

SQA National 5 Economics Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	6
Answers	9
Explanations	11
Next Steps	17

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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1. What occurs during a trade deficit?

- A. Exports exceed imports**
- B. Imports exceed exports**
- C. Trade balance is balanced**
- D. Only services are imported**

2. What is the purpose of protectionism?

- A. To increase exports and international competition**
- B. To promote free trade between nations**
- C. To restrict trade to protect domestic industries**
- D. To support globalization initiatives**

3. What is a key driver of economic activity in an economy?

- A. Government regulations**
- B. Consumer spending**
- C. Corporate profits**
- D. International trade**

4. What does a production possibility frontier (PPF) illustrate?

- A. The actual output level of a country**
- B. The trade-offs between the production of two goods**
- C. The isolated impact of technological advancement**
- D. The long-term growth trajectory of an economy**

5. What does economic stability aim to achieve in an economy?

- A. Consistent levels of economic growth and manageable inflation**
- B. High inflation and rapid growth rates**
- C. Fluctuating unemployment rates for economic flexibility**
- D. Sustained budget deficits and high consumption**

6. What is a common measure implemented to control imports?

- A. Subsidies**
- B. Tariffs**
- C. Investments**
- D. Wages**

7. In general, as consumer incomes rise, what happens to the demand for normal goods?

- A. Demand remains unaffected**
- B. Demand increases**
- C. Demand decreases**
- D. Demand becomes volatile**

8. In a progressive tax system, how does the tax burden change as income increases?

- A. The tax burden remains constant**
- B. The tax burden decreases**
- C. The tax burden fluctuates**
- D. The tax burden increases**

9. Which of the following is NOT one of the four factors of production?

- A. Land**
- B. Capital**
- C. Innovation**
- D. Entrepreneurship**

10. What are tariffs?

- A. Subsidies given to exporters**
- B. Taxes on imported goods**
- C. Loans given to manufacturers**
- D. Investment in domestic industries**

Answers

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

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Explanations

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1. What occurs during a trade deficit?

- A. Exports exceed imports
- B. Imports exceed exports**
- C. Trade balance is balanced
- D. Only services are imported

A trade deficit occurs when a country's imports exceed its exports. This means that the value of goods and services a country buys from other countries is greater than the value of goods and services it sells abroad. This situation can reflect various economic conditions. For example, a trade deficit may indicate strong domestic demand, where consumers are purchasing more foreign goods. It can also suggest that a country is not producing enough goods to meet its own demand. Over time, consistent trade deficits may impact a country's currency value and lead to increased foreign debt. In contrast, when exports exceed imports, a trade surplus occurs, and a balanced trade situation signifies that the total value of exports and imports is equal. The option mentioning only services being imported does not accurately address the overall context of trade balance as it limits the discussion to just one sector and does not reflect typical trade activity comprehensively.

2. What is the purpose of protectionism?

- A. To increase exports and international competition
- B. To promote free trade between nations
- C. To restrict trade to protect domestic industries**
- D. To support globalization initiatives

Protectionism refers to economic policies implemented by governments to restrict international trade, primarily to protect domestic industries from foreign competition. The key goal of such policies is to shield local businesses and jobs from the challenges posed by cheaper imports, enabling domestic industries to grow and maintain their market share. By imposing tariffs, quotas, and other trade barriers, protectionism can provide a temporary advantage to domestic producers, allowing them to operate without facing the same level of competition from foreign companies. This can lead to job preservation in certain sectors and can stimulate local economies. In contrast, the other options focus on promoting trade and competition without those protective measures, which does not align with the core intentions of protectionism.

3. What is a key driver of economic activity in an economy?

- A. Government regulations
- B. Consumer spending**
- C. Corporate profits
- D. International trade

Consumer spending is often considered a key driver of economic activity because it directly influences the demand for goods and services in an economy. When consumers spend money on products, businesses respond by producing more, which can lead to increased employment and higher incomes. This cycle of spending creates a multiplier effect; as businesses grow and hire more workers, those workers also spend their incomes, sustaining the economic momentum. In many economies, particularly those that are consumer-driven, a significant portion of economic growth can be attributed to household consumption. A strong level of consumer spending indicates confidence in the economy, leading to further investment by businesses to meet the expected demand. Thus, consumer spending becomes a foundational element of economic activity, maintaining the flow of money throughout the economy. While other factors, such as government regulations, corporate profits, and international trade, do play important roles in the economy, they often serve as facilitators or outcomes related to consumer spending rather than primary drivers. Government regulations can impact how businesses operate but do not directly drive consumer behavior; corporate profits reflect business success but stem from consumer spending; and international trade involves exchange between economies rather than directly influencing domestic consumption levels.

4. What does a production possibility frontier (PPF) illustrate?

- A. The actual output level of a country
- B. The trade-offs between the production of two goods**
- C. The isolated impact of technological advancement
- D. The long-term growth trajectory of an economy

A production possibility frontier (PPF) illustrates the trade-offs between the production of two goods. It represents the maximum output potential of an economy, showcasing the possible combinations of two different goods that can be produced with a given set of resources and technology. The PPF demonstrates how much of one good must be given up to produce more of another, highlighting the concept of opportunity cost. When resources are allocated to produce more of one good, the economy moves along the curve, indicating the sacrifices made in terms of the other good's production. The focus on trade-offs is crucial because it helps illustrate the limits of production and the choices that economies must make, enabling a clearer understanding of scarcity and resource allocation. The PPF also reflects efficiency, as points along the curve signify maximum efficiency, while points inside the curve indicate underutilization of resources, and points outside are unattainable with the current resources.

