IGCSE Economics Practice Test (Sample)

Study Guide

BY EXAMZIFY

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

1. What term refers to the situation where the quantity demanded exceeds the quantity supplied?

   A. Excess Demand

   B. Equilibrium

   C. Disequilibrium

   D. Market Surplus

2. What term describes the state when profits are too low to draw in new firms?

   A. Normal profit

   B. Abnormal profit

   C. Complete profit

   D. Market equilibrium

3. What is the labor market primarily concerned with?

   A. Supply and demand for labor

   B. Trade policies

   C. Government regulations

   D. Consumer market trends

4. What is the main function of the tertiary industry?

   A. Producing raw materials

   B. Manufacturing goods

   C. Selling goods and services

   D. Extracting resources

5. What does a negative YED indicate about a good?

   A. It is a luxury good

   B. It is a normal good

   C. It is an inferior good

   D. It is a necessity good

6. **What is a price floor?**
   - A. A government-imposed limit on how low a price can be charged for a product
   - B. A limit on how high a price can be charged for a product
   - C. A voluntary agreement between buyers and sellers on price
   - D. A tax levied on goods exceeding a certain price

7. **What term describes the cost of choosing one option over the next best alternative?**
   - A. Trade-off
   - B. Opportunity cost
   - C. Sunk cost
   - D. Marginal cost

8. **Which of the following is an example of a factor in the determination of supply?**
   - A. Consumer tastes
   - B. Advertising expenses
   - C. Price of raw materials
   - D. Seasonal trends

9. **Which type of wealth is characterized by ownership of goods and services by the government?**
   - A. Social wealth
   - B. Private wealth
   - C. National wealth
   - D. Public wealth

10. **Which condition describes when the quantity supplied is greater than the quantity demanded?**
   - A. Excess Demand
   - B. Equilibrium
   - C. Excess Supply
   - D. Market Shortage

Answers

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

Explanations

1. **What term refers to the situation where the quantity demanded exceeds the quantity supplied?**

   A. Excess Demand

   B. Equilibrium

   C. Disequilibrium

   D. Market Surplus

The correct term for the situation where the quantity demanded exceeds the quantity supplied is "Excess Demand." This occurs when consumers want to purchase more of a good or service than what is available in the market at a given price. When there is excess demand, it typically leads to upward pressure on prices, as sellers can raise prices in response to the competition among buyers for the limited goods available. Understanding excess demand is crucial because it indicates a mismatch in the market, highlighting that consumer preferences are not being fully met by suppliers. This imbalance can prompt suppliers to increase production or new entrants to the market to capitalize on the higher prices resulting from the excess demand. In contrast, equilibrium refers to the state where quantity demanded equals quantity supplied, leading to stable prices. Disequilibrium describes a situation where the market is not in balance, which could include both excess demand and excess supply, but does not specifically indicate the scenario where demand outstrips supply. A market surplus occurs when the quantity supplied exceeds quantity demanded, leading to a surplus of goods in the market. Each of these terms relates to different aspects of market dynamics, but "Excess Demand" most directly describes the scenario presented in the question.

2. **What term describes the state when profits are too low to draw in new firms?**

   A. Normal profit

   B. Abnormal profit

   C. Complete profit

   D. Market equilibrium

The term that describes the state when profits are too low to draw in new firms is known as normal profit. Normal profit occurs when a firm's total revenue is equal to its total costs, including both explicit and implicit costs. In this situation, firms earn just enough to cover their costs and remain in business, but there is no incentive for new firms to enter the market, as potential profits are not above the opportunity costs of capital and labor. In contrast, abnormal profit refers to profits that exceed normal profit, providing an incentive for new firms to enter the market. Complete profit is not a recognized term in economic theory, and market equilibrium describes a point where supply equals demand, without giving specific information about profit levels. Therefore, normal profit accurately captures the condition where profits are insufficient to attract new entrants into the market.

3. What is the labor market primarily concerned with?

A. Supply and demand for labor

B. Trade policies

C. Government regulations

D. Consumer market trends

The labor market is primarily concerned with the supply and demand for labor. This encompasses the interaction between employers seeking to hire workers and individuals who are searching for jobs. The demand for labor reflects the number of workers that employers need based on the level of production and the types of jobs available, while the supply of labor pertains to the number of individuals willing and able to work at various wage levels. In this context, fluctuations in the labor market can result in changes to wage levels, employment rates, and overall economic productivity. For instance, if there is a high demand for labor in a particular industry, it may lead to higher wages as employers compete to attract qualified candidates. Conversely, if there is an oversupply of labor, wages may stagnate or decrease. Other options relate to different economic aspects that do not pertain directly to the labor market. Trade policies influence international commerce and the movement of goods but are not focused specifically on labor dynamics. Government regulations do play a role in the labor market influencing labor standards and rights but are a separate facet of economic policy. Consumer market trends pertain to the behavior of consumers and their purchasing habits, which do not directly address the labor supply and demand phenomenon.

