



# Cambridge IGCSE™

## ECONOMICS

Paper 1 Multiple Choice

0455/12

May/June 2026

45 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet  
Soft clean eraser  
Soft pencil (type B or HB is recommended)

### INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A, B, C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid or tape.
- Do **not** write on any bar codes.
- You may use a calculator.

### INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.

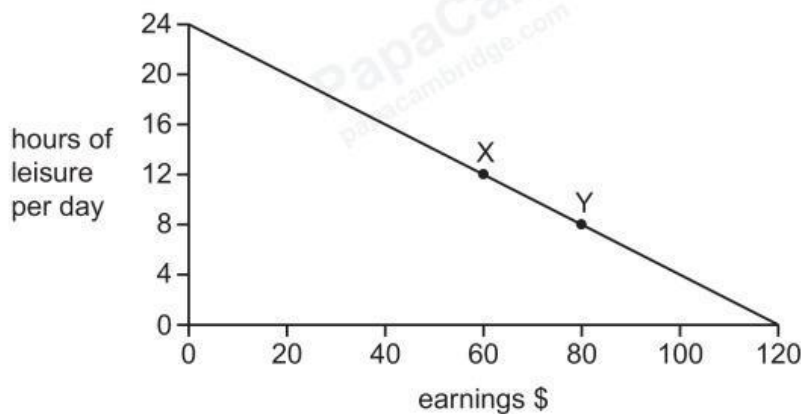
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**[Turn over]**

- 1 What is an example of a free good?
  - A Headphones given away with a new mobile phone.
  - B Machinery bought with a 0% interest bank loan.
  - C Sunshine that powers a solar energy farm.
  - D Water that has been purified and bottled.
- 2 What is the reward for the factor of production, capital?
  - A interest
  - B profits
  - C rent
  - D wages

- 3 The diagram shows the choices for an individual between leisure and earnings.



The person decides to take a job that gives more leisure time.

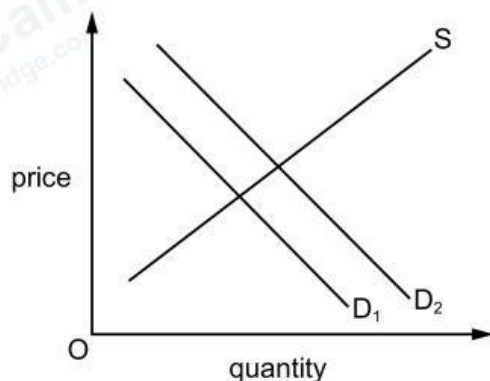
What is the opportunity cost to the individual of moving from position Y to position X?

- A \$20
- B \$80
- C four hours of leisure per day
- D 12 hours of leisure per day

4 What would be classified by an economist as a macroeconomic aim?

- A a government increasing the unit tax on petrol
- B a central bank having an inflation target of 2%
- C a monopoly increasing its profit target by 2%
- D a trade union increasing the living standards of its members

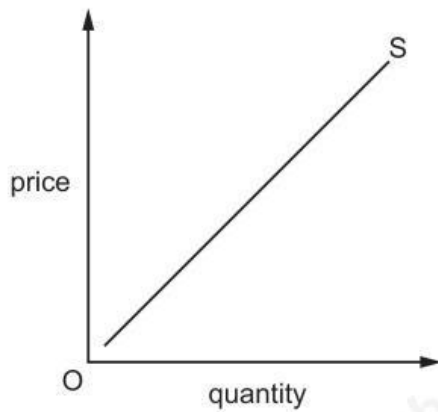
5 On the diagram,  $D_1$  and  $S$  are the original demand and supply curves for tea in a country.



What would cause the demand curve to shift from  $D_1$  to  $D_2$ ?

- A a decrease in the population
- B a decrease in wage levels
- C an increase in the price of coffee
- D an increase in the price of sugar

- 6 The diagram shows the supply curve for a good.



What causes an extension in the supply of the good?

- A a decrease in the cost of producing the good
  - B a decrease in the price of the good
  - C an increase in the cost of producing the good
  - D an increase in the price of the good
- 7 The elasticity of demand for cigarettes is estimated to be  $-0.5$ . The government introduces a tax on cigarettes to reduce consumption.

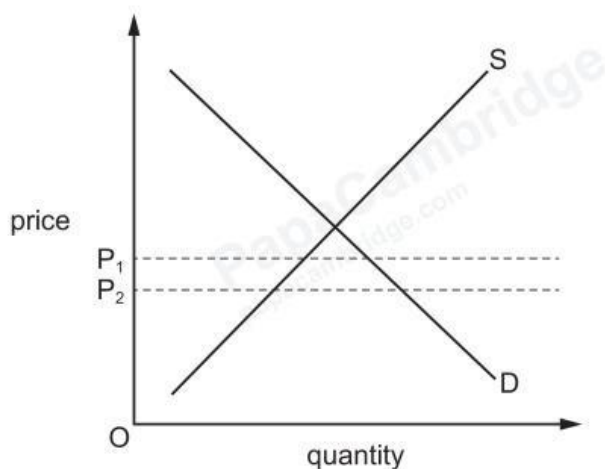
By how much must the price of cigarettes rise to reduce consumption by 10%?

- A 5%
  - B 10%
  - C 15%
  - D 20%
- 8 Which type of good does **not** cause market failure?

