



# Cambridge O Level

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## ECONOMICS

2281/01

Paper 1 Multiple Choice

For examination from 2020

SPECIMEN PAPER

45 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet  
Soft clean eraser  
Soft pencil (type B or HB is recommended)

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## INSTRUCTIONS

- There are **thirty** 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

## INFORMATION

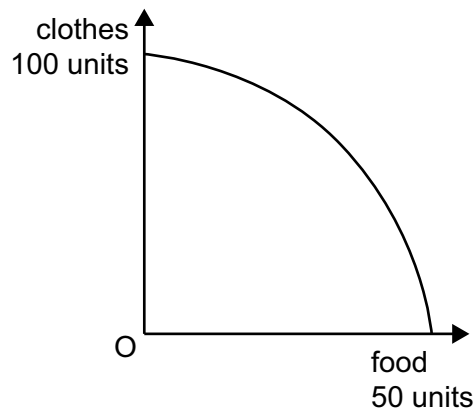
- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

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This document has **10** pages. Blank pages are indicated.



- 1 Using all available resources an economy produces different combinations of two types of good, clothes and food, shown on the production possibility curve (PPC) diagram.



What does the PPC indicate?

- A It is more efficient to produce more of clothes than food.
  - B It is only possible to increase the output of clothes by reducing the output of food.
  - C The best situation is to produce equal units of clothes and food.
  - D The cost of producing a unit of clothes is always higher than the cost of producing a unit of food.
- 2 A government subsidised a new factory in a rural area to create jobs. It also provided training courses at a college. Objectors claimed the development would destroy an area of natural beauty.

What concepts are involved in this statement?

- A economic growth, resource allocation, free market equilibrium
  - B government intervention, monetary policy, opportunity cost
  - C public good, market prices, fiscal policy
  - D supply-side policy, negative externalities, factors of production
- 3 Reena makes a living by selling paintings of the town in which she lives. She sells them in an open-air market once a week.

In order to be able to sell more pictures in a week she decides to buy a studio, pay someone to help in the studio and try to increase demand by advertising in the local paper.

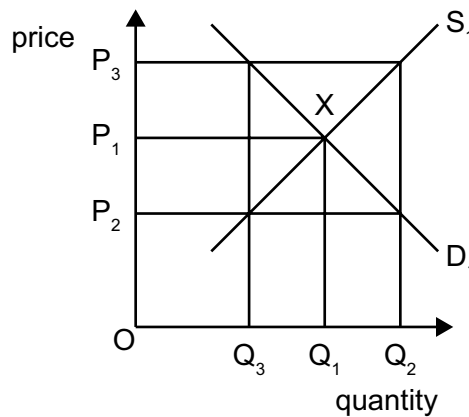
Which factors of production were changed?

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

- 4 A market consists of 10 individuals with different demand curves in a given period.

What is a calculation that could be used as part of the process to determine the market equilibrium in that period?

- A at each price add the quantities demanded by each individual  
 B at each quantity average the price that each individual is prepared to pay  
 C combine the price elasticity of demand (PED) and the price elasticity of supply (PES) at each price  
 D determine the PED and multiply it by the quantity demanded
- 5 The diagram shows the market for a good. The equilibrium is at point X. The government fixes a minimum price for the good at  $P_2$ .



What will happen in the market as a result?

- A The market equilibrium will remain the same.  
 B The quantity demanded will rise to  $Q_2$ .  
 C The quantity supplied will fall to  $Q_3$ .  
 D There will be an excess supply.
- 6 How might the concept of price elasticity of demand (PED) be useful for a government?
- A to determine the effect on employment of a change in income tax  
 B to determine the effect on government revenue of a rise in the rate of interest  
 C to determine the effect of providing a public good  
 D to determine the result of imposing a tariff on imports

