

IGCSE Economics CIE Section 2 - The Allocation of Resources Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	15

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What is the process called when ownership and control of an industry moves from the private sector to the government?**
 - A. Nationalisation**
 - B. Privatisation**
 - C. Deregulation**
 - D. Liberalization**

- 2. What is the term for a limit on the amount of a good that can be consumed?**
 - A. Tariff**
 - B. Rationing**
 - C. Subsidy**
 - D. Quota**

- 3. Which description best defines a mixed economic system?**
 - A. An economy in which both private and public sectors play an important role.**
 - B. An economy where the government determines all production decisions.**
 - C. An economy where resources are allocated solely by the price mechanism.**
 - D. An economy with no government involvement in the market.**

- 4. Which of the following best describes a market as used in economics?**
 - A. An arrangement that brings buyers into contact with sellers**
 - B. A government institution**
 - C. A private club**
 - D. A type of money**

- 5. The costs imposed on those who are not involved in an activity are known as**
 - A. Private Cost**
 - B. External Cost**
 - C. Social Cost**
 - D. Internal Cost**

- 6. Market Supply: what is Market Supply?**
- A. The willingness and ability of producers to offer a good or service at a given price**
 - B. The total supply of a product**
 - C. The price mechanism**
 - D. Demand**
- 7. The term for the sum of all individual demands in a market is which of the following?**
- A. Aggregation**
 - B. Demand**
 - C. Market Forces**
 - D. Elasticity**
- 8. The benefits enjoyed by those who are not involved in the consumption and production activities are called**
- A. External Benefits**
 - B. Private Benefits**
 - C. Social Benefits**
 - D. Public Benefits**
- 9. Which allocation method uses tickets drawn at random to decide who receives goods?**
- A. Lottery**
 - B. Auction**
 - C. First-Come, First-Served**
 - D. Rationing**
- 10. Which term describes an economic and political system in which a country's trade and industry are controlled by private owners for profit, rather than by the state?**
- A. Market Economic System (Capitalism)**
 - B. Public Sector**
 - C. State-owned enterprises (SOEs)**
 - D. Privatisation**

Answers

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1. A
2. B
3. A
4. A
5. B
6. B
7. A
8. A
9. A
10. A

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Explanations

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1. What is the process called when ownership and control of an industry moves from the private sector to the government?

A. Nationalisation

B. Privatisation

C. Deregulation

D. Liberalization

The process is nationalisation. It happens when the government takes ownership and control of an industry that was previously run by private firms, often using public funds to buy the assets and then running the industry as a state-owned enterprise. This contrasts with privatisation, where the government sells these assets to private owners. Deregulation removes rules and restrictions, not ownership, while liberalization reduces barriers to trade or competition without necessarily transferring ownership. So, moving ownership and control from private to government fits nationalisation.

2. What is the term for a limit on the amount of a good that can be consumed?

A. Tariff

B. Rationing

C. Subsidy

D. Quota

Limiting how much of a good people can consume is rationing. Rationing is when an authority controls the quantity individuals can buy or use, often during shortages, using rules or coupons to ensure everyone gets a fair share. This directly sets a cap on consumption rather than simply influencing prices or outputs. A tariff is a tax on imports that raises the price of imported goods, which can reduce demand but doesn't directly cap how much a person may consume. A subsidy is money given to producers to lower costs or boost supply, affecting supply more than direct consumption limits. A quota limits how much can be produced or imported, which indirectly affects consumption by restricting availability, but the term that describes a direct limit on consumption itself is rationing.

3. Which description best defines a mixed economic system?

- A. An economy in which both private and public sectors play an important role.**
- B. An economy where the government determines all production decisions.**
- C. An economy where resources are allocated solely by the price mechanism.**
- D. An economy with no government involvement in the market.**

A mixed economic system is one in which both private and public sectors play an important role. In these systems, markets allocate most resources through price signals, but the government intervenes to provide public goods and services, correct market failures, regulate industries, and redistribute income. This combination is what characterizes most real-world economies today. If the government were to decide all production decisions, that would be a command economy. If resources were allocated solely by the price mechanism, that would be a pure market economy. If the government had no involvement at all, that would be a laissez-faire or no-government scenario.

