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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

ECONOMICS **2281/01**

Paper 1 Multiple Choice **May/June 2008**

1 hour

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

* 7 2 4 5 9 8 7 8 1 0 *

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.

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1 What can happen in a planned economy that does **not** happen in a market economy?

A The allocation of resources can take account of the total effects on society.

B There can be full employment of factors of production.

C There can be inflation.

D There can be international trade.

2 Which of the following is a factor of production?

A the payment of interest on a bank loan

B the profit declared by a company in its annual report

C the skill of the managers of a business

D the taxes paid to the government

3 In a mixed economy, resources are used as a result of

A the decisions of consumers only.

B the decisions of firms only.

C the decisions of consumers and firms.

D the decisions of consumers, firms and government.

4 Hong Kong lacks natural resources. Its best asset is its people.

What can be concluded about Hong Kong's factors of production?

	well supplied	poorly supplied
A	capital	enterprise
B	enterprise	labour
C	labour	land
D	land	capital

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5 The table shows the various combinations of food and clothing which a village can produce using all its resources.

food units	clothing units
0	500
100	400
200	250
300	50
400	0

What is the opportunity cost to the village of increasing the production of food from 200 to 300 units?

A 50 units of clothing

B 100 units of clothing

C 200 units of clothing

D 250 units of clothing

6 An Italian-owned tour operator needs its staff in Rome to be able to speak a number of languages so it employs people from different countries. It also uses other firms in different countries to provide tour guides and coach drivers. It is part of an organisation that has shares issued on the stock exchange.

Which type of company is this?

A a co-operative

B a private company

C a public company

D a multi-national

7 A commercial bank is appointed to act as a country's central bank.

What new function would it now have?

A controlling monetary policy

B dealing in foreign exchange

C ensuring security for loans

D holding liquid assets

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8 What is **not** a function of a trade union?

A to act as a pressure group to change labour laws

B to negotiate with employers over conditions of work

C to promote the sales of products made by its members

D to protect the living standards of its members

9 What is always true about multi-national companies?

A They employ more workers abroad than in their home market.

B They operate in manufacturing industry.

C They originate from developed countries.

D They own production facilities abroad.

10 Due to good weather, there is a surplus in the market for an agricultural product.

Which change would cause the market to return to equilibrium?

A a decrease in demand

B a fall in price

C an increase in supply

D a rise in price

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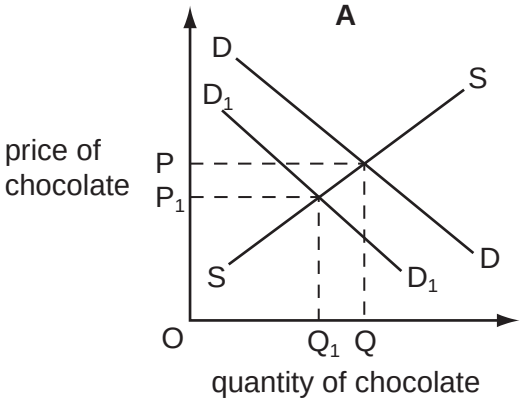
11 In July 2006, the UK chocolate producer, Cadbury Schweppes, had to withdraw one million bars of chocolate from the market because of food contamination at one of its factories. This was widely reported in UK newspapers.

Which diagram shows the likely effect on the market for chocolate produced by Cadbury Schweppes?

A



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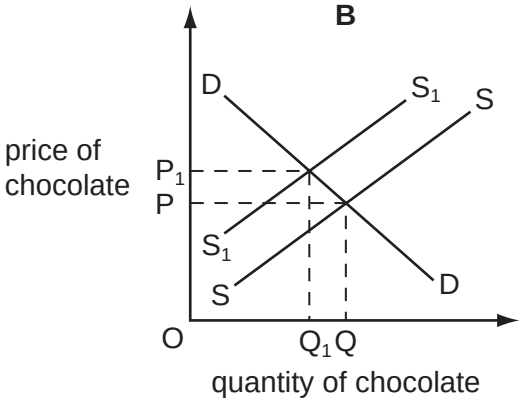

