



Cambridge O Level

ECONOMICS

2281/11

Paper 1 Multiple Choice

May/June 2021

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)

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.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.

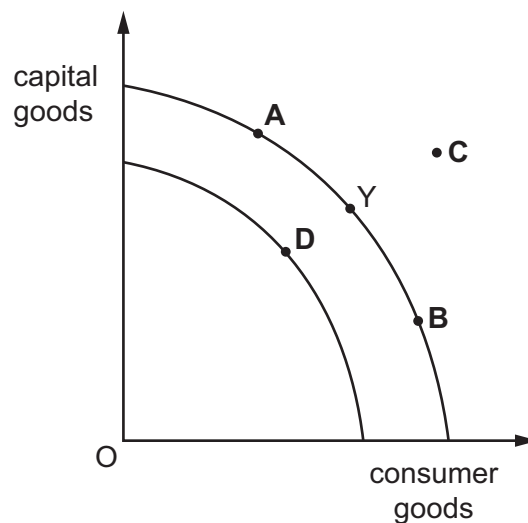


- 1 Which statement about the factors of production is correct?
- A Capital is a financial resource and includes savings in banks.
 - B Enterprise is limited in supply and includes office workers.
 - C Labour is a human resource and includes pensioners and children.
 - D Land is a natural resource and includes trees and fish.
- 2 A builder spends one hour travelling to and from work. He works 40 hours per week for \$200. He is given a choice to work 50 hours a week for an extra \$75.

What would be the opportunity cost to the builder of working the extra hours?

- A the ability to increase his purchasing power
 - B the additional time travelling to and from work
 - C the increased hourly earnings of \$7.50
 - D the ten hours of leisure time
- 3 A country's infrastructure was damaged by a natural disaster. Before the disaster, the country was producing at point Y on the production possibility curve (PPC).

Which point represents the country's production immediately after the disaster?



- 4 What is included in microeconomics?
- A the calculation of national income and expenditure
 - B the effects of a change in exchange rates on the trade balance of an economy
 - C the effects of an increase in the price of a good or service
 - D the factors leading to demand-pull inflation

- 5 What is an economist's definition of a market?
- A** a collection of informal retail outlets run by small firms
- B** a place where traders gather regularly for short periods
- C** a system that enables individuals and firms to buy and sell goods
- D** the existence of consumer demand for a good
- 6 What is an example of an external benefit from an individual cycling, rather than driving, to work?
- A** higher cost of building cycle lanes
- B** improved physical fitness to the individual from cycling
- C** lower cost of cycling compared with driving to work
- D** reduced congestion for other road users
- 7 A tailor has four customers for her range of suits. The table shows the yearly demand for the suits she makes.

demand for suits				
suit price (\$)	customer R	customer S	customer T	customer U
800	4	1	2	2
900	4	0	1	2
1000	3	0	1	1
1100	2	0	0	1

Which price should be charged to maximise the tailor's yearly revenue?

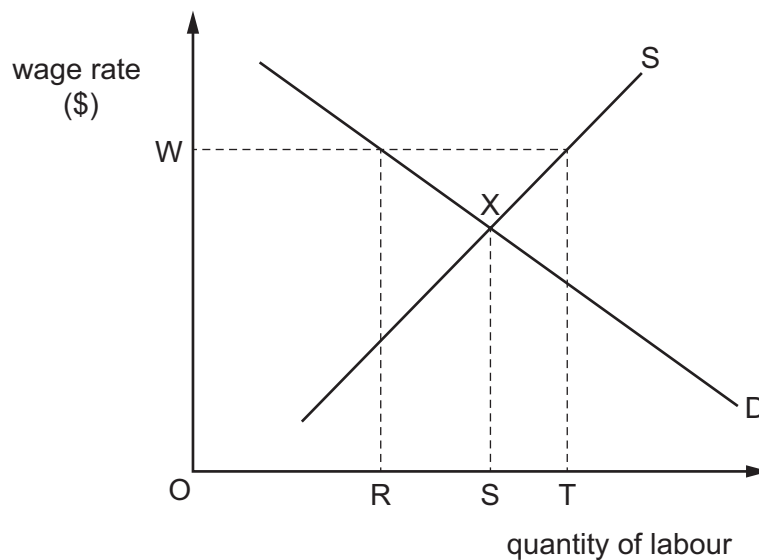
- A** \$800 **B** \$900 **C** \$1000 **D** \$1100
- 8 In response to an increase in price from \$5 per kilo to \$6 per kilo, a farmer increased supply from 400 kilos to 500 kilos per week.
- What is the price elasticity of supply?
- A** 0.8 **B** 0.9 **C** 1.2 **D** 1.25

