

Cambridge O Level

ECONOMICS

2281/01

Paper 1 Multiple Choice

For examination from 2027

SPECIMEN PAPER

1 hour

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 **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 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 40.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **14** pages.

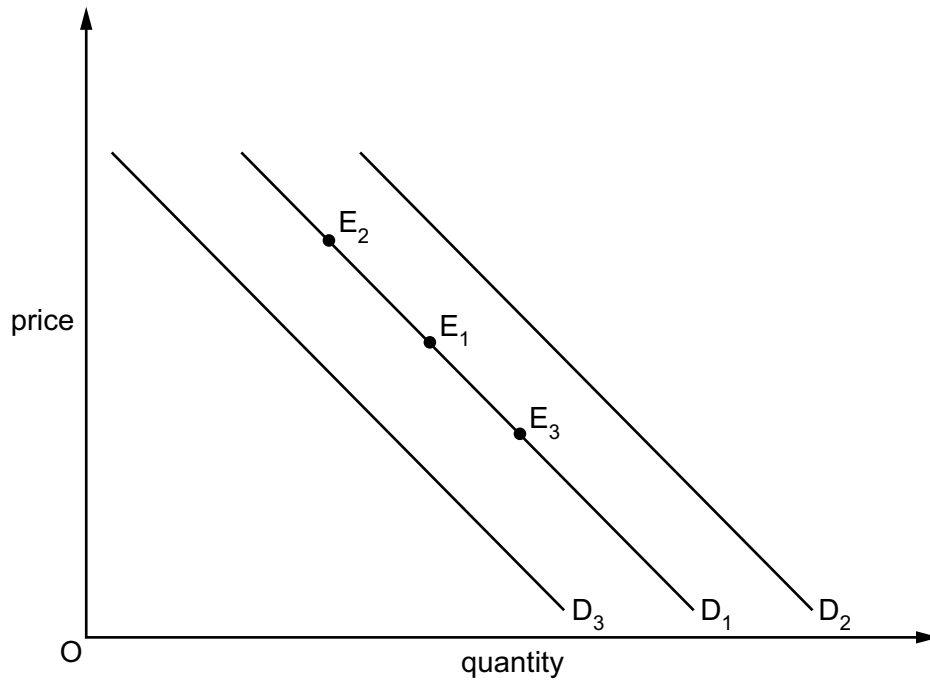


- 1 A firm produces two types of battery. It supplies car batteries to firms that make electric cars and laptop batteries to firms that make computers.

What is an example of the basic economic question 'what to produce'?

- A How many car batteries and how many laptop batteries should be manufactured?
 - B How many workers and how many machines should be used to produce each type of battery?
 - C What proportion of batteries should be produced for export and what proportion for domestic consumers?
 - D What proportion of recycled materials should be used in the manufacture of the batteries?
- 2 What is a free good?
- A a good for which demand is less than supply
 - B a good produced using few resources
 - C a good that has no opportunity cost
 - D a good that is provided by the state
- 3 Which factor of production is rewarded with rent?
- A capital
 - B enterprise
 - C labour
 - D land

- 4 The diagram shows the demand for smartphones. The initial demand curve is given by D_1 and the initial equilibrium is shown at point E_1 . Data for internet access has to be purchased separately.



What is the effect of an increase in the price of data for internet access on the demand for smartphones?

- A a shift of the demand curve to D_2
- B a shift of the demand curve to D_3
- C movement along the demand curve to E_2
- D movement along the demand curve to E_3

- 5 The initial supply curve of a firm's good is S_1 , as shown on the diagram.



What will cause the supply curve to shift to S_2 ?

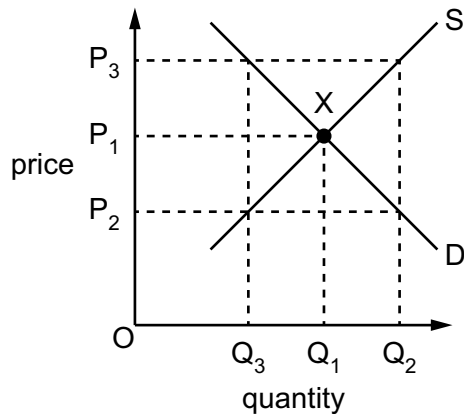
- A an increase in the number of sick days taken by the firm's workers
 - B an increase in the cost of training the firm's workers
 - C an increase in the productivity of the firm's workers
 - D an increase in the wage rate paid to the firm's workers
- 6 A firm reduces the price of its product from \$100 to \$90. The quantity demanded increases from 1000 to 1500.

What is the price elasticity of demand (PED)?

