

# **O-Level Economics**

## **Paper 1**

### **Unsolved Topical**

**Edition 2023-2024**

**Past Papers With Marking Scheme**  
**According to New Syllabus (2023-2025)**

**2015-2022**

***All rights reserved. No part of this publication may be reproduced, Stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the publisher.***

<b>Title</b>	O-LEVEL TOPICAL ECONOMICS P1
<b>Published by</b>	MS Books (042-35774780)
<b>Legal Advisor</b>	Ashir Najeeb Khan (Advocate) <b>AKBAR LAW CHAMBERS</b> 39-40, 1 <sup>st</sup> Floor, Sadiq Plaza, The Mall, Lahore. 0307-4299886, 042-36314839
<b>For Complaints/Order</b>	<b>MS Books</b> 83-B Ghalib Market Gulberg III Lahore <a href="mailto:info@msbooks.pk">info@msbooks.pk</a> (042-35774780), (03334504507), (03334548651)
<b>Price</b>	Rs. 1200/-

## **PREFACE**

Excellence in learning cannot be claimed without application of concepts in a dexterous way. In this regard one of the logical approach is to start in chunks; like chapter wise learning and applying the concept on exam based questions.

This booklet provides an opportunity to candidates to practice topic wise questions from previous years to the latest. Extensive working of Team MS Books has tried to take this booklet to perfection by collaborating with top of the line teachers.

We have added answer key / marks scheme at the end of each topic for the candidate to compare the his/her answer to the best.

MS Books strives to maintain actual spacing between consecutive questions and within options as per CAIE format which gives students a more realistic feel of attempting question.

Review, feedback and contribution in this booklet by various competent teachers of a subject belonging to renowned school chains make it most valuable resource and tool for both teachers and students.

With all belief in strength of this resource material I can confidently claim that it is worth in achieving brilliance.

Our sincere thanks and gratification to **Mr.Zubair Hussain** who took out special time to help compile and manage this booklet. We would also like to appreciate Economics faculty for reviewing and indorsing it.

### **REVIEWED & RECOMMENDED BY**

**Zubair Hussain**

Beaconhouse, LGS, Lyceum  
Green Hall Academy Gulberg  
0302-5557467

**CONTENT TABLE**  
**ECONOMICS (2281) PAPER 1**

S.#	Topic	Pg.#
Unit No. 1	<b>1. THE BASIC ECONOMIC PROBLEM</b>	
	<b>1.1 The nature of the economic problem</b>	
	1.1.1 Finite Resources and unlimited wants	9
	1.1.2 Economic and free goods	12
	<b>1.2 The factors of production</b>	13
	1.2.1 Definitions of the factors of production and their rewards	14
	1.2.3 Quantity and quality of the factors of production	
	<b>1.3 Opportunity cost</b>	
	1.3.1 Definition of opportunity cost	19
	1.3.2 The influence of opportunity cost on decision making	20
	<b>1.4 Production possibility curve (PPC) diagrams</b>	27
	1.4.1 Definition of PPC	29
	1.4.2 Points under, on and beyond a PPC	30
	1.4.3 Movements along a PPC	36
1.4.4 Shifts in a PPC	37	
Unit No. 2	<b>2. THE ALLOCATION OF RESOURCES</b>	
	<b>2.1 Microeconomics and macroeconomics</b>	41
	2.1.1 Microeconomics	42
	2.1.2 Macroeconomics	44
	<b>2.2 The role of markets in allocating resources</b>	
	2.2.2 Key resources allocation decisions	45
	<b>2.3 Demand</b>	
	2.3.1 Definition of demand	
	2.3.2 Price, demand and quantity	46
	2.3.4 Conditions of demand	49
	<b>2.4 Supply</b>	
	2.4.1 Definition of supply	
	2.4.4 Conditions of supply	51
	<b>2.5 Price determination</b>	
	2.5.1 Market equilibrium	53
	2.5.2 Market disequilibrium	59
	<b>2.6 Price changes</b>	
	2.6.1 Causes of price changes	61
	2.6.2 Consequences of price changes	64
	<b>2.7 Price elasticity of demand (PED)</b>	67
2.7.1 Definition of PED	68	
2.7.3 Determinants of PED	72	
2.7.4 PED and total spending on a product/revenue	76	
2.7.5 Significance of PED		
<b>2.8 Price elasticity of supply (PES)</b>	77	
2.8.1 Definition of PES	78	
2.8.2 Calculation of PES	79	
2.8.3 Determinants of PES		
2.8.4 Significance of PES		
<b>2.9 Market economic system</b>	80	
2.9.1 Definition of market economic system	81	
2.9.2 Advantages and disadvantages of the market economic system	83	
<b>2.10 Market failure</b>	85	
2.10.1 Definition of market failure	86	

