Cambridge Assessment International Education

# Cambridge O Level

**ECONOMICS** **2281/12**

Paper 1 Multiple Choice **October/November 2025**

**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.


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**1** A government wants to build a new hospital.

What is most likely to prevent the government from doing this?

**A** People in the country cannot afford healthcare.

**B** People in the country would go abroad for healthcare.

**C** The government cannot agree how big the hospital should be.

**D** The government does not have enough money.

**2** Which term describes the loss of potential benefit to a consumer when making a choice between alternatives?

**A** opportunity cost

**B** scarcity

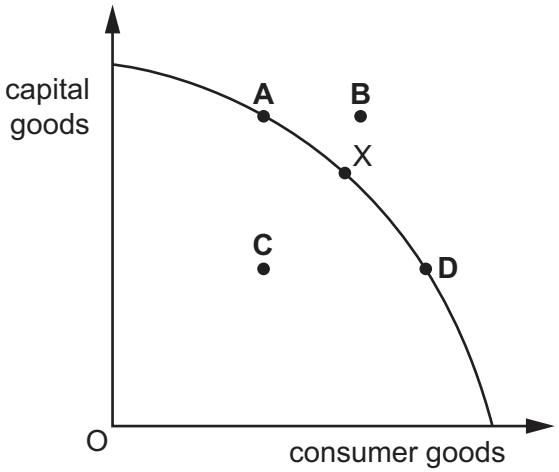
**C** shortage

**D** the economic problem

**3** A country is producing at point X on its production possibility curve (PPC) which shows how it can allocate its production between capital goods and consumer goods.

A period of recession then causes some of its factories to close.

Which point could represent the country's new position?



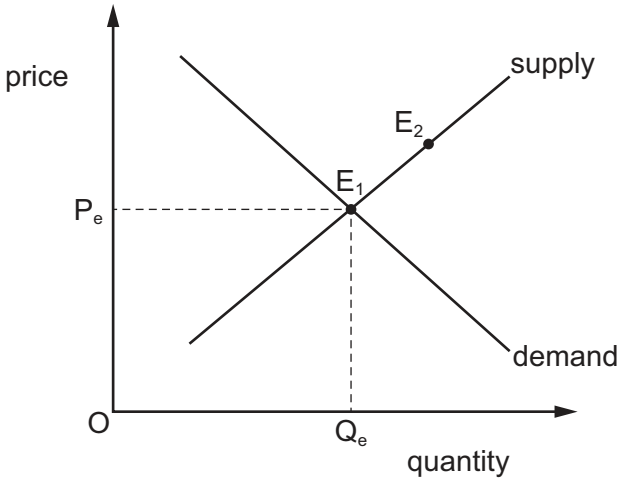



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**4** Which combination gives correct examples of macroeconomics and microeconomics?

| | macroeconomics | microeconomics |
|---|---|---|
| **A** | study of demand for a product | study of price of a product |
| **B** | study of behaviour of firms | study of individual behaviour |
| **C** | study of the economy as a whole | study of specific markets |
| **D** | study of the international economy | study of the national economy |

**5** The diagram shows the supply and demand curves for a good. The initial market equilibrium is given at point $E_1$. There is a change in the market that leads to a new equilibrium at $E_2$.




What is the cause of the change in the market equilibrium?

**A** a decrease in the price of a substitute good

**B** a decrease in raw material prices

**C** an increase in the price of a substitute good

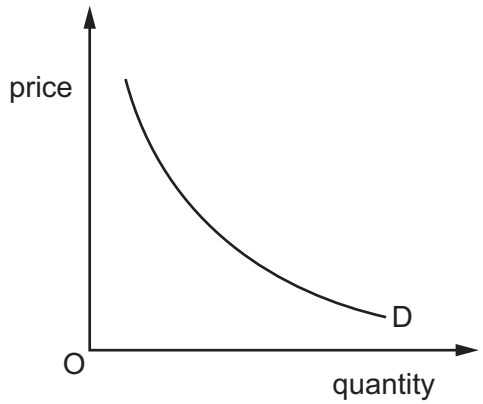
**D** an increase in raw material prices

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**6** The diagram shows the demand curve for a good.