- A -0.1
- B -0.2
- C -0.5
- D -5.0

- 7 What can a government analyse through the use of price elasticity of demand (PED)?
- A how a change in income tax affects a current account deficit
 - B how a tax on the production of a good affects tax revenue
 - C how changes in the rate of interest affect unemployment
 - D how providing more merit goods affects social welfare
- 8 A firm cannot obtain the additional raw materials needed to increase production of a good above 50 000 units.
- What is the price elasticity of supply (PES) at 50 000 units if the price of the good increases by 10%?
- A 0
 - B 0.1
 - C 1
 - D 10
- 9 A monopolist uses oil in its production process that causes pollution. The monopolist is efficient at producing large quantities of its product which is sold at a very low price.
- What is the likely cause of market failure?
- A abuse of monopoly power
 - B demerit goods
 - C diseconomies of scale
 - D external costs of production

- 10 The diagram shows the market for a good. The equilibrium is at point X. The government fixes a maximum price for the good at P_2 .



What will happen in the market as a result?

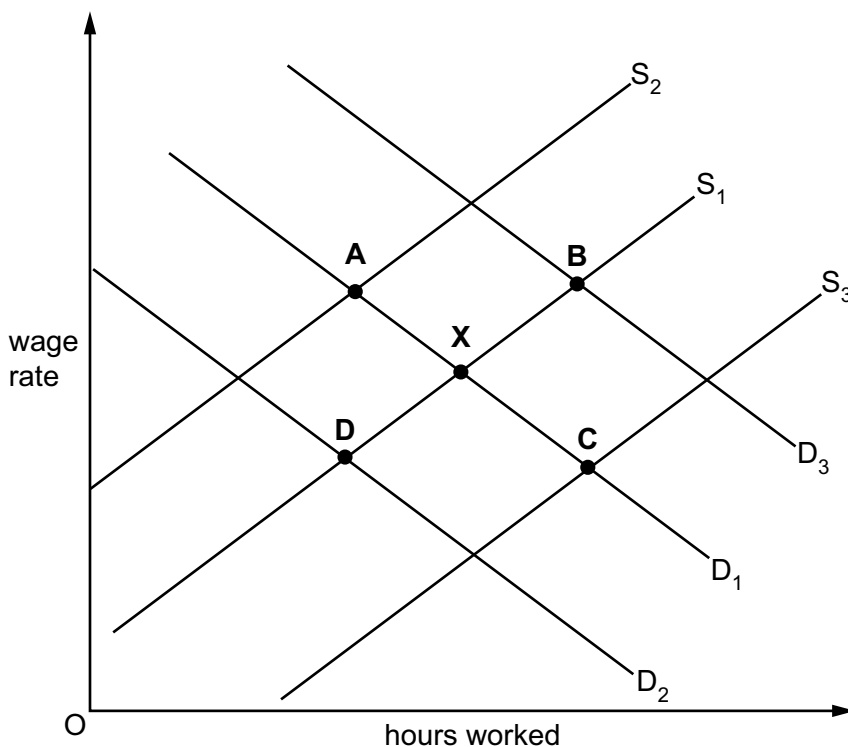
- A The market equilibrium will remain the same.
- B The quantity demanded will fall to Q_3 .
- C There will be excess demand.
- D There will be excess supply.
- 11 Which function does a central bank provide that a commercial bank does **not** provide?
- A acting as the government's bank
- B dealing with foreign exchange
- C providing loans to the public
- D providing savings accounts for the public
- 12 Which group of people is most likely to save the largest proportion of their income?
- A middle-aged people
- B people earning the minimum wage
- C people with young children
- D young people

13 When would a trade union be **least** likely to achieve an increase in the wage rate of its members?

- A when a competitor firm successfully introduces a substitute product
- B when labour costs form a low percentage of the firm's total costs
- C when the firm introduces labour-intensive production methods
- D when the firm is making large profits

14 The diagram shows the initial demand for labour D_1 and supply of labour S_1 for a firm. The initial equilibrium is shown at point X. The government then builds new transport links that connect a wider population to the firm's place of work.

What is the new equilibrium point?



15 Which disadvantage is likely to result from increased division of labour within manufacturing?

- A For a consumer, there are more handmade goods.
- B For a consumer, there is an increase in the quality of goods.
- C For an employee, job security will increase.
- D For an employee, the nature of their work is less varied.

- 16 The owners of a chain of pizza restaurants decide to buy a chain of burger restaurants to increase revenue.

Which term describes this action?