- 9 It is expected that consumers will use less paper money.

What is the **most** likely reason for this?

- A Inflation reduces the value of paper money.
 - B More ways of making payments will be available.
 - C Other forms of money are more durable.
 - D Paper money will have less intrinsic value.
- 10 In low-income countries, fewer girls than boys become skilled design engineers.
- What might explain this situation?
- A Girls are only interested in low-wage jobs.
 - B Girls do not favour heavy manual work.
 - C Girls have fewer opportunities to complete higher education.
 - D It costs more for girls to be trained as design engineers.
- 11 The diagram shows the demand for and supply of labour in an industry. The original equilibrium is X.

A trade union then negotiates a wage rate of W.



What identifies the change in employment?

- A OR
- B OT
- C RS
- D RT

- 12** A company mining cobalt, invests in machinery to replace some workers. Eventually diseconomies of scale occur.

What could cause this situation?

- A** As more cobalt is mined average costs increase.
 - B** Fewer workers are needed to produce the required output.
 - C** Output per hour increases as more machinery is used.
 - D** Overhead costs are spread as output increases.
- 13** Why are many hairdressers able to operate as small businesses?
- A** high level of competition
 - B** high scope for economies of scale
 - C** long period of training required
 - D** low start-up and running costs
- 14** Dimitry owns a firm that produces and sells bottles of lemonade. He only sells one size of bottle.
- How would Dimitry calculate the total revenue of the firm?
- A** multiply the quantity sold by the cost per bottle
 - B** multiply the quantity sold by the price per bottle
 - C** multiply the quantity sold by the profit per bottle
 - D** multiply the quantity sold by the tax per bottle

- 15** Which market is likely to be the most competitive?

	barriers to entry	number of sellers
A	high	few
B	high	many
C	low	few
D	low	many

- 16** An economy has a high rate of inflation. In response to this, its government increases income tax.

What is the **most** likely reason for this increase?

- A** to discourage the consumption of harmful goods
- B** to raise money for government spending
- C** to redistribute income
- D** to reduce total demand

- 17** Interest rates are sometimes raised to control inflation.

Why might this policy be effective?

- A** Consumers may save more.
- B** Government spending may increase.
- C** Investment may be encouraged.
- D** The exchange rate may fall.

- 18** A government's revenue grew 8% to \$3.25 trillion. Its expenditure was reduced to \$3.69 trillion.

What can be concluded from this?

	state of budget	government policy aim
A	deficit	increase deficit
B	deficit	reduce deficit
C	surplus	increase surplus
D	surplus	reduce surplus

- 19** A country's inflation rate, measured by the Consumer Prices Index (CPI), was 3% in year 1. Three years later it was 0.8%.

What can be concluded from this information?

- A** Prices are falling.
- B** The rate of price increases is falling.
- C** The real rate of interest is negative.
- D** There is increased purchasing power for those on fixed incomes.

20 What will deflation **most** likely lead to?

- A a fall in the real value of debts
- B an increase in the exchange rate
- C an increase in the rate of interest
- D an increase in the real purchasing power of money

21 Economic growth can be defined as

- A a reduction in a country's rate of inflation.
- B an increase in a country's exports.
- C an increase in a country's population.
- D an increase in a country's productive capacity.