4. Which of the following best describes a market as used in economics?

- A. An arrangement that brings buyers into contact with sellers**
- B. A government institution**
- C. A private club**
- D. A type of money**

Markets are the arrangements that bring buyers and sellers together to exchange goods and services. They can be a street market, a shop, or an online platform, and the key feature is that price emerges from the interaction of demand and supply to coordinate what gets produced and bought. Money serves as the medium of exchange, not the market itself, and markets are not only about government bodies or exclusive clubs. This makes the described option the best answer: it captures the idea that a market is the mechanism that connects those who want to buy with those who want to sell.

5. The costs imposed on those who are not involved in an activity are known as

- A. Private Cost**
- B. External Cost**
- C. Social Cost**
- D. Internal Cost**

External costs are the costs of an activity that are borne by people who are not involved in the activity itself. This happens when the decision-maker does not pay for all the resources used or the negative effects they generate, so those effects fall on others. For example, a factory might emit pollution. The factory and its workers bear its private costs (like raw materials and wages), but the health costs, cleaning up pollution, and any damage to nearby residents' property are costs spread across society. Those people didn't choose to incur the pollution, yet they pay the price in various ways. That's why these costs are called external. Private costs are the costs to the decision-maker (the firm or individual). Social costs include both private costs and external costs, reflecting the total burden on society. Internal costs is not the standard term used for this concept; it aligns with private costs. So the term that describes costs imposed on non-participants is external costs.

6. Market Supply: what is Market Supply?

- A. The willingness and ability of producers to offer a good or service at a given price**
- B. The total supply of a product**
- C. The price mechanism**
- D. Demand**

Market supply is the total quantity of a product that all producers in the market are willing and able to offer for sale at each price. It's found by adding up each individual producer's quantity supplied at every price, giving the market-wide supply curve. The phrase about the willingness and ability of producers to offer a good at a given price describes supply in general, which could refer to a single producer, whereas market supply specifically sums across all producers. The other ideas mix in different concepts: the price mechanism is how prices allocate resources, and demand is what buyers are willing to purchase.

7. The term for the sum of all individual demands in a market is which of the following?

- A. Aggregation**
- B. Demand**
- C. Market Forces**
- D. Elasticity**

Think about the market as a whole: if you add up every individual's demand for a good at a given price, you get the total quantity that the market would buy. That total is called aggregate demand. Aggregation is the act of combining those individual demands to form that market total. The other terms describe related ideas but don't name the whole-market demand: demand refers more to the quantity a single buyer (or the idea of demand in general) represents; market forces are the factors that influence demand and supply; elasticity measures how strongly demand responds to price changes.

8. The benefits enjoyed by those who are not involved in the consumption and production activities are called

A. External Benefits

B. Private Benefits

C. Social Benefits

D. Public Benefits

External benefits are the benefits that spill over to people who are not directly involved in the production or consumption activity. When a market activity creates advantages for third parties, those gains are not captured in the price, so they are external to the transaction. This explains why the term is used for those who don't participate in the activity but still enjoy its good effects. Private benefits go to the person or firm directly involved in the activity, and social benefits equal private plus external benefits. Public benefits isn't the standard label for this concept.

9. Which allocation method uses tickets drawn at random to decide who receives goods?

A. Lottery

B. Auction

C. First-Come, First-Served

D. Rationing

The method used is a lottery. It allocates goods by chance, with tickets drawn at random to decide who receives them. This means everyone who holds a ticket has an equal chance, regardless of how much they value the item, how fast they can act, or how much they're willing to pay. Lotteries are useful when demand far exceeds supply and a fair, impartial method is desired. They differ from an auction, where the goods go to the highest bidder; from first-come, first-served, which rewards speed or access; and from rationing, which follows predefined rules or quotas.

10. Which term describes an economic and political system in which a country's trade and industry are controlled by private owners for profit, rather than by the state?

A. Market Economic System (Capitalism)

B. Public Sector

C. State-owned enterprises (SOEs)

D. Privatisation

Private ownership and profit motive drive decisions about what to produce, how to produce, and for whom. In this system, individuals and firms own resources like land and factories, and markets determine prices that coordinate activity. The government's role is mainly to enforce laws and property rights rather than run industries, so resource allocation happens through competition and consumer choice. This best matches capitalism, also known as a market economy. The other terms describe opposite arrangements or processes: the public sector and state-owned enterprises are owned by the government, and privatisation is the act of selling government-owned assets to private owners, moving toward private control but not defining the system itself.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://igcseeconciesec2.examzify.com>

We wish you the very best on your exam journey. You've got this!

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