# IGCSE ECONOMICS PRACTICE TEST (SAMPLE)

## STUDY GUIDE

## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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 characterizes a 'lagging indicator'?**

A. A statistic predicting future economic performance
B. A measure reflecting changes after trends have started
C. A tool for immediate economic forecasting
D. A model used for real-time economic analysis

**2. Which type of consumer good does not last long?**

A. Durable goods
B. Non-durable goods
C. Luxury goods
D. Essential goods

**3. What does specialization refer to in an economic context?**

A. Focusing on multiple industries
B. Producing a variety of goods
C. Being skilled in one specific good or service
D. Using diverse production techniques

**4. What is the primary effect of inflation on purchasing power?**

A. Increases purchasing power
B. Decreases purchasing power
C. No effect on purchasing power
D. Stabilizes purchasing power

**5. What causes cost-push inflation?**

A. Decrease in consumer demand
B. Increase in production costs
C. Government subsidies
D. Increase in supply of goods

**6. What are the four factors of production?**

A. Land, Capital, Labor, Enterprise
B. Land, Technology, Labor, Goods
C. Labor, Capital, Trade, Investment
D. Raw materials, Products, Consumers, Services

**7. Which factor is most likely to cause increased productivity?**

A. Increased labor costs
B. Improved technology
C. Higher prices for goods
D. Decreased worker satisfaction

**8. What is the formula for calculating average revenue?**

A. Total costs divided by output
B. Total revenue divided by output
C. Average costs multiplied by total output
D. Total profits divided by fixed costs

**9. What does a negative cross elasticity of demand indicate?**

A. The two goods are substitutes
B. The two goods are complements
C. The two goods are normal
D. The two goods are inferior

**10. Which of the following is NOT a factor that affects the location of firms?**

A. Cheap land
B. Consumer preferences
C. Near labor supply
D. Transport availability

# Answers

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

# Explanations

## 1. What characterizes a 'lagging indicator'?

A. A statistic predicting future economic performance

B. A measure reflecting changes after trends have started

C. A tool for immediate economic forecasting

D. A model used for real-time economic analysis

*A lagging indicator is characterized by its ability to reflect changes in the economy after those changes have already occurred. This means that it provides information based on past performance, which can be helpful for analyzing economic trends once they have already begun. For example, unemployment rates and corporate profits are common lagging indicators, as they change in response to shifts in the economy rather than predicting future movements. In contrast, other types of economic indicators, such as leading indicators, aim to predict future economic performance and trends. Therefore, options that discuss predicting future outcomes or providing immediate analysis do not align with the definition of lagging indicators. Such indicators are valuable for confirming patterns after they have taken place, allowing economists and analysts to validate their observations regarding the economic landscape.*

## 2. Which type of consumer good does not last long?

A. Durable goods

B. Non-durable goods

C. Luxury goods

D. Essential goods

*Non-durable goods are items that are consumed quickly or have a short lifespan, typically lasting less than three years. These goods are not designed for long-term use and often include items such as food, toiletries, and cleaning products. Because they are used up or have a limited shelf life, they need to be purchased frequently. This distinguishes them from durable goods, which are meant to last for several years, such as appliances and cars. Luxury goods and essential goods are classifications based on consumer demand and economic principles rather than their durability. Luxury goods are items that are not necessary for basic living standards and are typically higher-priced, while essential goods are fundamental items required for everyday living, which can include both durable and non-durable goods. Thus, the defining characteristic of non-durable goods is their short lifespan and the need for regular repurchase, making this option the correct answer.*

## 3. What does specialization refer to in an economic context?

A. Focusing on multiple industries

B. Producing a variety of goods

C. Being skilled in one specific good or service

D. Using diverse production techniques

*Specialization in an economic context refers to the concentration of individuals or businesses on a particular task or production of a specific good or service. This concept allows for increased efficiency and productivity, as individuals or firms hone their skills and knowledge in a narrow area, leading to higher quality outputs and a more adept workforce. When people focus solely on one task, they can produce more quickly and with greater expertise than if they were attempting to manage multiple tasks at once. This division of labor ultimately benefits the economy by maximizing resources and enhancing productivity. In contrast, focusing on multiple industries or producing a variety of goods can lead to inefficiencies as resources may be spread too thin across various tasks, reducing overall output quality and productivity. Using diverse production techniques may also detract from the advantages gained through specialization. Thus, concentrating on a specific good or service is key to leveraging the benefits of specialization within an economy.*

## 4. What is the primary effect of inflation on purchasing power?

A. Increases purchasing power

B. Decreases purchasing power

C. No effect on purchasing power

D. Stabilizes purchasing power

*Inflation refers to the rate at which the general level of prices for goods and services rises, eroding the purchasing power of currency. When inflation occurs, each unit of currency buys fewer goods and services than it did in the past. As a result, consumers are able to afford less with the same amount of money, which directly decreases their purchasing power. This means that even though wages may increase, if they do not keep pace with inflation, individuals may find they can buy less than before, leading to a diminished ability to purchase the same quantity or quality of goods and services. Thus, the primary effect of inflation on purchasing power is a decrease.*