22 The table compares the distribution of employment in selected industries in two years.

industry	employment in millions	
	year 1	year 2
agriculture	4	3
mining	2	2
manufacturing	6	6
retailing	4	4
transport	4	5
total	20	20

How did the distribution of employment change between year 1 and year 2?

	primary sector	secondary sector
A	fell	rose
B	fell	unchanged
C	rose	fell
D	rose	unchanged

23 In a year, two changes occurred in a company.

Company directors' salaries increased by 15%.

Office workers' wages increased by 5%.

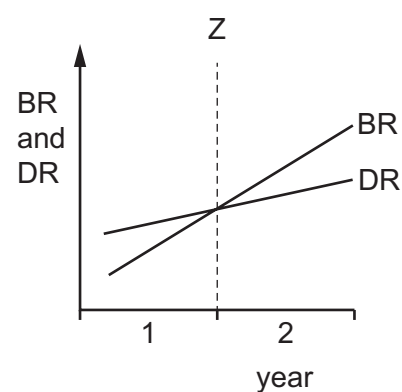
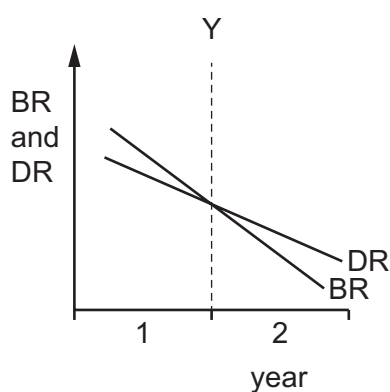
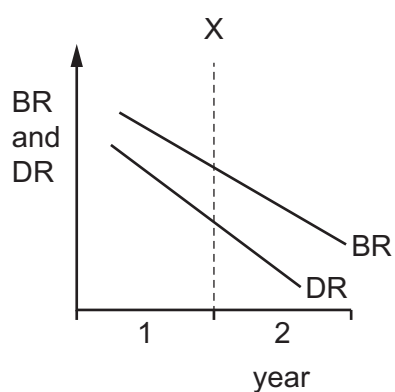
The rate of inflation was 3.4%.

What happened to real income?

	company directors' real income	office workers' real income
A	fell	fell
B	fell	rose
C	rose	fell
D	rose	rose

24 The diagrams show birth rate (BR) and death rate (DR) in three countries, X, Y and Z, in two years, 1 and 2.

There was no migration.



Where was there a rise in population in year 1 and a fall in population in year 2?

- A** X and Z **B** X only **C** Y and Z **D** Y only

- 25** The richest 60% of the population of a high-income economy received an increase in income. The income of the rest of the population did not change.

What happened to absolute and relative poverty?

	absolute poverty	relative poverty
A	increased	increased
B	increased	remained constant
C	remained constant	increased
D	remained constant	remained constant

- 26** Gross Domestic Product (GDP) is a better measure of comparative living standards when it is adjusted for the effects of

- A** exports and inflation.
- B** imports and exports.
- C** population change and exports.
- D** population change and inflation.

- 27** What is a disadvantage of increasing international specialisation?

- A** Consumers pay higher prices for goods and services reducing their welfare.
- B** Domestic firms may be uncompetitive leading to structural unemployment.
- C** Domestic firms may experience rising costs as they pay more for imports.
- D** Resources may be used less efficiently as domestic firms face less competition.

- 28** Which method of protection always reduces the supply of an imported good to zero?

- A** embargo
- B** quota
- C** subsidy
- D** tariff

- 29** A US car dealer agrees an import price of US\$25 000 for a Japanese car at the current rate of exchange.

The US dollar then strengthens by 10% against the Japanese yen.

What will be the new import price paid for the Japanese car?

- A** US\$20 000 **B** US\$22 500 **C** US\$25 000 **D** US\$27 500

30 A country has a deficit on its current account of its balance of payments.

What could increase the size of its deficit?

- A** increased exports of its services
- B** increased international competitiveness of its goods
- C** increased numbers of visitors from abroad
- D** increased spending on its military bases abroad

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