	2.10.2 Causes of market failure	87
	2.10.3 Consequences of market failure	90
	<b>2.11 Mixed economic system</b>	
	2.11.1 Definition of the mixed economic system	93
	2.11.2 Government intervention to address market failure	95
Unit No. 3	<b>3. MICROECONOMIC DECISION MAKERS</b>	
	<b>3.1 Money and banking</b>	98
	3.1.1 Money	99
	3.1.2 Banking	101
	<b>3.2 Households</b>	104
	3.2.1 The influences on spending, saving and borrowing	112
	<b>3.3 Workers</b>	
	3.3.1 Factors affecting an individual's choice of occupation	113
	3.3.2 Wage determination	115
	3.3.3 Reasons for differences in earnings	119
	3.3.4 Division of labour/specialization	123
	<b>3.4 Trade unions</b>	
	3.4.1 Definition of a trade union	125
	3.4.2 The role of trade unions in the economy	126
	3.4.3 The advantages and disadvantages of trade union activity	130
	<b>3.5 Firms</b>	
3.5.1 Classification of firms		
3.5.2 Small firms	131	
3.5.3 Causes and forms of the growth of firms	132	
3.5.4 Mergers	134	
3.5.5 Economies and diseconomies of scale	135	
<b>3.6 Firms and production</b>		
3.6.1 Demand for factors of production	138	
3.6.2 Labour-intensive and capital-intensive production	139	
3.6.3 Production and productivity	142	
<b>3.7 Firms' costs, revenue and objectives</b>		
3.7.1 Definition of costs of production	146	
3.7.2 Calculation of costs of production	148	
3.7.3 Definition of revenue	155	
3.7.4 Calculation of revenue	156	
3.7.5 Objectives of firms	160	
<b>3.8 Market structure</b>	161	
3.8.1 Competitive markets	162	
3.8.2 Monopoly markets	164	
Unit No. 4	<b>4. GOVERNMENT AND THE MACROECONOMY</b>	
	<b>4.1 The role of government</b>	
	4.1.1 The role of government	166
	<b>4.2 The macroeconomic aims of government</b>	
	4.2.1 The macroeconomic aims of government	167
	4.2.2 Possible conflicts between macroeconomic aims	169
	<b>4.3 Fiscal policy</b>	170
	4.3.1 Definition of the government budget	171
	4.3.2 Reasons for government spending	173
	4.3.3 Reasons for taxation	175
4.3.4 Classification of taxes	176	
4.3.5 Principles of taxation	182	
4.3.6 Impact of taxation	183	
4.3.8 Fiscal policy measures	187	
4.3.9 Effects of fiscal policy on government macroeconomic aims	188	

	<b>4.4 Monetary policy</b>	<b>190</b>
	4.4.1 Definition of money supply and monetary policy	191
	4.4.2 Monetary policy measures	192
	4.4.3 Effects of monetary policy on government macroeconomic aims	193
	<b>4.5 Supply-side policy</b>	
	4.5.2 Supply-side policy measures	196
	4.5.3 Effects of supply-side policy measures on government macroeconomic aims	198
	<b>4.6 Economic growth</b>	
	4.6.1 Definition of economic growth	204
	4.6.2 Measurement of economic growth	205
	4.6.3 Causes and consequences of recession	210
	4.6.4 Causes of economic growth	214
	4.6.5 Consequences of economic growth	216
	4.6.6 Policies to promote economic growth	219
	<b>4.7 Employment and unemployment</b>	
	4.7.1 Definition of employment, unemployment and full employment	220
	4.7.2 Changing patterns and level of employment	221
	4.7.3 Measurement of unemployment	223
	4.7.4 Causes/types of unemployment	224
	4.7.5 Consequences of unemployment	227
	4.7.6 Policies to reduce unemployment	228
	<b>4.8 Inflation and deflation</b>	
	4.8.1 Definition of inflation and deflation	229
	4.8.2 Measurement of inflation and deflation	230
	4.8.3 Causes of inflation and deflation	236
	4.8.4 Consequences of inflation and deflation	238
	4.8.5 Policies to control inflation and deflation	241
	<b>5. ECONOMIC DEVELOPMENT</b>	
Unit No. 5	<b>5.1 Living standards</b>	<b>242</b>
	5.1.1 Indicators of living standards	243
	5.1.2 Comparing living standards and income distribution	248
	<b>5.2 Poverty</b>	
	5.2.1 Definition of absolute and relative poverty	251
	5.2.2 The causes of poverty	253
5.2.3 Policies to alleviate poverty and redistribute income	254	
Unit No. 5	<b>5.3 Population</b>	
	5.3.1 The factors that affect population growth	256
	5.3.2 Reasons for different rates of population growth in different countries	257
	5.3.3 The effects of changes in the size and structure of population on different countries	261
Unit No. 5	<b>5.4 Differences in economic development between countries</b>	<b>266</b>
	5.4.1 Differences in economic development between countries	268
	<b>6. INTERNATIONAL TRADE AND GLOBALIZATION</b>	
Unit No. 6	<b>6.1 International specialisation</b>	
	6.1.1 Specialisation at a national level	274
	6.1.2 Advantages and disadvantages of specialization at a national level	275
	<b>6.2 Globalisation, free trade and protection</b>	
	6.2.1 Definition of globalisation	276
	6.2.2 Role of multinational companies (MNCs)	278
6.2.3 The benefits of free trade	281	
6.2.4 Methods of protection	283	