What can be concluded about a single downward-sloping demand curve?

**A** consumers increase demand when their incomes rise

**B** consumers plan to buy less when prices rise

**C** firms produce less as prices rise

**D** firms sell more when prices rise

**7** When the price of butter increased by 10%, the quantity supplied of butter increased by 20%.

What is the price elasticity of supply (PES) of butter?

**A** –2.0 **B** –0.5 **C** +0.5 **D** +2.0

**8** How are economic decisions determined in a market economic system?

**A** by a mixture of market forces and government intervention

**B** by central planners of production and consumption

**C** by government regulation of the price mechanism

**D** by the forces of demand and supply

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**9** A bridge is built over a river which enables journey times to be reduced.

The table shows costs and benefits of building the bridge.

| | $000 |
|---|---|
| private benefit | 12 |
| private cost | 10 |
| external benefit | 8 |
| external cost | 5 |

Which calculation represents social benefit?

**A** $12 000 – $10 000 = $2000

**B** $8000 – $5000 = $3000

**C** $12 000 + $5000 = $17 000

**D** $8000 + $12 000 = $20 000

**10** What is **not** a role of the central bank?

**A** to act as the lender of last resort

**B** to hold deposits from the general public

**C** to issue notes and coins

**D** to manage the gold reserves of the country

**11** The table shows the proportion of disposable income spent on three different goods by four different households.

Which household is likely to have the lowest income?

| | food % | transport % | holidays % |
|---|---|---|---|
| **A** | 50 | 15 | 5 |
| **B** | 35 | 18 | 10 |
| **C** | 30 | 20 | 15 |
| **D** | 20 | 25 | 20 |

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**12** In which occupations do wages tend to be lowest?

**A** in those where the work is dangerous

**B** in those where there is an excess supply of labour

**C** in those where workers belong to trade unions

**D** in those where workers need long training

**13** How might a trade union increase its bargaining power?

**A** by expanding the market for the product

**B** by increasing the cost of union membership for workers

**C** by restricting the entry of workers to the industry

**D** by supporting wage claims in other industries

**14** To be able to produce a car tyre, rubber is required.

If a car tyre manufacturer merges with a supplier of rubber, which type of merger is this?

**A** conglomerate

**B** horizontal

**C** internal

**D** vertical

**15** When it produces 100 units, a firm's total variable cost is $300 and its total fixed cost is $2700.

What is the average total cost?

**A** $3 **B** $24 **C** $27 **D** $30

**16** What is likely to be found when there are many small firms in an industry?

**A** There are few barriers to entry.

**B** There is high expenditure on research and development.

**C** There is little competition.

**D** Very large capital costs are needed to establish a firm.

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**17** A government imposes tariffs on imported goods.

What is **not** a likely reason for this?

**A** to boost domestic output

**B** to influence the country's balance of payments

**C** to protect domestic employment

**D** to reduce the exports from the country

**18** A government collects the following revenue in a year.

| | $m |
|---|---|
| taxes on goods | 30 |
| taxes on income | 500 |
| taxes on services | 20 |
| customs and excise duties | 50 |

What is the amount of indirect tax revenue?

**A** $30m **B** $70m **C** $100m **D** $500m

**19** Which policy measures would be classified as fiscal policy?

**A** changes in interest rates and money supply

**B** changes in labour market policies to encourage more training

**C** changes in tax rates and government spending

**D** changes in the exchange rate

**20** What is the most likely result of a fall in interest rates?

**A** a fall in inflation

**B** a fall in investment

**C** a rise in consumer spending

**D** a rise in saving

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**21** What does a successful supply-side policy increase in an economy?

**A** the level of unemployment

**B** the production possibilities

**C** the rate of inflation

**D** the rate of interest

**22** In one particular year, South Sudan's population growth was 1.3% while its GDP growth was 2%.

What is the most likely consequence of this?

