D** Income tax was less economical to collect.
- 27** What is **not** an important step in the construction of an accurate Retail Price Index?
- A** choosing a base year with normal economic conditions
 - B** comparing price rises with those of international competitors
 - C** sampling prices from a wide range of retail outlets
 - D** selecting a typical basket of goods consumed by the average citizen

- 28** The table shows the percentage changes in earnings and consumer prices for four countries for one year.

Which country is likely to have experienced the greatest increase in real income during the year?

	country	earnings	consumer prices
A	France	+12.5	+9.5
B	Japan	+4.0	+2.0
C	UK	+8.5	+5.0
D	Germany	+4.0	+4.0

29 What might cause a decline in economic output?

- A a decrease in income tax
- B a decrease in sales tax
- C an increase in company investment
- D an increase in unemployment

30 A closed economy has both a private sector and a public sector.

Gross Domestic Product (GDP) consists of total consumer expenditure plus gross investment plus

- A the value of exports.
- B the value of exports minus the value of imports.
- C total government expenditure.
- D total government expenditure minus total taxation.

31 What is the best measure of a country's standard of living?

- A money national income per head
- B national income
- C national income per head
- D real national income per head

32 What is most likely to cause an immediate decrease in the size of the working population?

- A a fall in the average size of families
- B a fall in the birth rate
- C a reduction in the age of retirement
- D an increase in net immigration

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

- A Ill-health affects many of the population.
- B Many workers are highly skilled.
- C Production is labour-intensive.
- D There is an unequal distribution of income and wealth.

34 Which statement about economic development is correct?

- A A country needs more than a high GDP to be considered developed.
- B A country which has rich reserves of raw materials is classed as developed.
- C A country will have no people living in poverty when it is developed.
- D A country with a trade surplus is considered to be developed.

35 Japan has an ageing and declining population. Fewer workers have to support more retired people.

Which government policy is **most** likely to reduce the support that has to be given by the working population?

- A lowering state pensions
- B lowering the retirement age
- C raising income tax
- D subsidising the emigration of workers

36 What is **not** an advantage of specialisation and division of labour?

- A A product is manufactured in separate stages, making it easier to use machinery.
- B Some workers become more dependent on other workers.
- C Workers complete a limited range of tasks and become more efficient at them.
- D Workers spend less time moving from one task to another.

37 A large amount of the agricultural products in a country were damaged by floods.

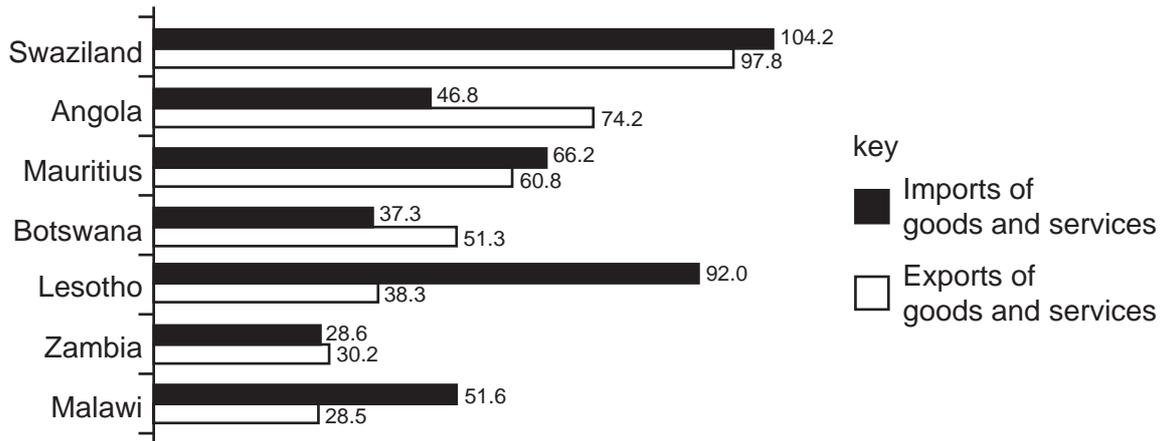
What is likely to have happened to the price of agricultural products and the volume of imports of agricultural products?

	price of products	volume of imports
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

38 What would be **least** likely to limit international trade?

- A border restrictions on movement
- B common regulations in different countries
- C complicated customs procedures
- D poor information on international markets

39 The graph shows the level of imports and exports as a percentage (%) of GDP for a number of countries.



What can be concluded from the graph?

- A Botswana has a deficit on its balance of payments current account.
 - B Swaziland is the country most heavily dependent on imports.
 - C The value of imports for Lesotho is greater than the value of imports for Malawi.
 - D The volume of imports for Zambia is less than its volume of exports.
- 40 When does free trade occur?
- A when goods are exported with government subsidies
 - B when goods are given as part of an aid programme
 - C when goods are traded using barter
 - D when goods face no import barriers

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