



Cambridge O Level

ECONOMICS

3178/12

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.

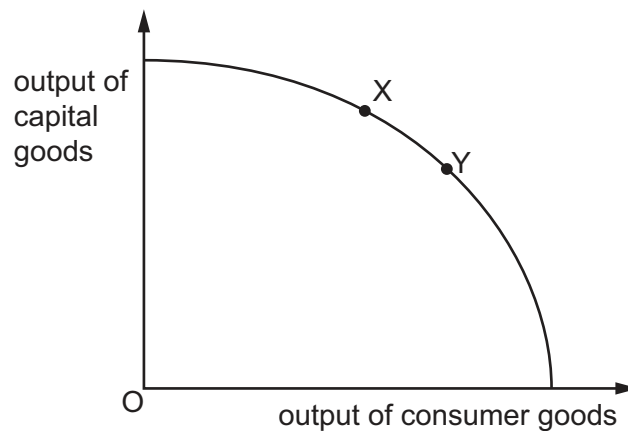


- 1 Which choice would be classed as part of the basic economic problem?
- A to use direct taxes rather than indirect taxes
 - B to use fiscal rather than monetary policy
 - C to use land for industry rather than agriculture
 - D to use tariffs rather than import quotas
- 2 The use of digital technology has led to a major increase in buying goods online. Suppliers with large warehouses then deliver directly to customers.

How will this affect the capital and labour employed by these suppliers?

	capital	labour
A	less	less
B	less	more
C	more	less
D	more	more

- 3 The diagram shows the production possibility curve (PPC) for an economy.



Which cost can be determined as the economy moves along its PPC from point X to point Y?

- A the opportunity cost of producing more capital goods
- B the opportunity cost of producing more consumer goods
- C the social cost of producing more capital goods
- D the social cost of producing more consumer goods

- 4 The city of Lviv in Ukraine has built a new airport terminal and it now has flights to more than 20 destinations. It is trying to get more flights in and out of the city.

What is a possible macroeconomic impact of more flights?

- A The price of air tickets will fall.
 - B There will be an increase in the demand for tourist services in the city.
 - C There will be an increase in the level of economic growth.
 - D There will be an increase in the price elasticity of demand for air tickets.
- 5 What is found in a mixed economy?
- A Economic goods are provided only by the private sector.
 - B Economic goods are provided only by the public sector.
 - C Public goods are provided only by the private sector.
 - D Public goods are provided only by the public sector.
- 6 What causes the price of a good to increase?
- A The cost of labour falls.
 - B The cost of raw materials falls.
 - C The incomes of consumers fall.
 - D The price of a complement falls.
- 7 The price elasticity of demand for a good is perfectly inelastic.

When the price of the good rises, what happens to the total spending on the good?

- A It becomes zero.
- B It falls.
- C It remains unchanged.
- D It rises.

- 8 The table shows the demand (in tonnes) for a raw material by two manufacturers.

price (\$) per tonne	manufacturer P	manufacturer Q
10	800	1200
11	700	1000
12	600	900
13	500	800
14	400	500

Which price increase results in the **greatest** reduction in their demand for the raw material?

- A \$10 to \$11 B \$11 to \$12 C \$12 to \$13 D \$13 to \$14
- 9 What is a variable cost to a firm producing bicycles?
- A the component parts of the bicycles
 B the interest on money borrowed
 C the rent of the bicycle factory
 D the salaries of the senior managers

- 10 The table shows data about a manufacturer's market.

price (\$)	quantity demanded (units)	total cost of production (\$)
30	10	200
31	9	180
32	8	160

What is the manufacturer's total revenue if it sets a price of \$31?

- A \$31 B \$99 C \$171 D \$279
- 11 What might be an advantage to consumers of a competitive market becoming a monopoly?
- A a higher price for the product
 B a lower quantity of product supplied
 C higher barriers to entry into the market
 D higher spending on research and development

- 12 Why might dentists in New Zealand be paid more than dentists in the US?
- A Dentists in New Zealand are in higher supply than dentists in the US.
 - B Dentists in New Zealand are in higher demand than dentists in the US.
 - C Dentists in the US are in higher demand than dentists in New Zealand.
 - D Dentists in the US have stronger bargaining power than dentists in New Zealand.
- 13 An economy experiences a recession, unemployment increases and there is a great deal of uncertainty about a recovery. The price of goods continues to fall.

