

SQA National 5 Economics Practice Exam (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

- 1. Which of the following is a cause of inflation?**
 - A. Increases in interest rates**
 - B. Supply chain disruptions**
 - C. Demand-pull factors**
 - D. Reduction in consumer spending**
- 2. What does a strong currency typically do to a country's import levels?**
 - A. Reduces imports**
 - B. Increases imports**
 - C. Has no effect on imports**
 - D. Leads to a trade surplus**
- 3. Which characteristic of a public good allows it to be consumed by many without reducing availability?**
 - A. Excludability**
 - B. Rivalry in consumption**
 - C. Non-excludability**
 - D. Scarcity**
- 4. A product's price elasticity of demand is measured at 2. What does that indicate?**
 - A. Demand is elastic**
 - B. Demand is inelastic**
 - C. Demand is unitary elasticity**
 - D. Demand is completely unresponsive**
- 5. What is one characteristic of a perfectly competitive market?**
 - A. Unique products**
 - B. Low barriers to entry**
 - C. One dominant seller**
 - D. Limited information access**

- 6. What describes a taxation system where the proportion of tax increases as income increases?**
- A. Proportional Taxation**
 - B. Progressive Taxation**
 - C. Regressive Taxation**
 - D. Flat Taxation**
- 7. What is one benefit of economic growth?**
- A. Lower government revenues**
 - B. Increased living standards**
 - C. Higher unemployment rates**
 - D. Decreased consumer confidence**
- 8. What is meant by aggregate demand?**
- A. The total supply of goods in the economy**
 - B. The total demand for goods and services at a given price level**
 - C. The demand for a single product in the market**
 - D. The sum of savings within an economy**
- 9. Which term describes the willingness and ability of consumers to purchase goods and services?**
- A. Supply**
 - B. Demand**
 - C. Equilibrium**
 - D. Scarcity**
- 10. Which of the following is NOT one of the four factors of production?**
- A. Land**
 - B. Capital**
 - C. Innovation**
 - D. Entrepreneurship**

Answers

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

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Explanations

1. Which of the following is a cause of inflation?

- A. Increases in interest rates
- B. Supply chain disruptions
- C. Demand-pull factors**
- D. Reduction in consumer spending

The cause of inflation identified in the correct answer involves demand-pull factors, which occur when the demand for goods and services in an economy outpaces their supply. This situation can arise from various scenarios, such as increased consumer spending, government expenditure, or foreign demand for domestic products. When demand exceeds supply, sellers can raise their prices, leading to an overall increase in price levels, which is what inflation reflects. Understanding why demand-pull factors specifically contribute to inflation is crucial. When consumers and businesses are confident in the economy, they tend to spend more. If this increased demand is not matched by an increase in supply—due to production constraints, resource limitations, or other factors—prices will go up. This reinforcement of the demand leads to cyclical inflationary pressures, affecting various aspects of the economy. In contrast, increases in interest rates are generally implemented to combat inflation by making borrowing more expensive and encouraging saving rather than spending. Supply chain disruptions can indeed affect inflation but typically contribute to cost-push inflation, where the costs of production rise and consequently drive up prices. A reduction in consumer spending tends to lessen demand, which would likely exert downward pressure on prices rather than contribute to inflation. Thus, the recognition of demand-pull factors as a primary

2. What does a strong currency typically do to a country's import levels?

- A. Reduces imports
- B. Increases imports**
- C. Has no effect on imports
- D. Leads to a trade surplus

A strong currency typically increases a country's import levels. When a currency is strong compared to others, it means that it has a higher purchasing power relative to foreign currencies. This increased purchasing power allows consumers and businesses within the stronger currency country to buy more goods and services from abroad, as imports become cheaper. For example, if a country's currency strengthens against the dollar, then imported goods priced in dollars would require less of the local currency to purchase. As a result, consumers may be more inclined to buy imported products, leading to an increase in import levels. Moreover, businesses may also take advantage of the lower costs of foreign goods to incorporate them into their production processes, further stimulating the growth of imports. This dynamic directly correlates with the relationship between currency strength and import activity, illustrating why a strong currency generally leads to increased imports.

3. Which characteristic of a public good allows it to be consumed by many without reducing availability?

- A. Excludability**
- B. Rivalry in consumption**
- C. Non-excludability**
- D. Scarcity**

The characteristic of a public good that allows it to be consumed by many without reducing availability is non-excludability. This means that individuals cannot be effectively excluded from using the good, which allows everyone to benefit from it without impacting its availability to others. For example, consider a public park or clean air; when one person enjoys the park or breathes clean air, it does not diminish the enjoyment or access for others. This property is what distinguishes public goods from private goods, where consumption by one individual can prevent another from consuming the same good. Non-excludability generally leads to free-rider problems, where people may benefit from a resource without paying for it because they cannot be excluded from its use. This highlights the importance of government or collective action to provide such goods, as purely private markets may underprovide them.