	<b>6.2.5</b> Reasons for protection	<b>284</b>
	<b>6.2.6</b> Consequences of protection	<b>286</b>
	<b>6.3 Foreign exchange rates</b>	
	<b>6.3.1</b> Definition of foreign exchange rate	<b>289</b>
	<b>6.3.2</b> Determination of foreign exchange rate in foreign exchange market	<b>290</b>
	<b>6.3.3</b> Causes of foreign exchange rate fluctuations	<b>291</b>
	<b>6.3.4</b> Consequences of foreign exchange rate fluctuations	<b>292</b>
	<b>6.3.5</b> Floating and fixed foreign exchange rates	<b>295</b>
	<b>6.4 Current account of balance of payments</b>	
	<b>6.4.1</b> Structure	<b>296</b>
	<b>6.4.2</b> Causes of current account deficit and surplus	<b>300</b>
	<b>6.4.3</b> Consequences of current account deficit and surplus	<b>305</b>
	<b>6.4.4</b> Policies to achieve balance of payments stability	<b>309</b>

Finite Resources and Unlimited Wants

Q2/11/M/J/15

- 1 To help reduce the price of oil, new supplies are needed. However, in 2013, objectors opposed attempts to explore new sites because of the environmental damage the exploration might cause.

How does this illustrate the basic economic problem?

- A Oil is a limited resource.
- B Oil is expensive.
- C The exploration involves demand and supply.
- D There are external costs involved in production.

Q1/12/M/J/15

- 2 What is the basic economic problem?

- A finite resources and limited wants
- B finite resources and unlimited wants
- C infinite resources and limited wants
- D infinite resources and unlimited wants

Q2/13/O/N/15

- 3 There has been increased concern about the way large firms exploit the environment.

What is the main reason for this concern?

- A Large firms are unprofitable because of diseconomies of scale.
- B Large firms combine together to fix prices.
- C The exploitation of resources is expensive.
- D Unlimited wants will use up the finite resources.

Q3/12/M/J/16

- 4 What is the best example of the existence of the economic problem?

- A A government provides accommodation for all those who are homeless.
- B A police force has a lengthening list of unsolved crimes.
- C Janitha hands her homework in at the last permitted deadline.
- D Musa completes his journey without putting petrol in his car.

Q1/11/M/J/17

- 5 Which combination of terms gives the general definition of the economic problem?

- A bigger families, less food, starvation
- B falling supply, rising demand, shortage
- C higher population, fewer jobs, unemployment
- D limited resources, unlimited wants, scarcity



Q3/11//M/J/18

- 6 What is the cause of the economic problem facing all countries?
- A climate change and global warming
  - B significant quantities of unemployed resources
  - C uneven distribution of income and wealth
  - D unlimited wants in relation to limited resources

Q2/12/O/N/18

- 7 What do economies aim to achieve in tackling the economic problem of scarcity?
- A equal balance between public and private sectors
  - B equal reward for equal effort
  - C increased competition in the use of resources
  - D optimum allocation of finite resources

Q2/13/O/N/18

- 8 Hospital services are provided by the government and paid for through taxation. People cannot always get the treatment they require because of long waiting lists.