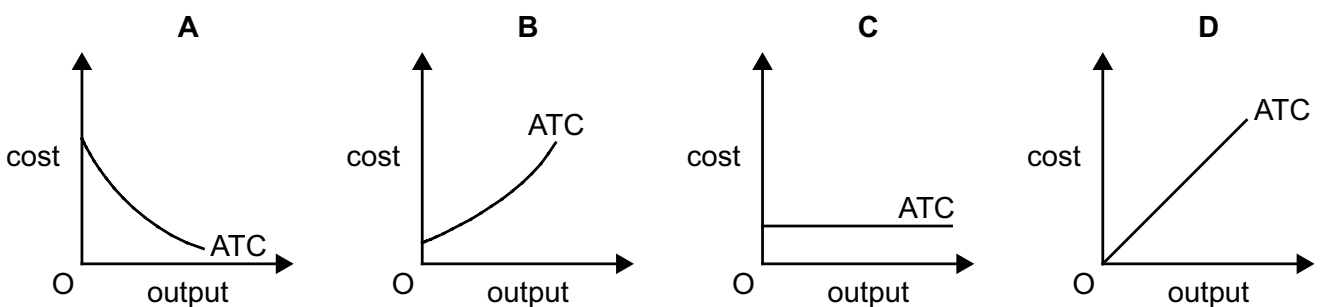
- A horizontal merger
 B nationalisation
 C privatisation
 D vertical merger
- 17 Why might a government encourage a competitive market?
- A Competitive markets create high prices.
 B Competitive markets generate large advertising costs.
 C Competitive markets prevent innovation.
 D Competitive markets provide greater consumer choice.
- 18 A firm buys new machinery to produce a greater output per machine. The firm trains some of its workers to operate these machines but makes a larger number of workers unemployed.

What is the effect on the productivity of capital and on the productivity of labour?

	productivity of capital	productivity of labour
A	falls	falls
B	rises	rises
C	falls	rises
D	rises	falls

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

Which firm has the lowest fixed costs?



20 What is true in a monopoly market?

- A Consumers enjoy a large variety of product choice.
- B Firms with limited finance find it difficult to enter the market.
- C High levels of profit are unusual.
- D The costs of production are always higher than in a competitive market.

21 What is **least** likely to be directly affected by the government?

- A the interest a firm receives from its money in the bank
- B the minimum wage a firm must pay to its workers
- C the selection of a new manager at a firm
- D the working conditions of employees at a firm

22 Protection of the environment is a key macroeconomic aim.

Which policy measure is most likely to achieve this?

- A deregulation that allows factories to be built in rural areas
- B investment in transport infrastructure that increases tourism
- C regulation that bans the driving of cars in city centres
- D subsidising coal power stations to meet the energy needs of electric vehicles

23 The table shows a government's revenue from taxation.

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

What is the total amount raised by indirect taxes?

- A \$250m
- B \$280m
- C \$700m
- D \$980m

24 The table shows selected statistics for an economy.

	\$bn
exports	600
imports	700
government expenditure	550
government revenue	400

What is the government's budget position in terms of deficit or surplus?

- A a deficit of \$100 billion
 - B a deficit of \$150 billion
 - C a surplus of \$100 billion
 - D a surplus of \$300 billion
- 25 What is the most likely result of a fall in interest rates?
- A a decrease in household saving
 - B a decrease in new bank loans
 - C an increase in labour-intensive production
 - D an increase in relative poverty
- 26 What is a supply-side policy measure that aims to increase economic growth?
- A raising indirect taxation
 - B reducing the state retirement age
 - C removing the limit on maximum working hours
 - D restricting land available for industrial building
- 27 A government subsidised the building of new homes in a rural area to increase labour mobility. It also built a new school. Some people claimed these developments would take land previously used for farming.
- Which concepts are involved in this statement?
- A government intervention, monetary policy, public goods
 - B market disequilibrium, economic growth, resource allocation
 - C market prices, external benefits, monetary policy
 - D supply-side policy, factors of production, opportunity cost

28 What will limit the harmful impact of economic growth on the environment?

- A increased clearing of forests to grow more crops for food
- B increased pollution as industry expands
- C increased use of an economy's oil and natural gas resources
- D increased use of renewable energy resources

29 What is **not** likely to cause a recession?

- A a government reducing its spending
- B a natural disaster caused by climate change
- C mining a new source of a useful metal
- D problems with global supply of raw materials

30 The table shows unemployment and inflation statistics for the United States (US), Japan and Sweden for year 1 and year 2.

country	unemployment (%)		inflation (% per annum)	
	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 same number of people were unemployed in Sweden and Japan.
- B In year 2, the cost of living increased in the US.
- C The number of unemployed people increased in all three countries.
- D Unemployment and inflation moved in the same direction in Sweden.

31 What is an example of frictional unemployment?

- A young people spending time to search for a job after finishing school
- B young people taking a three-month holiday between finishing school and starting a job
- C young people who cannot find a job because there is a recession in the economy
- D young people who have the wrong skills to work in industries that use new technology

- 32** Which combination of government policy measures is most likely to reduce unemployment?
- A** an increase in expenditure on healthcare and subsidies for capital-intensive production
- B** an increase in expenditure on training and an increase in corporation tax
- C** an increase in import tariffs and a decrease in interest rates
- D** an increase in income tax and an increase in quotas on imported goods
- 33** In the construction of a Consumer Prices Index (CPI), a total weighting of 1000 is used. A weight of 200 is given to transport and a weight of 100 is given to clothing.