4. A product's price elasticity of demand is measured at 2. What does that indicate?

- A. Demand is elastic**
- B. Demand is inelastic**
- C. Demand is unitary elasticity**
- D. Demand is completely unresponsive**

When a product's price elasticity of demand is measured at 2, it indicates that the demand for that product is elastic. This means that the quantity demanded changes significantly in response to a price change. Specifically, a price elasticity of 2 means that for every 1% increase in price, the quantity demanded decreases by 2%. Elastic demand typically occurs for products that have substitutes or are not necessities, allowing consumers to easily reduce their consumption or switch to alternatives when prices rise. Understanding the concept of elasticity helps businesses and policymakers to predict how changes in prices will affect overall demand for a product, which is critical for making informed pricing and production decisions. In this context, other options do not apply since they describe either inelastic demand (where consumers are less responsive to price changes), unitary elasticity (where the percentage change in quantity demanded is equal to the percentage change in price), or a completely unresponsive demand scenario (where changes in price do not affect the quantity demanded at all).

5. What is one characteristic of a perfectly competitive market?

- A. Unique products**
- B. Low barriers to entry**
- C. One dominant seller**
- D. Limited information access**

A perfectly competitive market is characterized by low barriers to entry, which allows new firms to enter the market relatively easily without facing significant obstacles. This characteristic is essential because it ensures that the market remains competitive, as existing firms cannot restrict entry to maintain higher prices or profits for an extended period. In such a market, if a firm is making substantial profits, new companies will be attracted to the market, leading to increased supply and eventually driving prices down to a level where only normal profits are made. On the other hand, unique products would indicate product differentiation, which is not a feature of perfect competition, as firms sell identical products. The presence of one dominant seller suggests a monopoly or oligopoly rather than perfect competition, as in a perfectly competitive market, no single firm has significant market power. Limited information access would hinder the ability of consumers and producers to make informed decisions, which contradicts the idea of perfect competition, where all participants have access to complete and accurate information about prices and products.

6. What describes a taxation system where the proportion of tax increases as income increases?

- A. Proportional Taxation**
- B. Progressive Taxation**
- C. Regressive Taxation**
- D. Flat Taxation**

Progressive taxation is characterized by a system where the rate of tax increases as an individual's income rises. This means that higher income earners pay a higher percentage of their income in taxes compared to those with lower incomes. The intent behind progressive taxation is to redistribute wealth more equitably within society, addressing income inequality by ensuring that individuals who can afford to contribute more to the public purse do so. This system contrasts with proportional taxation, where everyone pays the same percentage regardless of income level, and regressive taxation, where lower income individuals pay a higher percentage of their income in taxes compared to wealthier individuals. Flat taxation refers to a single tax rate applied to all taxpayers, independent of their income level. Progressive taxation aims to ease the financial burden on lower income earners while ensuring that those with greater financial capability contribute appropriately to governmental revenues and social services.

7. What is one benefit of economic growth?

- A. Lower government revenues
- B. Increased living standards**
- C. Higher unemployment rates
- D. Decreased consumer confidence

One significant benefit of economic growth is the increase in living standards. When an economy grows, it typically leads to higher levels of production and income, which can translate into greater availability of goods and services for the population. As businesses expand and thrive during periods of economic growth, they often create more jobs, leading to improved employment opportunities. Higher incomes allow individuals and families to access better education, healthcare, and housing, all of which contribute to a higher quality of life. Additionally, economic growth often brings investment in infrastructure and public services, further enhancing living standards for the community as a whole. Overall, sustained economic growth can foster an environment where the welfare and quality of life for individuals improve significantly, showing a direct correlation between growth and living standards.

8. What is meant by aggregate demand?

- A. The total supply of goods in the economy
- B. The total demand for goods and services at a given price level**
- C. The demand for a single product in the market
- D. The sum of savings within an economy

Aggregate demand refers to the total demand for all goods and services within an economy at a particular price level over a specific period. It encompasses the overall amount that consumers, businesses, the government, and foreign buyers are willing to purchase at different price points. This concept is pivotal in understanding economic performance as it influences inflation, employment, and production levels. The correct answer emphasizes the collective nature of demand across all sectors of the economy, rather than focusing on individual products or elements such as supply or savings. This comprehensive view illustrates how aggregate demand interacts with other economic factors, thereby playing a crucial role in macroeconomic analysis and policy formulation.

9. Which term describes the willingness and ability of consumers to purchase goods and services?

- A. Supply**
- B. Demand**
- C. Equilibrium**
- D. Scarcity**

The term that describes the willingness and ability of consumers to purchase goods and services is demand. Demand reflects consumers' purchasing intentions at various price levels and is fundamental to understanding market behavior. When demand increases, it indicates that consumers are not only willing to buy more but also have the means to do so, often driven by factors such as income levels, preferences, and the prices of substitutes or complements. Knowing this helps clarify why other terms do not fit as well. Supply refers to the amount of goods and services that producers are willing and able to sell, which focuses on the producer's side of the market. Equilibrium pertains to the point where supply equals demand, representing a balance in the market but not directly addressing consumers' willingness and ability to purchase. Scarcity describes the fundamental economic problem of limited resources versus unlimited wants, rather than the specific behavior of consumers in purchasing goods and services. Thus, demand is the most accurate term in the context of consumer behavior in economics.

10. 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.

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!