Of what is this an example?

- A external cost
- B market system
- C perfectly inelastic supply
- D scarcity

Q1/13/O/N/19

- 9 What identifies a finite resource?
- A The resource does not renew itself.
  - B The supply of the resource is greater than demand.
  - C There is no opportunity cost for the resource.
  - D There is unlimited supply of the resource.

Q1/12/O/N/20

- 10 What causes economic agents to make choices?
- A limited needs and wants
  - B the existence of finite resources
  - C the existence of free goods
  - D the market mechanism

MS BOOKS.PK

Q1/13/O/N/20

11 Why do consumers have to make choices when spending their income?

- A Advertising encourages consumer spending.
- B Consumers have unlimited incomes.
- C Consumer wants cannot all be satisfied with their income.
- D Not all products will be attractive to consumers.

Q1/12/O/N/21

12 To help reduce the price of oil, new supplies are needed. However, objectors oppose exploration of new sites because of the environmental damage it may cause.

Why is this statement an example of the basic economic problem?

- A Oil is a limited resource.
- B Oil is expensive.
- C The exploration involves demand and supply.
- D There are external costs involved in production.

Q1/13/O/N/21

13 To help reduce the price of oil, new supplies are needed. However, objectors oppose exploration of new sites because of the environmental damage it may cause.

Why is this statement an example of the basic economic problem?

- A Oil is a limited resource.
- B Oil is expensive.
- C The exploration involves demand and supply.
- D There are external costs involved in production.

### ANSWER KEYS

Sr #	Key	Sr #	Key
1.	A	11.	C
2.	B	12.	A
3.	D	13.	A
4.	B		
5.	D		
6.	D		
7.	D		
8.	D		
9.	A		
10.	B		

MS BOOKS.PK

Economic and Free Goods

Q1/11/M/J/20

- 1 What is an example of the purchase of a consumer good?
- A A farm owner buys a television.  
 B A farm owner buys additional land.  
 C A farm owner buys fertiliser for their crops.  
 D A farm owner buys some farming equipment.

Q5/11/M/J/21

- 2 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

Q4/12/O/N/21

- 3 Which combination of characteristics describes a public good?
- A excludable and non-rival in consumption  
 B excludable and rival in consumption  
 C non-excludable and non-rival in consumption  
 D non-excludable and rival in consumption

Q4/13/O/N/21

- 4 What is an example of a public good?
- A healthcare                      C unemployment benefits  
 B street lights                    D vaccinations

Q1/12/M/J/22

- 5 What is an example of a free good?
- A defence              B education              C health services              D sunshine

**ANSWER KEYS**

Sr #	Key
1.	A
2.	C
3.	C
4.	B
5.	D

The Factors of Production

Q2/12/O/N/22

- 1 An airline needs people and equipment. These can be divided into factors of production. What is allocated to its correct factor of production?

	people or equipment	factor of production
<b>A</b>	aircraft	capital
<b>B</b>	airline owners	labour
<b>C</b>	computer network	land
<b>D</b>	pilots	enterprise

**ANSWER KEYS**

Sr #	Key
1.	A
2.	
3.	
4.	
5.	

MS BOOKS.PK

## Definitions of the Factors of Production and their Rewards

Q1/11/M/J/15

- 1 The following are four ways factors of production are used.

What is likely to require the greatest use of the factor *enterprise*?

- A a carpenter making wooden articles in his leisure time for sale at a monthly market
- B a corn farmer negotiating with other farmers to hire expensive machinery
- C a food shop owner sometimes selling flowers in the shop
- D a householder harvesting vegetables grown at home

Q2/12/M/J/15

- 2 New oil reserves are discovered.

What has increased in supply?

- A capital            B enterprise            C labour            D land

Q1/12/O/N/15

- 3 In a rural community of Southern Africa, women were responsible for planting and weeding crops by hand, while men used to control production and receive profits.

Which combination of factors of production was in operation?

	men	women
<b>A</b>	capital	land
<b>B</b>	enterprise	labour
<b>C</b>	labour	capital
<b>D</b>	land	enterprise

Q1/13/O/N/15

- 4 Governments often try to influence the supply of factors of production in their economies.

Which factor's supply is a government **least** likely to be able to increase?

- A capital            B enterprise            C labour            D land

Q2/11/M/J/16

- 5 An increase in the number of manufacturing robots in the car manufacturing industry represents an increase in the quantity of which factor of production?

