

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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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. Which term describes changes in supply conditions that cause shifts of the supply curve?**
 - A. Change in Supply**
 - B. Increase in Supply**
 - C. Decrease in Supply**
 - D. Contraction in Supply**

- 2. When a change in price causes a complete change in quantity supplied ($PES = \infty$), this describes:**
 - A. Perfectly Elastic Demand**
 - B. Perfectly Elastic Supply**
 - C. Perfectly Inelastic Supply**
 - D. Unit Elasticity of Supply**

- 3. A public good is characterized by being non-rival and non-excludable, which implies that**
 - A. It is non-rivalrous and non-excludable**
 - B. It is rival and excludable**
 - C. It is rival but non-excludable**
 - D. It is excludable but non-rival**

- 4. Which term describes an economy where private sector and public sector both play important roles?**
 - A. Market Economic System**
 - B. Mixed Economic System**
 - C. Command Economy**
 - D. Traditional Economy**

- 5. The costs imposed on those who are not involved in the consumption and production activities are called**
 - A. External Costs**
 - B. Private Costs**
 - C. Social Costs**
 - D. Public Costs**

- 6. Capital-intensive: which production method uses a high proportion of capital relative to labour?**
- A. Capital-intensive**
 - B. Labour-intensive**
 - C. Supply**
 - D. Market Equilibrium**
- 7. What term describes taxes on goods and services such as GST and VAT?**
- A. Indirect Taxes**
 - B. Direct Taxes**
 - C. Subsidy**
 - D. Tax**
- 8. 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**
- 9. A Pigouvian tax is designed to...**
- A. It is a subsidy to producers to encourage production**
 - B. It is a tax on goods with external benefits to increase consumption**
 - C. It is a tax intended to correct negative externalities by aligning private and social costs**
 - D. It is a tax that funds public goods**
- 10. How can information asymmetry lead to misallocation of resources? Provide an example used in economic learning.**
- A. Perfect information always yields efficient outcomes**
 - B. Equal information about risk by buyers and sellers yields inefficiency**
 - C. If buyers or sellers lack information about quality or risk, markets may allocate resources inefficiently; example: used-car market with hidden defects**
 - D. Information asymmetry never affects market outcomes**

Answers

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

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Explanations

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1. Which term describes changes in supply conditions that cause shifts of the supply curve?

- A. Change in Supply**
- B. Increase in Supply**
- C. Decrease in Supply**
- D. Contraction in Supply**

Changes in supply conditions cause the entire supply curve to shift because they alter the quantities producers are willing to supply at every price. The term for these changes is change in supply. It covers factors like production costs, technology, prices of other goods, taxes or subsidies, expectations, the number of sellers, and external conditions. When supply conditions improve, the curve shifts to the right (more is supplied at each price); when they worsen, it shifts to the left (less is supplied). The other phrases describe the direction of the shift or movement along the curve, not the cause of the shift.

2. When a change in price causes a complete change in quantity supplied ($PES = \infty$), this describes:

- A. Perfectly Elastic Demand**
- B. Perfectly Elastic Supply**
- C. Perfectly Inelastic Supply**
- D. Unit Elasticity of Supply**

Price elasticity of supply shows how much the quantity supplied responds to a price change. If the elasticity is infinite, the quantity supplied would respond completely to even the smallest price change, which means the supply curve is horizontal. At the given price, producers are willing to supply any amount, and a tiny price increase would lead to a very large (in theory unlimited) rise in quantity supplied. This situation is described as perfectly elastic supply. It's about producers' response, not consumers', and it differs from inelastic supply ($PES = 0$) or unit elastic supply ($PES = 1$).

3. A public good is characterized by being non-rival and non-excludable, which implies that

- A. It is non-rivalrous and non-excludable**
- B. It is rival and excludable**
- C. It is rival but non-excludable**
- D. It is excludable but non-rival**

Public goods have two defining features: non-rivalry and non-excludability. Non-rival means one person's use does not reduce another's ability to use it; non-excludable means it's not feasible to prevent people from using it, even if they don't pay. Because you can't easily charge users, private markets tend to underprovide these goods, leading governments to step in, often financed by taxes. A classic example is national defense, which protects everyone without excluding anyone and whose use by more people doesn't reduce others' protection. So, the statement that a public good is non-rivalrous and non-excludable best captures why such goods are typically provided by the government rather than by private markets.

