

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**ECONOMICS**

**2281/01**

Paper 1 Multiple Choice

May/June 2006

**1 hour**

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

**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 Construction companies are building new houses on land previously used for farming.  
What is the opportunity cost to society of this activity?
- A improved living conditions
  - B less congestion in city centres
  - C more homes for new homeowners
  - D some farm output
- 2 If a planned economy became a mixed economy, which industry would be most likely to remain under government control?
- A agriculture
  - B coal mining
  - C defence
  - D motor car production
- 3 A boat owner employs a crew to catch fish to sell on the market.  
Which factors of production are involved in this activity?
- A labour, capital and enterprise only
  - B land, labour and capital only
  - C land, labour and enterprise only
  - D land, labour, capital and enterprise
- 4 What is the most likely outcome of increased specialisation in a water bottling plant?
- A higher costs per bottle
  - B higher wage rates
  - C increased job satisfaction
  - D increased output of bottles of water
- 5 What is a characteristic of a public corporation?
- A It issues shares to the general public.
  - B It is owned by the government.
  - C Its objective is to maximise profits.
  - D It is owned by more than twenty shareholders.

6 What best describes a multi-national company?

- A a company that is owned by the government
- B a company that has many shareholders
- C a company that trades internationally
- D a company that produces in more than one country

7 What is usually a function of a trade union?

- A to determine the amount of dividend paid
- B to negotiate wage levels with employers
- C to recommend redundancies
- D to take responsibility for organising sales of companies' products

8 Tea and sugar are complementary goods.

What will happen if the price of tea falls, other things being equal?

- A The demand curve for sugar will move to the right.
- B The demand curve for tea will move to the right.
- C The price of sugar will fall.
- D The supply curve of sugar will move to the left.

9 The price of a good is temporarily above the market equilibrium price.

What must happen for the market to be brought back to equilibrium?

|          | quantity demanded | quantity supplied |
|----------|-------------------|-------------------|
| <b>A</b> | rises             | rises             |
| <b>B</b> | rises             | falls             |
| <b>C</b> | falls             | rises             |
| <b>D</b> | falls             | falls             |

10 What is **not** held constant in calculating a demand schedule?

- A the incomes of consumers
- B the prices of complementary goods
- C the price of the good itself
- D the tastes of consumers

- 11** As petrol prices increase, demand for petrol remains constant.

What does this say about the price elasticity of petrol?

- A** The demand is price-elastic.
- B** The demand is price-inelastic.
- C** The supply is price-elastic.
- D** The supply is price-inelastic.

- 12** The price elasticity of demand for a good is unitary.

What would be the effect of a 1 % fall in its price?

- A** to increase total revenue by 0.1 %
- B** to leave quantity demanded unchanged
- C** to leave total revenue unchanged
- D** to reduce quantity demanded by 1 %

- 13** What is an important influence on price elasticity of demand?

- A** average earnings
- B** tastes of consumers
- C** the cost of living
- D** the number of close substitutes

- 14** Why is a surgeon likely to have a higher wage rate than a hospital porter?

- A** The surgeon has been in the job a longer time.
- B** The surgeon has a longer training period.
- C** The surgeon is older.
- D** The surgeon is in a trade union.

- 15** What is an advantage for a worker in part-time rather than full-time employment?

- A** a higher wage
- B** greater employment protection
- C** more opportunity for other activities
- D** greater chance of promotion

**16** Which factor is likely to cause an increase in people's savings?

- A** an increase in tax rates
- B** an increase in the interest rate
- C** a reduction in economic uncertainty
- D** a reduction in real wages

**17** What is likely to cause wages in an occupation to be low?

- A** a high level of responsibility
- B** high unemployment
- C** the need for special skills
- D** unpleasant working conditions

**18** A firm's average revenue is \$10. It sells 2000 units.

What is the firm's total revenue and the price of the product?

|          | Total revenue (\$) | Price (\$) |
|----------|--------------------|------------|
| <b>A</b> | 10                 | 10         |
| <b>B</b> | 2 000              | 200        |
| <b>C</b> | 20 000             | 10         |
| <b>D</b> | 20 000             | 200        |

- 19 The table shows the demand schedule for maize.

| price per kilo<br>(\$) | quantity demanded<br>(kilos per day) |
|------------------------|--------------------------------------|
| 3                      | 300                                  |
| 4                      | 240                                  |
| 5                      | 200                                  |
| 6                      | 150                                  |
| 7                      | 140                                  |
| 8                      | 100                                  |

What will happen if price rises from \$5 to \$6 per kilo?

- A Total revenue will rise.
  - B Demand will rise.
  - C Total revenue will fall.
  - D Total costs will rise.
- 20 An entrepreneur can use either capital or labour in the production process. The actual combination changes as the prices of the factors alter.

When is capital most likely to replace labour?

|   | price of capital | price of labour |
|---|------------------|-----------------|
| A | constant         | falling         |
| B | falling          | rising          |
| C | rising           | constant        |
| D | falling          | falling         |

- 21 What is happening when a firm is experiencing economies of scale?