## 5. What causes cost-push inflation?

A. Decrease in consumer demand

B. Increase in production costs

C. Government subsidies

D. Increase in supply of goods

*Cost-push inflation occurs when the overall production costs of goods and services increase, leading businesses to raise prices to maintain their profit margins. This typically happens due to rises in the cost of raw materials, labor, or overhead expenses. When production becomes more expensive, the cost of the final product also rises, which can result in inflation as consumers are faced with higher prices. An increase in production costs can stem from various sources, including higher wages, increased prices for raw materials, or supply chain disruptions that limit the availability of necessary inputs. As producers pass these costs onto consumers, the result is a general increase in the price level, which is characteristic of cost-push inflation. Understanding this concept helps to clarify why the increase in production costs is directly linked to inflationary pressures in the economy, whereas the other options do not contribute to the phenomenon in the same way.*

## 6. What are the four factors of production?

A. Land, Capital, Labor, Enterprise

B. Land, Technology, Labor, Goods

C. Labor, Capital, Trade, Investment

D. Raw materials, Products, Consumers, Services

*The four factors of production are essential resources used in the process of creating goods and services. These factors are defined as follows: - **Land** refers to all natural resources that are used to produce goods and services, which can include physical land, raw materials, and natural resources such as water and minerals. - **Capital** encompasses the tools, equipment, and buildings that are necessary for the production of goods and services. This includes machinery, technology, and financial resources that facilitate production. - **Labor** represents the human effort, skills, and time contributed by workers in the production process. It includes both physical and intellectual contributions made by individuals. - **Enterprise** is the entrepreneurial aspect, involving the organization and management of the other factors of production, as well as the risk-taking involved in starting and running a business. This combination of resources is crucial for economic production and illustrates how various elements come together to create goods and services that satisfy consumer needs. The other options presented do not encompass the complete range of elements that constitute the fundamental factors of production. For example, while technology and goods are important in an economy, they do not directly represent the core productive resources in the same way the four identified factors do.*

## 7. Which factor is most likely to cause increased productivity?

A. Increased labor costs

B. Improved technology

C. Higher prices for goods

D. Decreased worker satisfaction

*Increased productivity refers to the efficiency with which goods and services are produced, typically measured as output per unit of input. Improved technology is a primary driver of productivity gains because it often allows firms to produce more output with the same amount of resources or to produce the same output in less time. For instance, the introduction of automation or advanced machinery can streamline production processes, reduce waste, and minimize the chances of human error, all of which lead to a higher output. Additionally, improved technology can enhance communications and information management within companies, further boosting efficiency. This reflects how investments in research and development, as well as innovation in production methods, can yield significant productivity improvements over time. In contrast, while increased labor costs, higher prices for goods, and decreased worker satisfaction can impact business operations, they generally do not contribute directly to enhancements in productivity. High labor costs without corresponding increases in efficiency can strain budgets, higher prices do not inherently result in more output, and decreased worker satisfaction can lead to lower morale and productivity rather than improvements.*

## 8. What is the formula for calculating average revenue?

A. Total costs divided by output

B. Total revenue divided by output

C. Average costs multiplied by total output

D. Total profits divided by fixed costs

*Average revenue is calculated by taking total revenue and dividing it by the quantity of output sold. This calculation provides a per-unit measure of revenue generated from sales, making it a key concept in understanding a firm's revenue and pricing strategy. The formula is expressed as: Average Revenue = Total Revenue / Quantity of Output. This method highlights how much revenue each unit of output brings to the firm, which is crucial for making informed business decisions regarding pricing and production levels. The other options do not correctly represent the concept of average revenue. For instance, total costs divided by output pertains to average costs, while average costs multiplied by total output leads back to total costs. Lastly, total profits divided by fixed costs does not provide meaningful information regarding revenue generation at all.*

## 9. What does a negative cross elasticity of demand indicate?

A. The two goods are substitutes

B. The two goods are complements

C. The two goods are normal

D. The two goods are inferior

*A negative cross elasticity of demand indicates that as the price of one good changes, the quantity demanded of another good moves in the opposite direction, which is characteristic of complementary goods. When the price of one good increases, the demand for its complement decreases because these goods are typically consumed together. For example, if the price of coffee rises, the quantity demanded for cream may drop, as consumers may buy less coffee and consequently need less cream. In contrast, substitute goods have a positive cross elasticity of demand, meaning that an increase in the price of one good leads to an increase in the demand for the other as consumers switch between them. Normal and inferior goods relate to changes in income rather than price changes between two goods, and thus do not apply in the context of cross elasticity.*

## 10. Which of the following is NOT a factor that affects the location of firms?

A. Cheap land

B. Consumer preferences

C. Near labor supply

D. Transport availability

*Consumer preferences play a crucial role in how firms decide where to establish their operations, especially in terms of demand for their products or services. When firms consider their location, they typically prioritize areas where they can easily reach their target customers. Proximity to consumers can drive sales, influence market share, and ultimately impact a firm's profitability. In contrast, factors like cheap land, labor supply, and transport availability are all significant concerns for firms when choosing locations. Cheap land reduces operational costs, access to labor ensures that firms can hire the necessary employees, and transport availability is critical for distributing goods efficiently and minimizing transportation costs. These practical considerations directly affect a firm's operational efficiency and cost structure, while consumer preferences are more about the market dynamics rather than the logistical or economic factors influencing location.*

# 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!