



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS

2281/01

Paper 1 Multiple Choice

May/June 2007

1 hour

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

* 7 2 1 9 2 2 5 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 **12** printed pages.



1 \$2bn is invested in developing a country's natural resources and infrastructure.

Which two factors of production does this refer to directly?

- A capital and labour
- B capital and land
- C enterprise and land
- D labour and land

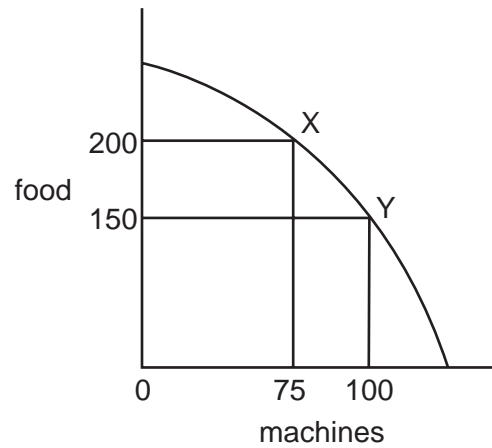
2 What makes specialisation easier?

- A the imposition of taxation
- B the protection of trade
- C the system of barter
- D the use of money

3 A free market economy is more likely than a planned economy to encourage development because

- A equality of income is encouraged.
- B factors of production would be employed efficiently.
- C government intervention uses taxes and subsidies.
- D social costs are taken into consideration.

- 4 An economy is producing at X.



What is the opportunity cost of choosing to produce at Y instead of X?

- A 25 machines
 - B 50 units of food
 - C 75 machines
 - D 150 units of food
- 5 Each country of Southern Africa has a mixed economy.
- Which statement about a mixed economy is correct?
- A The government employs most primary sector workers.
 - B The government owns all major secondary sector industries.
 - C The government owns the transport network.
 - D The government provides public and merit goods.
- 6 When will a trade union be most effective in pursuing its members' interests?
- A The economy is in recession with rising unemployment.
 - B The employers have few orders for the product.
 - C The government passes a law to increase competition in the labour market.
 - D The members' wages make up a small part of total costs.

7 The table gives information about four business organisations.

Which organisation is most likely to be described as a co-operative?

| | owners have limited liability | owned by its members |
|----------|-------------------------------|----------------------|
| A | no | yes |
| B | no | no |
| C | yes | yes |
| D | yes | no |

8 What is the function of a stock exchange?

- A** It enables shareholders to sell their shares.
- B** It fixes fair prices for shares.
- C** It promises to buy unsold shares.
- D** It sets the number of shares.

9 A French company employs French people, is located only in France, sells shares on the stock exchange but uses other firms to transport its products to other countries.

What type of company is this?

- A** a co-operative
- B** a private company
- C** a public company
- D** a multi-national

10 A demand curve for a product shows the relationship between its price and

- A** cost of production.
- B** population changes.
- C** the income of the consumer.
- D** the quantity of the product consumed.

11 The following was printed in a magazine.

More soft drinks are being consumed than ever before by the 16 – 34 age group. Schweppes, the drink manufacturers, claim that over 45 per cent of their soft drinks are now being consumed without alcohol as people switch away from alcoholic spirits.

How would this change be represented on a demand and supply diagram for soft drinks?

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

12 A firm produces a good with a price elasticity of demand greater than 1.

What must the firm experience if there is a fall in the price of this good?

- A a decrease in costs
- B a decrease in sales
- C an increase in revenue
- D an increase in profits

13 Australian mines are among the world's largest suppliers of uranium but the mines are contaminating Australia's natural environment. It is recommended that the mining companies install new equipment which causes less pollution.

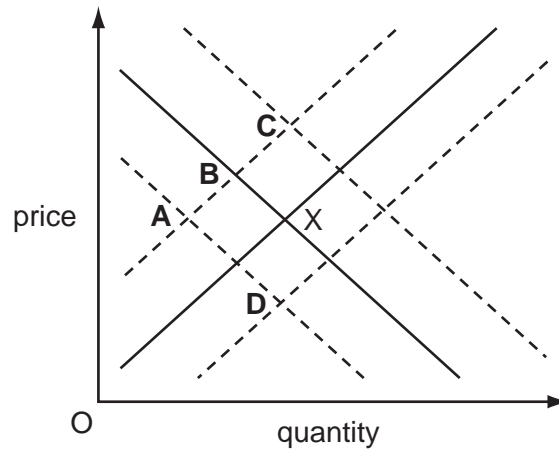
If this is done, how would it be represented on a demand and supply diagram for uranium?

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

- 14 The diagram shows the demand and supply of places in independent (private) schools which charge fees. The equilibrium position is X.

The costs of independent (private) schools rise. Also a report is issued which states that Government schools achieve very good examination results.