4. What is the main function of the tertiary industry?

A. Producing raw materials

B. Manufacturing goods

C. Selling goods and services

D. Extracting resources

The main function of the tertiary industry is to provide services to consumers and businesses, which includes selling goods and offering various services. This sector is critical in the economy as it facilitates transactions and enhances the overall value of goods produced in the primary and secondary sectors. Tertiary industry encompasses a wide range of activities, such as retail, transportation, healthcare, finance, and education, among others. Unlike the primary industry, which focuses on extracting natural resources, and the secondary industry, which involves manufacturing and processing those resources into goods, the tertiary industry plays a vital role in the economy by enabling consumers and businesses to access those goods and services efficiently. This makes the tertiary sector important for supporting economic growth and improving living standards.

5. What does a negative YED indicate about a good?

A. It is a luxury good

B. It is a normal good

<u>C. It is an inferior good</u>

D. It is a necessity good

A negative income elasticity of demand (YED) indicates that as consumer income increases, the quantity demanded for the good decreases. This characteristic is defining for inferior goods. Inferior goods are those that consumers purchase less of as their income rises, often because they can now afford to buy higher-quality alternatives. When people have lower incomes, they tend to buy more of these goods due to their lower price point or limited alternatives. In contrast, luxury goods typically have positive YED, meaning that demand increases as income increases. Normal goods also have positive YED, indicating that demand increases with an increase in income, but at a slower rate than luxury goods. Necessities, while often normal goods, are still tied to positive income elasticity as demand does not decrease significantly even with a rise in income. This understanding of YED is essential in economic analysis, particularly in predicting consumer behavior in response to changes in income levels.

6. What is a price floor?

<u>A. A government-imposed limit on how low a price can be charged for a product</u>

B. A limit on how high a price can be charged for a product

C. A voluntary agreement between buyers and sellers on price

D. A tax levied on goods exceeding a certain price

A price floor is defined as a government-imposed limit on how low a price can be charged for a product. This is typically established to ensure that producers receive a minimum income for their goods or services, preventing market prices from falling below a certain level. For example, in agricultural markets, governments may set price floors to protect farmers from volatile price drops. If the market price of a staple crop falls below this established floor, the government may step in to purchase surplus crops at the floor price, stabilizing income for farmers. This mechanism can lead to excess supply, as some producers may be incentivized to produce more than what consumers are willing to buy at the higher price, highlighting how price floors influence market dynamics.

7. What term describes the cost of choosing one option over the next best alternative?

A. Trade-off

B. Opportunity cost

C. Sunk cost

D. Marginal cost

The term that describes the cost of choosing one option over the next best alternative is opportunity cost. Opportunity cost refers to the value of the next best alternative that is foregone when a decision is made to pursue a certain action. It highlights the concept that resources are limited and that every choice involves a trade-off, as selecting one option means sacrificing potential benefits from alternative choices. For example, if a student decides to spend time studying for an economics exam instead of working a part-time job, the opportunity cost would be the wages they could have earned during that time. Understanding opportunity cost helps individuals and businesses make more informed decisions by considering what they are giving up when selecting one path over another.

8. Which of the following is an example of a factor in the determination of supply?

A. Consumer tastes

B. Advertising expenses

C. Price of raw materials

D. Seasonal trends

The determination of supply in economics is influenced by various factors, one of which is the price of raw materials. When the price of raw materials increases, the cost of production for firms also rises. This can lead to a decrease in supply, as producers may not be willing or able to supply as much at the previous price levels. Conversely, if raw material prices drop, it generally lowers production costs, potentially leading to an increase in supply, as firms can produce more at lower costs. This relationship illustrates the importance of raw materials in production processes, emphasizing their crucial role in determining the overall market supply of goods. Other factors such as consumer tastes, advertising expenses, and seasonal trends may affect demand or consumer behavior, but they do not directly impact the supply side in the same way that raw material prices do.

9. Which type of wealth is characterized by ownership of goods and services by the government?

A. Social wealth

B. Private wealth

C. National wealth

D. Public wealth

The correct answer is that public wealth is characterized by ownership of goods and services by the government. Public wealth refers to resources and assets that are collectively owned by the state or government for the benefit of its citizens. This includes infrastructure such as roads, schools, parks, and public utilities that the government provides and manages. While social wealth may relate to the overall well-being and economic status of a community, it does not specifically refer to government ownership of resources. Private wealth denotes wealth owned by individuals or corporations, while national wealth typically encompasses all assets owned by a nation, including private holdings. Public wealth focuses specifically on those assets that the government has acquired or built, intended to serve the public interest.

10. Which condition describes when the quantity supplied is greater than the quantity demanded?

A. Excess Demand

B. Equilibrium

C. Excess Supply

D. Market Shortage

The condition where the quantity supplied exceeds the quantity demanded is referred to as excess supply. This situation often arises when producers offer more of a product at a given price than consumers are willing to purchase. In a market scenario, when there is excess supply, it can lead to downward pressure on prices as sellers attempt to attract buyers. In contrast, excess demand occurs when consumers wish to purchase more of a product than what's available, equilibrium is the point where quantity supplied and quantity demanded are equal, and market shortage may arise when there is not enough of a good or service to meet consumer demand. Thus, excess supply specifically highlights the imbalance favoring suppliers, leading to potential adjustments in price to restore market balance.

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://igcseecon.examzify.com

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