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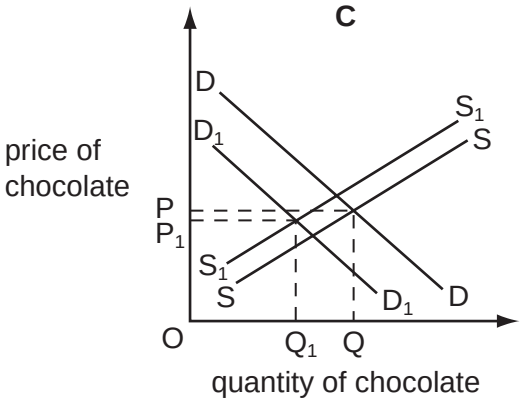

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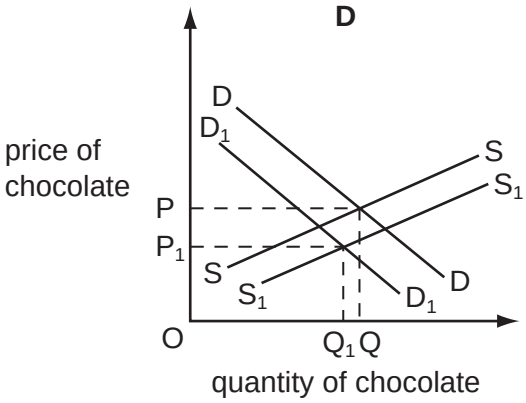

12 What combination of events might cause a rise in the willingness and the ability of consumers to buy a product?

	price of a substitute product	tax rates
A	decrease	decrease
B	decrease	increase
C	increase	increase
D	increase	decrease

13 What could cause the demand for a product to become more price-elastic?

A a smaller proportion of income being spent on the product

B more substitutes coming onto the market

C the product becoming more of a necessity

D the product falling in price

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14 When the price of a product rises from $10 to $15, the demand falls from 5000 to 4000 units.

What is the value of the price elasticity of demand for the product?

A 0.2 **B** 0.4 **C** 1.5 **D** 2.5

15 What would an individual be doing to be described as a worker in the secondary sector?

A working in a firm that grows fruit trees and plants

B working in a firm that produces machines for other firms

C working in a government passport office

D working in the reception area of a hospital

16 A supermarket wishes to recruit a qualified manager for a senior position to control the stocks of goods. Some work will be required at night as the supermarket is open 24 hours. A good salary is being offered.

Which applicant would be most likely to be suitable for the position?

A a person currently employed as a supervisor in another supermarket

B a person who has experience of managing a small newsagents

C a person who has to travel a long way and has demanding family commitments

D a person who has recently graduated in Economics

17 What is the most likely reason for a firm to offer higher wages to recruit more staff?

A falling incomes

B falling output

C falling prices

D falling unemployment

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18 In India, there is a considerable gap between the incomes of the rich and the incomes of the poor.

In 2006, there were 6 million rich households with an annual income above 215 000 rupees and 50 million poor households with an annual income less than 22 000 rupees.

What is most likely to be true about spending?

	the group spending most money on food per household	the group spending the highest proportion of its income on food
A	the rich	the rich
B	the rich	the poor
C	the poor	the poor
D	the poor	the rich

19 Why would people use their savings to buy shares on a stock exchange?

A to allow easy access to their income

B to earn a fixed income

C to keep their money in a safe place

D to make a capital gain

20 An Economics student made the following statements about costs of production.

Average costs remain the same at all levels of output.

Fixed costs can exist when there is no output.

Total costs can include both fixed and variable costs.

Total variable costs fall as output increases.

How many of these statements are correct?

A 1 **B** 2 **C** 3 **D** 4

21 Which statement explains why cars are often repaired by small garages?

A bulk buying of spare parts can take place

B car-repair jobs are varied

C entry to the car-repair industry is restricted

D expensive machinery is required

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22 A Japanese company which has spare capacity has agreed to refine 20 000 barrels of oil a day for a Chinese company.

What is likely to happen in the Japanese firm to fixed cost, to variable cost and to total cost?

	fixed cost	variable cost	total cost
A	rise	rise	rise
B	rise	fall	stay the same
C	stay the same	rise	rise
D	stay the same	fall	fall

23 A firm sells its products for $10 each. It produces 100 units. Its average variable cost is $5 and its average fixed cost is $2.

How much profit does the firm make from selling 100 units?

A $1000 **B** $700 **C** $500 **D** $300

24 In 2006, the Indian company, Ratnagin Gas and Power bought another Indian power company, Dabhol Power.

What type of integration is this?