- A capital            B enterprise            C labour            D land

MS BOOKS.PK

Q1/12/O/N/16

6 Each factor of production earns an income.

What correctly identifies the income for labour and capital?

	labour	capital
<b>A</b>	profit	interest
<b>B</b>	rent	profit
<b>C</b>	wages	profit
<b>D</b>	wages	interest

Q1/13/O/N/16

7 What is **not** a factor of production?

A a \$20 banknote

C a photocopier

B an office

D a secretary

Q1/12/M/J/17

8 Which is **not** a factor of production?

A a farm

C a farmer's bank account

B a farmer

D a second-hand tractor

Q1/12/O/N/17

9 Economists refer to factors of production.

Which is **not** a factor of production?

A the fields of a farm

C the shares of a company

B the machinery in a factory

D the staff in an office

Q1/13/O/N/17

10 What does an economist mean by the factor of production called *capital*?

A goods that can be used to produce other goods

B money used to start a business

C resources that cannot be replaced

D the profits of a company

Q2/11/M/J/18

11 What would be classified by an economist as the factor of production known as land?

A a discovery of oil in the South China sea

B an oil rig bought by an oil company

C money held by the oil companies in their bank accounts

D the productivity of oil workers

Q1/12//M/J/18

12 In economics, natural sunlight is classified as a free good.

What is the reason for this?

- A Sunlight is a gift of nature.
- B Sunlight is a renewable resource.
- C There is no opportunity cost of using sunlight.
- D Unlimited amounts of sunlight can be consumed.

Q2/12//M/J/18

13 What would be classified as the factor of production capital for an airline?

- A the aircraft operated by the airline
- B the money the airline keeps in the bank
- C the pilots the airline uses
- D the shares of the airline quoted on the stock market

Q1/12/O/N/18

14 Which factor of production is **not** represented in the list shown?

bananas	a factory	goats	a risk taking investor
---------	-----------	-------	------------------------

- A capital
- B enterprise
- C labour
- D land

Q1/13/O/N/18

15 Which example of a factor of production in the fishing industry is correct?

	factor	example
<b>A</b>	capital	charges on loan for fishing boat
<b>B</b>	enterprise	salaries of fish warehouse managers
<b>C</b>	labour	profits of fish shop owners
<b>D</b>	land	fish in the sea

Q1/11//M/J/19

16 What would an economist regard as an example of the factor of production capital?

- A an individual's purchase of stocks and shares
- B borrowing by a firm to pay for electricity
- C the building by a firm of a new factory
- D total savings by individuals in a country

MS BOOKS.PK

Q1/12/M/J/19

17 A government wishes to increase agricultural output. It gives farmers the tools to irrigate the farmers' fields.

Which factors of production are provided by the farmers?

- A capital and enterprise
- B enterprise and labour
- C labour and land
- D land and capital

Q1/12/O/N/19

18 Which statement about factors of production is correct?

- A Capital is the amount of money borrowed from a bank.
- B Labour is output made by an employee.
- C Land includes commercially grown rice crops.
- D Profit is the reward for enterprise.

Q2/11/M/J/20

19 What is the function of the factors of production in an economy?

- A to make goods and services to fulfil wants and needs
- B to provide an even distribution of income
- C to provide tax income for the government
- D to reduce the existence of external costs

Q1/12/M/J/20

20 In 2016, 20 billion barrels of oil and 1.6 billion barrels of natural gas were discovered in Texas, US.

Which factor of production has increased in the US due to this discovery?

- A capital
- B enterprise
- C labour
- D land

Q2/12/O/N/20

21 Which combination of a factor of production and its factor income is **not** correct?

	factor of production	factor income
A	capital	interest
B	enterprise	profit
C	labour	dividends
D	land	rent

Q2/13/O/N/20

22 What is the key role of an entrepreneur?

- A inventor
- B risk taker
- C shareholder
- D worker

MS BOOKS.PK



Q1/11/M/J/21

- 23 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.

## ANSWER KEYS

Sr #	Key	Sr #	Key
1.	B	21.	C
2.	D	22.	B
3.	B	23.	D
4.	D	24.	
5.	A	25.	
6.	D	26.	
7.	A	27.	
8.	C	28.	
9.	C	29.	
10.	A	30.	
11.	A	31.	
12.	C	32.	
13.	A	33.	
14.	C	34.	
15.	D	35.	
16.	C	36.	
17.	C	37.	
18.	D	38.	
19.	A	39.	
20.	D	40.	

MS BOOKS.PK