5. What does economic stability aim to achieve in an economy?

- A. Consistent levels of economic growth and manageable inflation**
- B. High inflation and rapid growth rates**
- C. Fluctuating unemployment rates for economic flexibility**
- D. Sustained budget deficits and high consumption**

Economic stability aims to achieve consistent levels of economic growth and manageable inflation. This is important because it creates a predictable economic environment where individuals and businesses can plan their finances with confidence. When an economy experiences consistent growth, it supports job creation and increases consumer confidence, leading to higher levels of investment and spending. Moreover, manageable inflation rates ensure that prices do not increase too rapidly, which can erode purchasing power and savings. Maintaining a stable inflation rate helps to preserve the value of money over time, making it easier for consumers to make decisions about spending and saving. Economic stability involves balancing growth with inflation control, leading to a healthier and more sustainable economy. In contrast, high inflation and rapid growth can lead to economic instability, while fluctuating unemployment rates may create uncertainty, and sustained budget deficits can jeopardize a government's financial health. Therefore, the goal of economic stability is to create a balanced environment conducive to steady growth and controlled inflation.

6. What is a common measure implemented to control imports?

- A. Subsidies**
- B. Tariffs**
- C. Investments**
- D. Wages**

Tariffs are a common measure implemented to control imports because they involve imposing taxes on goods that are brought into a country from abroad. This additional cost makes imported goods more expensive for consumers, which can lead to a decrease in demand for those products. By raising the price of imported goods, tariffs encourage consumers to buy domestically produced items instead. This, in turn, can help protect local industries and jobs by limiting foreign competition. In contrast, subsidies refer to financial support given by the government to domestic producers, which can help lower their costs and encourage production, but they are not a direct measure for controlling imports. Investments pertain to the allocation of resources into projects or businesses rather than restrictions on imports. Wages are related to labor compensation and do not directly impact import control measures. Thus, tariffs are the most direct and widely used tool for managing the flow of imports into a country.

7. In general, as consumer incomes rise, what happens to the demand for normal goods?

- A. Demand remains unaffected**
- B. Demand increases**
- C. Demand decreases**
- D. Demand becomes volatile**

When consumer incomes rise, the demand for normal goods typically increases. Normal goods are those that consumers tend to buy more of when they have higher incomes, as they are often considered desirable or necessary for a better quality of life. Examples of normal goods include clothing, household appliances, and vacations. As people have more disposable income, they are more likely to purchase these goods, leading to an increase in overall demand. This relationship between income and demand is a fundamental principle in economics, known as the income effect. As income grows, consumers feel more confident in their financial situation, allowing them to spend more on goods that may enhance their lifestyle or meet their needs. In contrast, other options suggest that demand remains unchanged, decreases, or becomes unpredictable, which does not accurately capture the typical behavior seen with normal goods in response to rising incomes. The increase in demand reflects consumer preferences, buying power, and the positive correlation between income levels and consumption for normal goods.

8. In a progressive tax system, how does the tax burden change as income increases?

- A. The tax burden remains constant**
- B. The tax burden decreases**
- C. The tax burden fluctuates**
- D. The tax burden increases**

In a progressive tax system, the tax burden increases as income rises. This means that individuals with higher incomes pay a larger percentage of their income in taxes compared to those with lower incomes. The structure of a progressive tax is designed to ensure that those who can afford to contribute more to government revenue do so, which helps to reduce income inequality. As income increases, taxpayers may enter higher tax brackets, where the rate of taxation is higher for income earned above certain thresholds. This results in a greater share of income being taxed, leading to an overall increase in the tax burden for higher earners. The intention behind this approach is to provide a fairer redistribution of wealth in society, supporting public services and social programs that benefit everyone.

9. Which of the following is NOT one of the four factors of production?

- A. Land**
- B. Capital**
- C. Innovation**
- D. Entrepreneurship**

The four factors of production are essential resources used in the creation of goods and services. They consist of land, labor, capital, and entrepreneurship. Land refers to all natural resources that are used to produce goods and services, such as minerals, energy, and forests. Capital pertains to the tools, machinery, and buildings used in the production process. Entrepreneurship involves the initiative taken by individuals to combine the other factors of production effectively, taking risks to create and manage businesses. Innovation, while crucial in driving economic advancement and enhancing productivity, does not fall under the standard definition of the factors of production. It is more of a concept related to the development of new ideas, products, or processes rather than a resource used in production. Thus, it is accurate to identify innovation as not being one of the defined four factors of production.

10. What are tariffs?

- A. Subsidies given to exporters**
- B. Taxes on imported goods**
- C. Loans given to manufacturers**
- D. Investment in domestic industries**

Tariffs are effectively taxes imposed by a government on imported goods. The primary purpose of tariffs is to make imported products more expensive relative to domestic products, thereby encouraging consumers to buy locally produced goods. This can protect local industries from foreign competition and generate revenue for the government as the importers are required to pay these tariffs when bringing goods into the country. The distinction between tariffs and the other options is also important. Subsidies given to exporters aim to enhance competitiveness for goods sold abroad, while loans to manufacturers typically provide financial assistance to help them grow or manage operations. Investment in domestic industries usually refers to the allocation of resources to foster growth in local businesses rather than imposing a tax on imports. Understanding tariffs in this context illustrates their critical role in international trade policy and economic strategy.

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://sqanational5economics.examzify.com>

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

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