What must be true?

- A** Clothing prices are rising half as fast as transport prices.
- B** Consumers spend more on basic needs than on luxury goods.
- C** Consumers spend twice as much on transport as they do on clothing.
- D** Transport has the greatest weight of all items in the CPI.
- 34** When comparing living standards, what makes the Human Development Index (HDI) a more useful indicator than real Gross Domestic Product (GDP) per head?
- A** HDI includes a range of measures.
- B** HDI includes the import and export of goods and services.
- C** HDI is directly linked to poverty reduction.
- D** HDI is measured in local currency.
- 35** The table gives the GDP (\$ billions), population (thousands) and GDP per head (\$) for selected countries in a year.

Based on the data, which country has the highest standard of living?

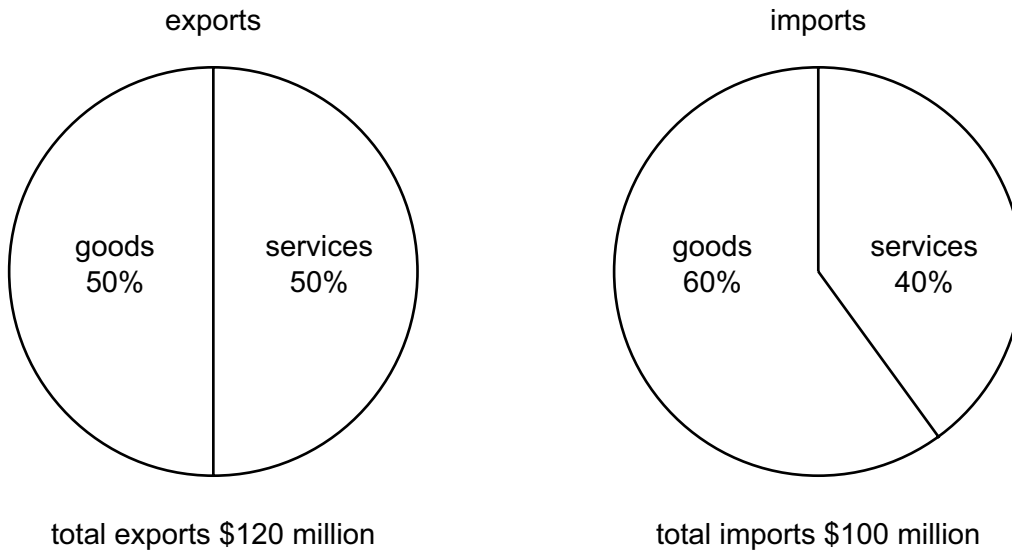
		GDP (\$bn)	population (thousands)	GDP per head (\$)
A	Bangladesh	460	171 186	2 688
B	Chile	301	19 604	15 351
C	South Africa	406	59 894	6 776
D	Trinidad and Tobago	28	1 531	18 289

- 36 What is meant by the optimum population for a country?
- A a population that consumes the fewest demerit goods
 - B a population that generates the maximum tax revenue
 - C a population that has the greatest life expectancy
 - D a population that produces the maximum output per head
- 37 What is **least** likely to be found in a high-income country?
- A a low GDP per head and a high level of car ownership
 - B a low level of labour skills and a high level of employment
 - C a low rate of adult literacy and a high level of absolute poverty
 - D a low rate of population growth and a high life expectancy
- 38 What is **not** a reason for imposing international trade restrictions?
- A to protect consumers from high prices charged by domestic monopoly suppliers
 - B to protect domestic producers from imported goods priced below the cost of production
 - C to protect households from imported drugs and harmful products
 - D to protect the environment from damage and encourage sustainability
- 39 The price of a good produced in the United States (US) is \$10 and this good is exported to South Africa. The initial foreign exchange rate between the US dollar (\$) and South African Rand (ZAR) is \$1 = 20 ZAR. The foreign exchange rate then changes to \$1 = 19 ZAR.

How does the price of the good change in South Africa?

	change in price (ZAR)
A	price decreases by 1 ZAR
B	price decreases by 10 ZAR
C	price increases by 1 ZAR
D	price increases by 10 ZAR

40 The diagrams show the levels of exports and imports of a country.



What is true for this country?

- A Exports of goods are worth \$60 million.
- B Imports of goods are worth \$50 million.
- C Exports of services are worth \$50 million.
- D Imports of services are worth \$60 million.

Copyright Acknowledgements:

Question 35

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