

Cambridge O Level

ECONOMICS**2281/12**

Paper 1 Multiple Choice

May/June 2026**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 or tape.
- Do **not** write on any bar codes.
- You may use a calculator.

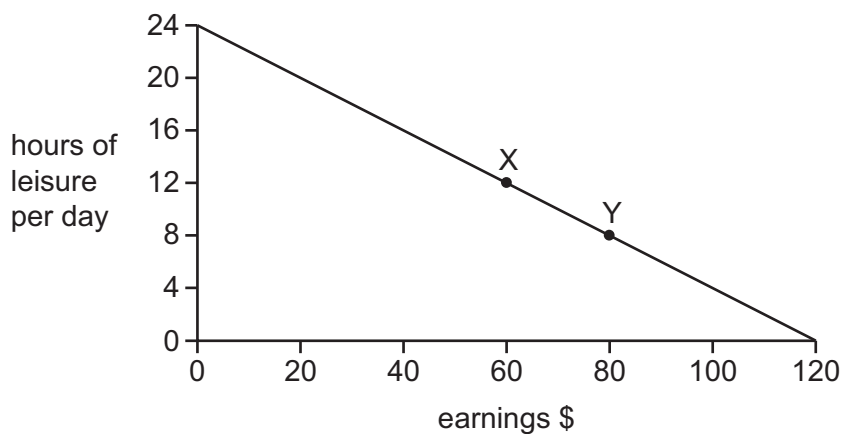
INFORMATION

- 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.

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

- 1 What is an example of a free good?
- A Headphones given away with a new mobile phone.
 - B Machinery bought with a 0% interest bank loan.
 - C Sunshine that powers a solar energy farm.
 - D Water that has been purified and bottled.
- 2 What is the reward for the factor of production, capital?
- A interest
 - B profits
 - C rent
 - D wages

- 3 The diagram shows the choices for an individual between leisure and earnings.

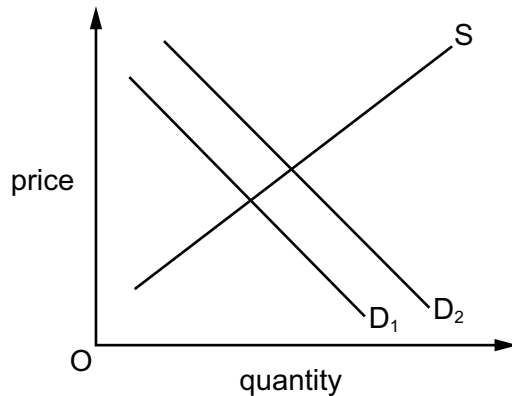


The person decides to take a job that gives more leisure time.

What is the opportunity cost to the individual of moving from position Y to position X?

- A \$20
- B \$80
- C four hours of leisure per day
- D 12 hours of leisure per day

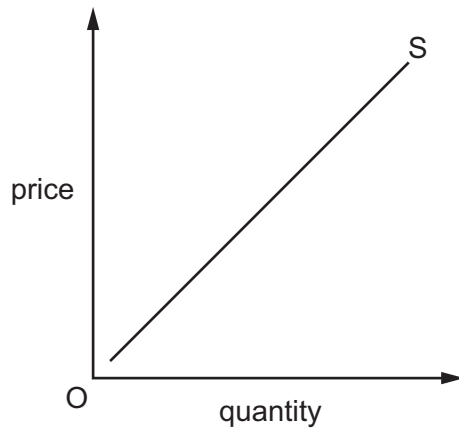
- 4 What would be classified by an economist as a macroeconomic aim?
- A a government increasing the unit tax on petrol
 - B a central bank having an inflation target of 2%
 - C a monopoly increasing its profit target by 2%
 - D a trade union increasing the living standards of its members
- 5 On the diagram, D_1 and S are the original demand and supply curves for tea in a country.



What would cause the demand curve to shift from D_1 to D_2 ?

- A a decrease in the population
- B a decrease in wage levels
- C an increase in the price of coffee
- D an increase in the price of sugar

- 6 The diagram shows the supply curve for a good.



What causes an extension in the supply of the good?

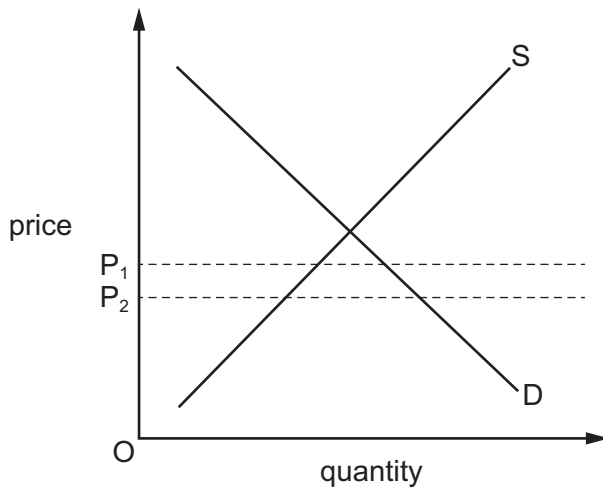
- A a decrease in the cost of producing the good
 - B a decrease in the price of the good
 - C an increase in the cost of producing the good
 - D an increase in the price of the good
- 7 The elasticity of demand for cigarettes is estimated to be -0.5 . The government introduces a tax on cigarettes to reduce consumption.