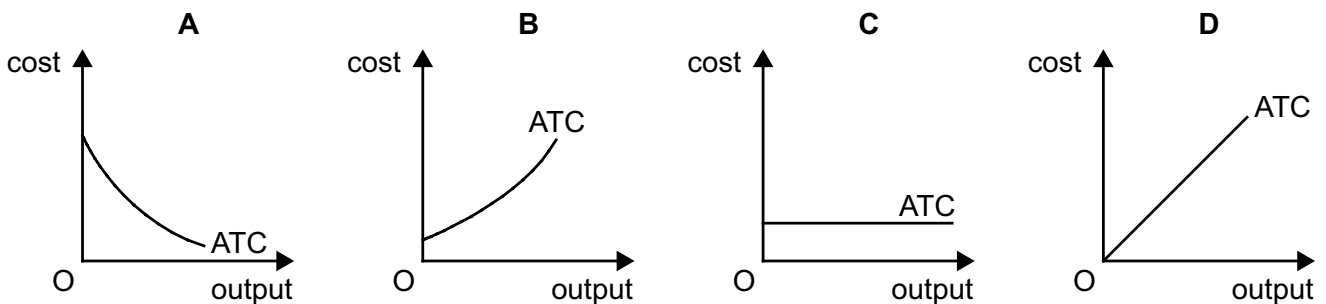
- 7 Governments sometimes intervene in the economy when the market fails.  
What is the **most** likely reason why government intervention may make the situation worse?
- A Government decisions can take a long time to have an effect.
  - B Governments consider the views of both consumers and producers.
  - C Governments have more resources to calculate costs and benefits than private firms.
  - D Governments may take decisions to reduce negative externalities.
- 8 Which function do central banks and commercial banks have in common?
- A acting as a banker's bank
  - B controlling monetary policy
  - C dealing with foreign exchange
  - D supervising the banking system
- 9 What may cause an individual to save a higher proportion of their income?
- A a belief that the price of goods will rise in the future
  - B a fall in the rate of interest paid by the country's banks
  - C a fear that income will fall in the future
  - D a rise in the individual's wish to enjoy higher consumption immediately
- 10 When might a trade union be **most** likely to achieve a good pay deal for its members?
- A when labour costs are a high percentage of the firm's total costs
  - B when rival firms successfully introduce an alternative product
  - C when the firm is introducing capital-intensive production
  - D when the firm is making large profits
- 11 What is found in a competitive market?
- A Every firm earns large profits.
  - B Firms with limited capital can enter the market.
  - C The costs of production are always lower than in a monopoly.
  - D There is limited choice for consumers.

12 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.

13 The diagrams show the average total cost (ATC) curves of four firms and how they change as output increases.

Which firm has the highest fixed costs?



14 The table shows a firm's total revenue and total cost at different levels of output.

Which level of output gives maximum profit?

	output (units)	total revenue (\$)	total cost (\$)
<b>A</b>	10	15	15
<b>B</b>	20	20	18
<b>C</b>	30	25	20
<b>D</b>	40	30	21

15 A large pizza chain in the US decided to sell sandwiches as well to try to increase its revenue.

Which term describes this change?

- A diversification
- B externalities
- C horizontal merger
- D vertical merger

16 Why might a government encourage a monopoly?

- A It can compete against foreign firms.
- B It can have high average costs.
- C It can make excessive profits.
- D It can prevent innovation.

17 What is the **most** likely result of an increase in interest rates?

- A a fall in consumer spending
- B a fall in productivity
- C a rise in borrowing
- D a rise in investment

18 The table shows a government's receipts from taxation.

	\$m
tax on company profits	100
income tax	600
import duties	30
sales tax	250

What is the total amount of revenue raised by direct taxes?

- A \$280m      B \$700m      C \$730m      D \$950m

19 Which combination of government policies is **most** likely to increase the rate of growth of domestic production in an economy?

- A an increase in expenditure on infrastructure and an increase in income tax
- B an increase in interest rates and an increase in quotas on imported goods
- C an increase in sales tax and an increase in education expenditure
- D an increase in subsidies to domestic industry and an increase in tariffs

20 The managers of a firm have to discuss the following topics.

Which topic is **least** likely to be directly affected by the government's influence on the firm?

- A health and safety laws
- B replacing one of its managers
- C the interest it pays on borrowed money
- D the minimum wage it must pay its workers

21 In the construction of a consumer prices index (CPI), a total weight of 1000 is used.

If a weight of 300 is given to food and a weight of 150 is given to transport, then

- A consumers are spending half as much on transport as they do on food.
- B consumers must be spending more on necessities than on luxury goods.
- C food prices must be rising twice as fast as transport prices.
- D the weights cannot be changed until the index reaches 1000.

22 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

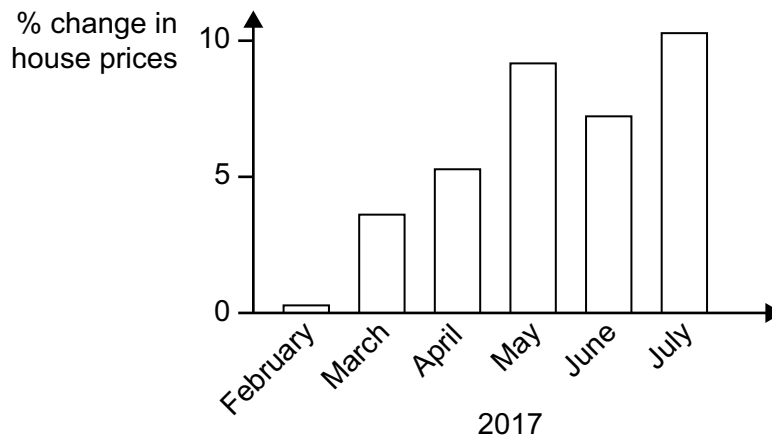
Which conclusion can be made from the table?