A conglomerate

B horizontal

C vertical backwards

D vertical forwards

25 What is **not** a main economic government objective?

A a balance of payments deficit

B economic growth

C full employment

D price stability

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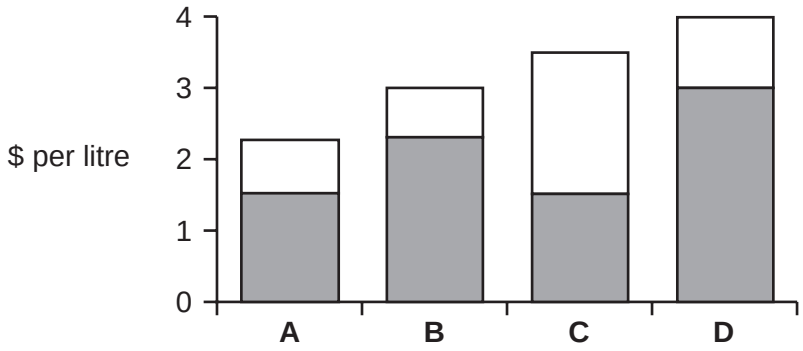
26 The diagram shows the price per litre paid for petrol in four countries in a year. The amount of tax included in that price is shown by the shaded area.

If there was **no** tax on petrol, which country would have the highest petrol price?



27 What might a government increase if it wished to raise the growth rate of an economy?

A expenditure on road building

B goods and services tax (value added tax)

C the rate of income tax

D the rate of interest

28 What is meant by a regressive indirect tax?

A a tax on income that falls more heavily on the poor

B a tax on income that falls more heavily on the rich

C a tax on spending that falls more heavily on the poor

D a tax on spending that falls more heavily on the rich

29 What is likely to be an advantage of economic growth?

A The country's resources will be depleted.

B The price level will increase.

C The rate of employment will fall.

D The standard of living will increase.

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30 A government decreased the tax on all goods produced in a country.

What is the most likely result of this?

A a decrease in imports

B a decrease in industrial production

C a decrease in real incomes

D a deterioration in the balance of trade in goods

31 It was reported that the economic recovery in the first half of 2003 was poor.

What factor might have explained this?

A a rise in consumer spending

B a rise in investment

C a rise in oil prices

D a rise in world share prices

32 The table gives information on Gross Domestic Product (GDP) growth rates, inflation and the unemployment rates for a number of countries in 2006.

country	GDP growth %	inflation %	unemployment rate %
Brazil	3.5	4.0	10.4
China	11.3	1.5	4.2
France	1.5	1.9	9.0
India	9.3	7.9	7.3
UK	2.6	2.5	3.0

What can be concluded from the table about 2006?

A Any particular product would cost most in India.

B Economic growth was highest when unemployment was lowest.

C Low inflation always causes low unemployment.

D On average, the Chinese people were likely to have had an increase in real income.

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33 Which of the following is most likely to be used as a measure of living standards?

A the balance of trade

B the consumer price index

C the government's budget position

D the real GDP per head

34 What combination of events is most likely to cause an ageing population?

	birth rate	death rate
A	fall	fall
B	fall	rise
C	rise	rise
D	rise	fall

35 Zambia is sometimes spoken of as a developing country.

What would be most likely to confirm that a country is developing rather than developed?

A a balance of payments deficit

B a high proportion of the population in subsistence agriculture

C a lack of natural resources

D a large population

36 Why might the government of a developing economy welcome large-scale cutting of its limited hardwood forests for export by a multi-national company?

A It allows profits to be exported.

B It conserves scarce resources.

C It ensures long-term future growth in living standards.

D It increases employment.

37 What is **not** likely to be a barrier to international trade?

A distance

B exchange rates

C language

D specialisation

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38 What is an advantage if a region specialises in a narrow range of products?

A Other regions will become over-dependent on the region.

B Scarce resources are used more efficiently.

C The level of production in the region will decrease.

D The region's system of transport is improved.

39 What is the main reason why the government, rather than the private sector, builds and runs hospitals?

A Hospitals are expensive to build.

B The government has enough tax revenue to pay for hospitals.

C The government needs to be sure that the doctors are well-trained.

D The whole country can benefit from the provision of good health facilities.

40 A conference representing countries from many parts of the world agreed to ban trade in ivory products in order to try to stop the killing of elephants. Local people also argued that elephants are a menace: they threaten lives and destroy crops.

Which policy do the above statements support?

A All resources should be exploited fully.

B Government regulation of production is unnecessary.

C The market system should be used to make profits.

D The social costs of production should be considered.

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