- A It has rising long-run average costs.
- B It is operating in the short run.
- C Its fixed costs are less than variable costs.
- D Its output is increasing faster than its inputs.

- 22** When is a firm most likely to undertake capital investment?
- A** when it has increasing demand for its product
  - B** when it has increasing variable cost
  - C** when it has a decreasing rate of profit
  - D** when it has decreasing availability of finance
- 23** What might a government decrease if it wished to slow down the rate of growth in an economy?
- A** expenditure on defence
  - B** goods and services (value added) tax
  - C** interest rates
  - D** the rate of income tax
- 24** Why might policies to promote economic growth result in inflation?
- A** They increase competition.
  - B** They increase saving.
  - C** They increase spending.
  - D** They increase unemployment.
- 25** 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
- 26** 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.

27 What is meant by the incidence of a tax?

- A how the revenue raised by the tax is spent
- B how the tax is collected
- C why the tax is imposed
- D where the burden of the tax is finally felt

28 The table gives the price of a paperback book as printed on its back cover.

|                |         |                       |
|----------------|---------|-----------------------|
| United Kingdom | £6.99   |                       |
| Canada         | \$11.99 | (Canadian dollars)    |
| Australia      | \$14.99 | (Australian dollars)  |
| New Zealand    | \$20.95 | (New Zealand dollars) |

What is needed to make a clear comparison of the price in the four countries?

- A consumer price indices
- B exchange rates
- C indirect tax rates
- D inflation rates

29 The table shows some data about an economy.

|                   | Year 1 | Year 2 |
|-------------------|--------|--------|
| rate of inflation | 2 %    | 3.5 %  |
| personal incomes  | +2 %   | +2.5 % |

What happened between Year 1 and Year 2?

- A Both prices and real incomes fell.
- B Both prices and real incomes rose.
- C Prices rose but real incomes fell.
- D Prices fell but real incomes rose.

30 What would contribute to a fall in the value of the UK pound (£)?

- A a fall in interest rates in other countries
- B a rise in the number of foreign tourists visiting the UK
- C the removal of import tariffs by the USA
- D the value of UK imports increasing more than the value of UK exports

- 31** What is meant by the depreciation of a currency?
- A** a fall in its external value
  - B** a fall in its internal value
  - C** a rise in its external value
  - D** a rise in its internal value
- 32** What is most likely to lead to inflation?
- A** a decrease in consumer spending
  - B** a decrease in employment in the public sector
  - C** an increase in the cost of factor inputs
  - D** an increase in income tax
- 33** What is the most likely cause of population migration to cities in developing countries?
- A** an ageing population
  - B** higher unemployment rates in cities
  - C** higher wages in cities
  - D** higher land values in cities
- 34** The table gives information on standards of living in four countries.

|        | life expectancy at birth<br>(years) | adult literacy<br>rate % | % labour force in<br>agriculture |
|--------|-------------------------------------|--------------------------|----------------------------------|
| Brazil | 66.5                                | 82.4                     | 23                               |
| India  | 60.7                                | 50.6                     | 64                               |
| Rwanda | 47.2                                | 58.0                     | 92                               |
| Uganda | 44.7                                | 59.7                     | 85                               |

On the basis of this information which country has the highest standard of living?

- A** Brazil
- B** India
- C** Rwanda
- D** Uganda

- 35** What is the most likely cause of a fall in the population growth of a developing country?
- A** a decrease in the birth rate
  - B** a decrease in emigration
  - C** a decrease in immigration
  - D** a decrease in the standard of living
- 36** What is most likely to be found in a developing country?
- A** a large proportion of professional people
  - B** a large proportion of income spent on entertainment
  - C** a small proportion of very old people
  - D** a small average family size
- 37** Assuming nothing else is changed, what will be the effect if a country imposes tariffs?
- A** increased import prices
  - B** increased export prices
  - C** reduced government revenue
  - D** reduced home production
- 38** The central area of a country produces tea for which it has an ideal climate. The coastal area produces coconuts because its climate is different.
- Assuming there is no change in market conditions, what will happen if this country subsequently produces only tea in both areas?
- A** It will increase its costs of production.
  - B** It will increase the productivity of its land.
  - C** It will increase its total income.
  - D** It will make the best use of its resources.

- 39** More people decide to travel by bus and train rather than by car because government subsidies result in reduced fares.

What will be the effect on the private benefit for passengers and external benefit?

|          | private benefit for passengers | external benefit |
|----------|--------------------------------|------------------|
| <b>A</b> | falls                          | falls            |
| <b>B</b> | falls                          | rises            |
| <b>C</b> | rises                          | falls            |
| <b>D</b> | rises                          | rises            |

- 40** Which of the effects of economic development would be classed as an external cost?

- A** higher wages
- B** increased pollution
- C** increased production
- D** more advanced technology

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