4. Which term describes an economy where private sector and public sector both play important roles?

- A. Market Economic System
- B. Mixed Economic System**
- C. Command Economy
- D. Traditional Economy

Mixing private and public sectors describes an economy where both play important roles. In a mixed economy, most production and prices are driven by markets and private firms, but the government steps in to provide public goods and services (like defense, education, healthcare), regulate markets to prevent abuse, and redistribute income to improve fairness. This combination aims to keep efficiency from market forces while addressing what markets alone might miss, such as social welfare or environmental protection. The other systems rely almost entirely on one sector. A market economy centers on private decisions with little government intervention. A command economy is dominated by government planning and state ownership. A traditional economy follows longstanding customs and practices. Therefore, the system that fits the description of both private and public roles is the mixed economy.

5. The costs imposed on those who are not involved in the consumption and production activities are called

- A. External Costs**
- B. Private Costs
- C. Social Costs
- D. Public Costs

Negative externalities describe costs that spill over to people who are not involved in the production or consumption decision. For example, pollution from a factory imposes health or clean-up costs on nearby residents. These are costs borne by others, not by the producer or consumer, so they're external costs. Private costs are the costs the decision-maker personally bears. Social costs include both private costs and external costs, giving the total cost to society. Public costs isn't the standard term used for this idea.

6. Capital-intensive: which production method uses a high proportion of capital relative to labour?

- A. Capital-intensive**
- B. Labour-intensive
- C. Supply
- D. Market Equilibrium

The main idea here is the mix of inputs used in production. Capital-intensive production uses a high amount of capital goods (machinery, equipment, factories) relative to labor. This means fewer workers are needed compared with the amount of machinery, and automation or large upfront investments help boost output per worker. The production approach that uses a comparatively large share of labor and less capital is labour-intensive. The other terms don't describe input mix: supply is about how much producers are willing to offer at different prices, and market equilibrium is where supply equals demand. So the method that uses capital disproportionately is capital-intensive.

7. What term describes taxes on goods and services such as GST and VAT?

- A. Indirect Taxes**
- B. Direct Taxes**
- C. Subsidy**
- D. Tax**

Indirect taxes are taxes on goods and services such as GST and VAT. They're charged as part of the price you pay when you buy something, and the seller collects the tax and passes it to the government. The economic burden tends to fall on consumers in the form of higher prices, even though the tax is collected from sellers. This distinguishes them from direct taxes, which are charged on income or wealth of individuals or firms. A subsidy is the opposite of a tax—a payment to support production or consumption—so it doesn't describe these charges. The word tax is too broad here; the specific category for taxes on goods and services is indirect taxes.

8. 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.

9. A Pigouvian tax is designed to...

- A. It is a subsidy to producers to encourage production**
- B. It is a tax on goods with external benefits to increase consumption**
- C. It is a tax intended to correct negative externalities by aligning private and social costs**
- D. It is a tax that funds public goods**

A Pigouvian tax is designed to correct a negative externality by aligning private costs with social costs. When producing or consuming a harmful activity imposes costs on others, the market price ignores those effects, so too much of the good is produced or consumed. Imposing a tax equal to the marginal external damage raises the private cost faced by the producer or consumer, effectively turning private costs into social costs. This reduces the quantity toward the socially optimal level and helps welfare by internalizing the external harm. It's not about subsidies or goods with external benefits, which would involve different policies; its purpose is to reflect the true social cost in the price.

10. How can information asymmetry lead to misallocation of resources? Provide an example used in economic learning.

A. Perfect information always yields efficient outcomes

B. Equal information about risk by buyers and sellers yields inefficiency

C. If buyers or sellers lack information about quality or risk, markets may allocate resources inefficiently; example: used-car market with hidden defects

D. Information asymmetry never affects market outcomes

When buyers and sellers don't have the same information about quality or risk, prices can't accurately reflect true value, so resources don't flow to where they would be most beneficial. This information gap distorts decisions and leads to a misallocation of resources. A classic example is the used-car market with hidden defects. Sellers usually know much more about a car's condition than buyers. If a car has problems that aren't easy to detect, buyers may be wary and willing to pay only a price that reflects average or uncertain quality. Good-quality cars end up underpriced because buyers fear hidden faults, while lemons (low-quality cars) may flood the market and be accepted at lower prices. As a result, resources—money and time—are funneled toward lower-quality cars, and the overall welfare in the market falls. This illustrates how information asymmetry can cause the market to misallocate resources. The other statements assume perfect or equal information or deny any effect from information gaps, which would remove or contradict the mechanism that causes the misallocation.

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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