By how much must the price of cigarettes rise to reduce consumption by 10%?

- A 5%
 - B 10%
 - C 15%
 - D 20%
- 8 Which type of good does **not** cause market failure?
- A a demerit good
 - B a free good
 - C a merit good
 - D a public good

- 9 The diagram shows the market for an essential medicine.

The government has intervened to decrease the maximum price of the medicine from P_1 to P_2 .



What is the impact of the decrease in maximum price on the market for this medicine?

- A a decrease in excess demand
 - B a decrease in quantity demanded
 - C an increase in quantity demanded
 - D an increase in excess supply
- 10 A kilogram of rice was priced at \$0.50 in one year, but the price increased to \$0.75 for a kilogram in the following year.

Which function of money does this statement demonstrate?

- A deferred payment
- B unit of account
- C store of value
- D medium of exchange

- 11** The table shows a worker's total income and the deductions made.

	\$
annual wage	19 000
overtime pay	1 000
direct tax	5 000
other deductions from salary	3 000

The worker decided to save 10% of the disposable income.

Which sum did the worker save?

- A** \$12 000 **B** \$8000 **C** \$1200 **D** \$1000

- 12** A lawyer is considering becoming a teacher.

What is a non-wage factor that might influence this decision?

- A** the amount of holidays in each occupation
B the current earnings as a lawyer
C the minimum wage rate
D the rate of income tax payable

- 13** The table gives the labour productivity index (real GDP per hour worked) for a country over a three year period.

	year 1	year 2	year 3
labour productivity	100	104	109

What is most likely to have caused the changes in labour productivity over the period shown?

- A** capital spending has fallen
B the workforce has become more skilled
C the level of employment has increased
D markets have become less competitive

- 14** The table shows the units of factors of production that a firm needs to employ for two different levels of output.

land	labour	capital	output
6	8	4	100
9	12	6	200

What is the firm experiencing?

- A** diseconomies of scale
 - B** economies of scale
 - C** external diseconomies of scale
 - D** external economies of scale
- 15** A firm has the following set of costs at different levels of output.

output	total fixed costs \$	total variable costs \$
10	100	600
20	100	900
30	100	1100
40	100	1900

At which level of output is the average total cost at its lowest level?

- A** 10 **B** 20 **C** 30 **D** 40
- 16** What may exist in a competitive market but **not** in a monopoly?
- A** many sellers
 - B** economies of scale
 - C** barriers to entry
 - D** product differentiation

17 What is an international role of a government?

- A** to improve health standards through an efficient healthcare system
- B** to support export-oriented firms by negotiating free trade deals
- C** to redistribute income through direct taxation
- D** to increase productivity levels by spending on education

18 A government aims to reduce the rate of inflation.

Which measure to help the unemployed is most likely to conflict with this aim?

- A** giving grants for travel to overcome high transport costs
- B** offering training to raise worker productivity
- C** providing information on job vacancies to raise mobility
- D** raising benefits to increase living standards

19 In an economy, lower income earners pay income tax at a rate of 20% whilst higher income earners pay income tax at a rate of 45%.

Which classification of taxation is in operation?

- A** indirect
- B** progressive
- C** proportional
- D** regressive

20 What is an example of monetary policy?

- A** decreasing government expenditure
- B** decreasing tariffs on imports
- C** increasing income tax rates
- D** increasing interest rates

- 21** A government increases spending on education and training to raise international competitiveness.

What is likely to decrease?

- A** a current account deficit
- B** real GDP
- C** the HDI value
- D** the productivity of labour

- 22** The table shows figures for the real GDP of a country in a particular year.

quarter 1 (\$bn)	quarter 2 (\$bn)	quarter 3 (\$bn)	quarter 4 (\$bn)
100	101	99	98

A quarter is three months.

At the end of which quarter had the economy experienced a recession?

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

- 23** The table shows selected indicators for the labour market.

labour market	millions
employed	25
self-employed	5
unemployed actively seeking work	3
long-term sick	2

Based on this information, what is the percentage rate of unemployment?

- A** 9.09%
- B** 12%
- C** 14.2%
- D** 71.4%

- 24** In 2018, a country had an inflation rate of 4%. The table shows the inflation rate in the following years.

year	inflation rate %
2019	4
2020	2
2021	-2
2022	-1

In which year did deflation start?

- A** 2019 **B** 2020 **C** 2021 **D** 2022
- 25** What is **not** a cause of absolute poverty?
- A** high unemployment
B low literacy rate
C poor health
D state benefits
- 26** What would usually be greater in a low-income economy than in a high-income economy?
- A** the importance of the service sector
B the length of life expectancy
C the level of capital-intensive production
D the number of children in the average family
- 27** What would be a disadvantage to a country specialising at a national level?
- A** increased average costs of production
B increased diversification
C increased exposure to external shocks
D increased income equality

28 Which change is **not** associated with the spread of globalisation?

- A** greater movement of labour
- B** longer product supply chains
- C** more effective tariff barriers
- D** wider use of technology

29 What describes a fixed exchange rate system?

- A** the central bank sets an inflation target
- B** the government sets prices in the markets for goods
- C** the money in the economy buys the same quantity of goods each year
- D** the value of the currency is fixed against another currency

30 A country's balance of payments goes into a current account deficit.

What is most likely to increase immediately as a consequence of this deficit?

- A** economic growth
- B** exchange rate
- C** money supply
- D** unemployment rate

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