What is likely to be the new equilibrium position?



- 15 Which group is likely to save the largest proportion of its income?

- A employed workers
- B retired people
- C school students
- D unemployed workers

- 16 What is **not** included in a person's stock of wealth?

- A a gold watch
- B annual income
- C an oil painting
- D company shares

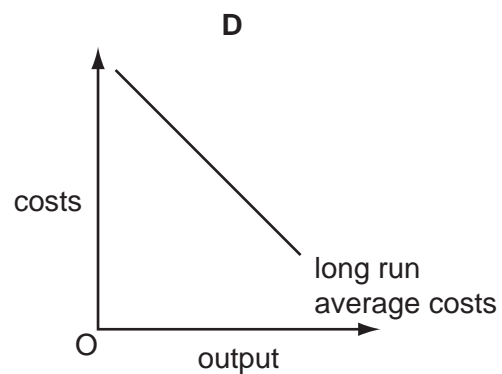
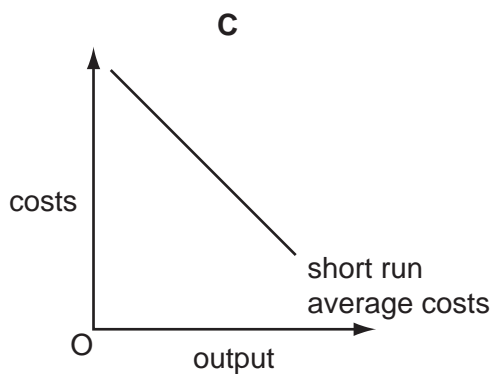
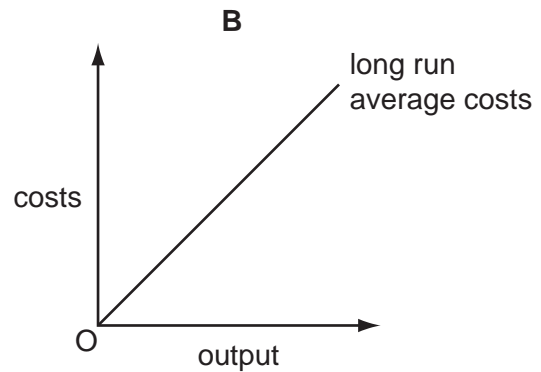
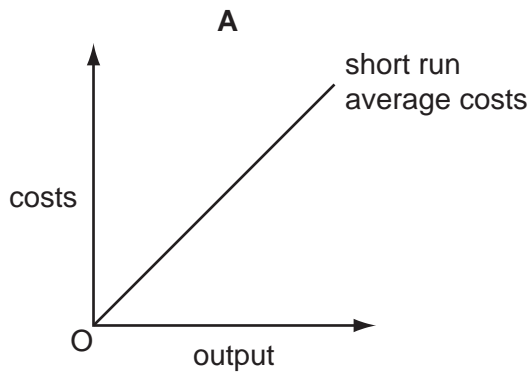
- 17 What might cause the wages of bus drivers to rise?

- A Their productivity falls.
- B The number of bus routes falls.
- C The number of people making bus journeys falls.
- D The supply of bus drivers falls.

18 What will lead to an increase in spending?

- A an increase in the rate of unemployment
- B a reduction in the rate of interest
- C a reduction in expenditure by firms on advertising
- D an increase in the rate of income tax

19 Which diagram represents a firm with economies of scale?



20 A British firm, Dyson, moved production of its vacuum cleaners from the UK to Malaysia.

Why might it have made this change?

- A average costs would fall
- B average revenue would rise
- C market share would fall
- D transport costs would rise

- 21** What is a fixed cost of production?
- A** the commission paid to sales staff
 - B** the cost of using the telephone
 - C** the interest paid on a bank loan
 - D** the money spent on repairs
- 22** What is **not** equal to the average revenue?
- A** the price of each unit
 - B** the profit from each unit
 - C** the revenue from each unit
 - D** the total revenue divided by output
- 23** What is most likely to happen if a regressive tax replaces a progressive tax?
- A** the amount of tax paid by richer people increases
 - B** incomes before tax become less equal
 - C** the majority of people continue to pay the same tax
 - D** the amount of tax paid by poorer people increases
- 24** A government decides to reduce income tax.
- Which aims of government policy would this help to achieve?
- A** a smaller balance of payments deficit and lower inflation
 - B** a smaller balance of payments deficit and more economic growth
 - C** lower unemployment and lower inflation
 - D** lower unemployment and more economic growth
- 25** Why might a government discourage monopolies?
- A** They can achieve low average costs.
 - B** They can compete against foreign firms.
 - C** They can introduce new technology.
 - D** They can make large profits.