- A In year 1, the cost of living rose in the US.
- B In year 1, the same number of people were unemployed in Sweden and Japan.
- C The number of unemployed people decreased in all three countries.
- D Unemployment and inflation moved in the same direction in Japan.

23 Why is the Human Development Index (HDI) a better indicator of comparative living standards than Gross Domestic Product (GDP) per head?

- A It includes international trade.
- B It includes more measures of living standards.
- C It is measured in money terms.
- D It is more directly linked to economic growth.

24 The diagram shows percentage changes in house prices in an economically developed country.



What might have caused these changes in prices?

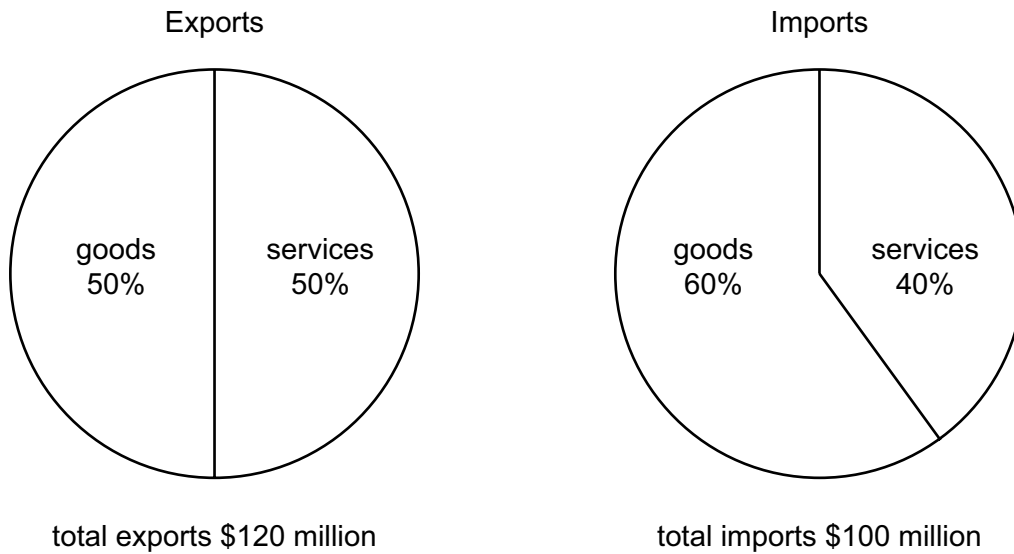
- A an increase in government subsidies to house builders
  - B an increase in income
  - C an increase in the supply of houses
  - D an increase in unemployment
- 25 What is meant by an optimum population for a country?
- A a population that balances its birth rate and its death rate
  - B a population that maximises output per head
  - C a population that results in fewest negative externalities
  - D a population that uses all resources available
- 26 What does a population pyramid of a country show?
- A its age and sex distribution
  - B its employment pattern
  - C its income distribution
  - D its migration pattern
- 27 What is usually found in a developed country?
- A a high GDP per head with a low level of employment
  - B a high level of labour skills with a low level of car ownership
  - C a high rate of adult literacy with a low level of poverty
  - D a high rate of population growth with a low level of labour productivity



28 What is the **least** likely feature of globalisation?

- A integration of trade
- B international capital flows
- C the spread of multinational companies
- D unrestricted movement of labour

29 The diagrams show the composition of exports and imports of a country.



What is true for this country?

- A There is a deficit in the balance of trade in goods.
- B There is a deficit in the balance of trade in services.
- C There is a surplus in the balance of trade in goods.
- D There is a surplus in the balance of trade in services.

- 30 Countries in Europe were in a recession in 2012. World oil prices were expected to fall. In fact in 2012, oil prices rose.

Which international events might explain this?

	possible causes of the expected fall in oil prices	possible causes of the oil price rise in 2012
<b>A</b>	European industrial production declined	China increased its car production
<b>B</b>	India invested huge amounts in road building	Japan's economy had negative growth
<b>C</b>	Middle East conflicts made oil supplies uncertain	Saudi Arabia increased oil production
<b>D</b>	new oil exploration in Poland was successful	demand for alternative fuels increased

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