**A** GDP per capita will decrease

**B** the rate of inflation will decrease

**C** the standard of living will increase

**D** unemployment will increase

**23** What are the correct definitions of unemployment and employment relative to the number of people of working age?

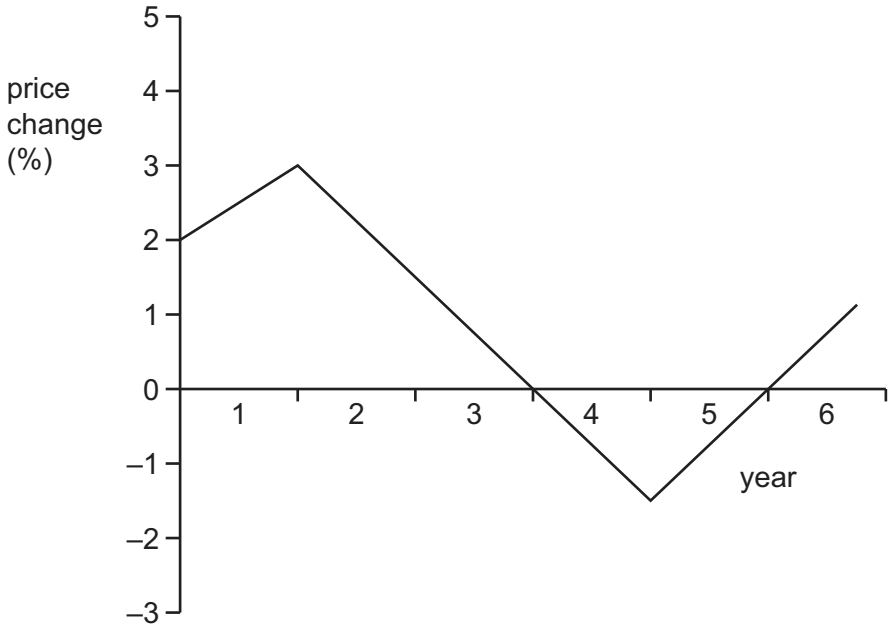
| | unemployment | employment |
|---|---|---|
| **A** | those who want a job but cannot get one at the current wage rate | those who are not in full-time education |
| **B** | those who want a job but cannot get one at the current wage rate | those who have a job at the current wage rate |
| **C** | those without a job | those who are not in full-time education |
| **D** | those without a job | those who have a job at the current wage rate |

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**24** The graph shows changes in the average price level.




When did the country experience deflation?

**A** year 2 to year 5

**B** year 2 to year 3

**C** year 2 to year 4

**D** year 4 to year 5

**25** In many high-income economies, increasing income inequality has led to greater levels of poverty.

Which combination of policies would aim to reduce income inequality?

| | fiscal policy | supply-side policy |
|---|---|---|
| **A** | decrease corporation tax | create more competition |
| **B** | increase income tax | reduce the power of trade unions |
| **C** | increase inheritance tax | increase the national minimum wage |
| **D** | increase sales tax | privatise more public sector firms |

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**26** A country has a falling birth rate and a rising death rate, while an increasing number of its working age adults (16–60 years) are seeking employment abroad.

How is this likely to affect the numbers in the different age groups in the country?

| | under 16 years | 16–60 years | over 60 years |
|---|---|---|---|
| **A** | fall | fall | fall |
| **B** | fall | rise | rise |
| **C** | rise | fall | rise |
| **D** | rise | rise | fall |

**27** What is an advantage of international specialisation?

**A** Choice is limited.

**B** Countries become over-dependent on each other.

**C** Resources are used more efficiently.

**D** Transport costs are decreased.

**28** An economy raises its tariffs on imported goods.

What is the most likely result?

**A** a fall in the rate of inflation

**B** an increase in consumer choice

**C** an increase in domestic production

**D** the current account of the balance of payments moves into a deficit

**29** Which combination of changes in export revenue and import expenditure is most likely to cause a country's exchange rate to depreciate?

| | export revenue | import expenditure |
|---|---|---|
| **A** | decreases | decreases |
| **B** | decreases | increases |
| **C** | increases | decreases |
| **D** | increases | increases |

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**30** A government wishes to reduce the deficit on the current account of its balance of payments.

Which policy should it adopt?

**A** increase subsidies on exports

**B** increase taxes on its exports

**C** remove an embargo on imports

**D** remove tariffs on its imports

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