How will the behaviour of households be affected?

	spending	borrowing
A	decreases	decreases
B	decreases	increases
C	increases	increases
D	increases	decreases

- 14 A government has abandoned its own currency and now uses the US dollar as its currency.

Why would such a policy have been necessary?

- A Commercial banks restricted their lending.
 - B Consumers only used credit cards rather than paper money.
 - C Its own currency no longer acted as a medium of exchange.
 - D The central bank controlled the issue of money too tightly.
- 15 What is a function of a central bank?
- A It issues currency.
 - B It offers overdraft facilities to individuals.
 - C It operates deposit accounts for individuals.
 - D It raises taxation.

- 16 As well as having a responsibility for local and national policies, a government also deals with other countries.

Which policy is **least** likely to be a part of a government's international operations?

- A government funding of welfare services
 - B military defence contracts
 - C technical and scientific co-operation
 - D treaties involving tariff arrangements
- 17 Which tax combines two desirable qualities?
- A a tax where taxpayers are certain about how much to pay and it is easy to pay
 - B a tax which is convenient to pay and has a high cost of collection
 - C a tax which is difficult to pay and inexpensive to collect
 - D a tax which is fair and raises an uncertain amount
- 18 What correctly explains the effect of monetary policy measures on macroeconomic aims?
- A A higher exchange rate will make imports more expensive and improve the balance of payments.
 - B An increase in interest rates will encourage investment and lead to higher economic growth.
 - C An increase in the money supply in an economy without spare capacity will result in demand-pull inflation.
 - D Higher interest rates result in less income from savings and therefore higher unemployment.
- 19 Government policies to achieve economic growth target both the demand side and the supply side of the economy.

Which policy will **not** focus more on the supply side?

- A encouraging research and development
- B lowering tax rates on expenditure
- C retraining the work force
- D subsidising the innovation of new products and services

- 20 What is **not** a likely consequence of economic growth?
- A higher average income
 - B higher business confidence
 - C higher tax revenue
 - D higher unemployment
- 21 What is most likely to cause a rise in unemployment in an economy?
- A an increase in a government budget surplus
 - B an increase in consumer spending
 - C an increase in international competitiveness
 - D an increase in labour productivity
- 22 What is **not** a consequence of inflation?
- A a fall in international competitiveness
 - B a rise in the value of money
 - C redistribution of real income
 - D uncertainty for consumers and producers
- 23 Which macroeconomic aim would cause a government to tax the earnings of the rich much more than those of the poor?
- A full employment
 - B income redistribution
 - C low inflation
 - D stable economic growth
- 24 Why may GDP **not** be a good measure to compare the standard of living of two countries?
- A It excludes government expenditure.
 - B It excludes population size.
 - C It is based on a sample 'basket of goods'.
 - D It only compares export prices with import prices.

25 The table shows information on four countries.

Which country is likely to be the most developed?

	population (m)	Gross Domestic Product (\$ billion)	life expectancy (years)
A	100	800	51
B	200	6000	62
C	300	600	48
D	1000	1600	63

26 Low-income countries make up 34% of the total world population but account for just 2.4% of the value of total world exports.

What is the likely reason for this low figure?

- A** High-income countries have no demand for low-income countries' exports.
- B** Low-income countries export relatively cheap primary products.
- C** Low-income countries have a high HDI value.
- D** Modern technology has made low-income countries self-sufficient.

27 What is an advantage of specialisation at a national level?

- A** an increase in economies of scale
- B** an increase in social cost
- C** an increase in unemployment
- D** an over-exploitation of resources

28 The recent world recession has resulted in a decrease in spending by tourists visiting the US.

How would this be recorded in the current account of the US balance of payments?

- A** a decrease in services exported
- B** a decrease in services imported
- C** an increase in services exported
- D** an increase in services imported

- 29 A newspaper reported that exports from Sweden remained low for five months as changes in the rate of exchange meant that Swedish goods became more expensive to buy abroad.

What else would be likely to happen?

- A Imported goods would become cheaper in Sweden.
- B Swedish people would switch to buying home-produced goods.
- C The Swedish balance of payments would improve.
- D The Swedish balance of trade would improve.

- 30 A large clothing manufacturer has factories in more than one country.

What is **not** a reason why a company might decide to produce internationally?

- A the availability of raw materials
- B the high costs of transporting finished products
- C to ensure that wage rates are equal in all factories
- D to serve the local markets more easily

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