26 Which type of unemployment is generally regarded by economists as the least serious for the economy?

- A cyclical
- B frictional
- C regional
- D structural

27 The citizens most likely to benefit in a period of rapid inflation are those who

- A are receiving fixed state benefits.
- B earn fixed incomes.
- C have lent money at a fixed rate of interest.
- D have borrowed money at a fixed rate of interest.

28 The table shows the proportion of the working population in different sectors in three countries.

| country | agriculture % | manufacturing % | services % |
|---------|---------------|-----------------|------------|
| Iran | 38 | 33 | 29 |
| Nepal | 93 | 2 | 5 |
| UK | 2 | 42 | 56 |

What can be concluded from the table?

- A Iran has fewer people working in manufacturing than the UK.
- B Nepal is a developed economy.
- C Services are more developed in Iran than Nepal.
- D The UK is dependent on the primary sector.

29 In rural areas in developing countries women often do unpaid work on traditional activities.

Why might this mean that the GDP is **not** a good measure of the standard of living in those countries?

- A The GDP does not include international trade.
- B The GDP only refers to companies in urban areas.
- C The work is not counted in GDP statistics.
- D The work is not economically important.

- 30 The table shows unemployment and inflation statistics for the US, Japan and Sweden for year 1 and year 2.

| country | unemployment (%) | | inflation (% pa) | |
|---------|------------------|--------|------------------|--------|
| | year 1 | year 2 | year 1 | year 2 |
| US | 4.8 | 4.4 | 5.6 | 3.4 |
| Japan | 2.7 | 2.7 | 1.7 | 0.7 |
| Sweden | 2.7 | 3.2 | 8.3 | 6.6 |

Which conclusion can be made from the table?

- A In year 1, the same number of people were unemployed in Sweden and Japan.
 - B In year 1, the cost of living rose in the US.
 - C The number of unemployed people decreased in all three countries.
 - D Unemployment and inflation moved in the same direction in Japan.
- 31 Two industries in Namibia are fishing and tourism. The value of the currency of Namibia fell in 2001.

If there were no other changes, what resulted from the fall?

- A Imported goods in Namibian shops became cheaper.
 - B The price of Namibia's fish sold in foreign markets became cheaper.
 - C The volume of Namibia's exports decreased.
 - D Tourists were discouraged by higher prices in Namibia.
- 32 What is likely if the proportion of retired people in a country increases?
- A a reduction in income from direct taxation
 - B a reduction in the dependency ratio
 - C an increase in the total number of jobs available
 - D a reduction in spending on medical treatment

33 Which country is likely to have the **lowest** standard of living?

| | birth rate | death rate | life expectancy | infant mortality |
|----------|------------|------------|-----------------|------------------|
| A | 25 | 10 | 57 | 24 |
| B | 43 | 31 | 40 | 42 |
| C | 25 | 5 | 72 | 22 |
| D | 36 | 14 | 48 | 56 |

34 In 2005, world population had grown to 6.5 billion with an increase of more than 4 billion since 1950.

What is **most** likely to have been the cause of this?

- A** an increase in the death rate in developed countries
- B** an increase in the birth rate in developing countries
- C** an increase in migration from developing to developed countries
- D** an increase in the death rate in developing countries

35 At the G8 Economic Summit in 2005, it was decided to cancel much of the debt which African countries owed to European and North American countries.

This will have the same effect as a transfer of resources from

- A** developed countries to developing countries.
- B** developing countries to developed countries.
- C** market economies to planned economies.
- D** planned economies to market economies.

36 A government decides to reduce the size of the quota on a good.

What is likely to happen?

- A** The balance of trade will worsen.
- B** The good will become cheaper.
- C** The government's revenue will decline.
- D** There will be less of the good imported.

37 What is an external cost of smoking cigarettes?

- A the cost of the tobacco
- B the danger to non-smokers' health
- C the harm done to smokers
- D the tax on cigarettes

38 Why may it be better to increase public expenditure while reducing private expenditure?

- A Goods and services which the market ignores can be provided.
- B Government officials are likely to be more careful spending money than private individuals.
- C The profit motive makes government departments more efficient than private firms.
- D The government is the best judge of the satisfaction gained from goods and services.

39 In London, an extra charge is placed on the use of cars in the city centre which causes car drivers to switch to public transport.

What is likely to happen to the private costs of those who continue to drive cars and to external benefits?

| | private costs | external benefits |
|----------|---------------|-------------------|
| A | fall | fall |
| B | fall | rise |
| C | rise | fall |
| D | rise | rise |

40 What will result if Europe reduces trade barriers to increase imports of clothing and food from Asia and Africa?

- A greater choice for European consumers
- B increased income for European producers
- C lower unemployment in the European clothing industry
- D slower economic growth in Asia and Africa

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