- A a demerit good
- B a free good
- C a merit good
- D a public good

- 9 The diagram shows the market for an essential medicine.

The government has intervened to decrease the maximum price of the medicine from  $P_1$  to  $P_2$ .



What is the impact of the decrease in maximum price on the market for this medicine?

- A a decrease in excess demand
  - B a decrease in quantity demanded
  - C an increase in quantity demanded
  - D an increase in excess supply
- 10 A kilogram of rice was priced at \$0.50 in one year, but the price increased to \$0.75 for a kilogram in the following year.

Which function of money does this statement demonstrate?

- A deferred payment
- B unit of account
- C store of value
- D medium of exchange

- 11 The table shows a worker's total income and the deductions made.

|                              | \$     |
|------------------------------|--------|
| annual wage                  | 19 000 |
| overtime pay                 | 1 000  |
| direct tax                   | 5 000  |
| other deductions from salary | 3 000  |

The worker decided to save 10% of the disposable income.

Which sum did the worker save?

- A \$12 000      B \$8000      C \$1200      D \$1000

- 12 A lawyer is considering becoming a teacher.

What is a non-wage factor that might influence this decision?

- A the amount of holidays in each occupation  
 B the current earnings as a lawyer  
 C the minimum wage rate  
 D the rate of income tax payable

- 13 The table gives the labour productivity index (real GDP per hour worked) for a country over a three year period.

|                     | year 1 | year 2 | year 3 |
|---------------------|--------|--------|--------|
| labour productivity | 100    | 104    | 109    |

What is most likely to have caused the changes in labour productivity over the period shown?

- A capital spending has fallen  
 B the workforce has become more skilled  
 C the level of employment has increased  
 D markets have become less competitive

- 14 The table shows the units of factors of production that a firm needs to employ for two different levels of output.

| land | labour | capital | output |
|------|--------|---------|--------|
| 6    | 8      | 4       | 100    |
| 9    | 12     | 6       | 200    |

What is the firm experiencing?

- A diseconomies of scale  
 B economies of scale  
 C external diseconomies of scale  
 D external economies of scale
- 15 A firm has the following set of costs at different levels of output.

| output | total fixed costs<br>\$ | total variable costs<br>\$ |
|--------|-------------------------|----------------------------|
| 10     | 100                     | 600                        |
| 20     | 100                     | 900                        |
| 30     | 100                     | 1100                       |
| 40     | 100                     | 1900                       |

At which level of output is the average total cost at its lowest level?

- A 10                      B 20                      C 30                      D 40
- 16 What may exist in a competitive market but **not** in a monopoly?
- A many sellers  
 B economies of scale  
 C barriers to entry  
 D product differentiation

17 What is an international role of a government?

- A to improve health standards through an efficient healthcare system
- B to support export-oriented firms by negotiating free trade deals
- C to redistribute income through direct taxation
- D to increase productivity levels by spending on education

18 A government aims to reduce the rate of inflation.

Which measure to help the unemployed is most likely to conflict with this aim?

- A giving grants for travel to overcome high transport costs
- B offering training to raise worker productivity
- C providing information on job vacancies to raise mobility
- D raising benefits to increase living standards

19 In an economy, lower income earners pay income tax at a rate of 20% whilst higher income earners pay income tax at a rate of 45%.

Which classification of taxation is in operation?

- A indirect
- B progressive
- C proportional
- D regressive

20 What is an example of monetary policy?

- A decreasing government expenditure
- B decreasing tariffs on imports
- C increasing income tax rates
- D increasing interest rates

- 21 A government increases spending on education and training to raise international competitiveness.

What is likely to decrease?

- A a current account deficit
- B real GDP
- C the HDI value
- D the productivity of labour

- 22 The table shows figures for the real GDP of a country in a particular year.

| quarter 1<br>(\$bn) | quarter 2<br>(\$bn) | quarter 3<br>(\$bn) | quarter 4<br>(\$bn) |
|---------------------|---------------------|---------------------|---------------------|
| 100                 | 101                 | 99                  | 98                  |

A quarter is three months.

At the end of which quarter had the economy experienced a recession?

- A quarter 1
- B quarter 2
- C quarter 3
- D quarter 4

- 23 The table shows selected indicators for the labour market.

| labour market                    | millions |
|----------------------------------|----------|
| employed                         | 25       |
| self-employed                    | 5        |
| unemployed actively seeking work | 3        |
| long-term sick                   | 2        |

Based on this information, what is the percentage rate of unemployment?

- A 9.09%
- B 12%
- C 14.2%
- D 71.4%

- 24 In 2018, a country had an inflation rate of 4%. The table shows the inflation rate in the following years.

| year | inflation rate<br>% |
|------|---------------------|
| 2019 | 4                   |
| 2020 | 2                   |
| 2021 | -2                  |
| 2022 | -1                  |

In which year did deflation start?

- A 2019                      B 2020                      C 2021                      D 2022
- 25 What is **not** a cause of absolute poverty?
- A high unemployment  
B low literacy rate  
C poor health  
D state benefits
- 26 What would usually be greater in a low-income economy than in a high-income economy?
- A the importance of the service sector  
B the length of life expectancy  
C the level of capital-intensive production  
D the number of children in the average family
- 27 What would be a disadvantage to a country specialising at a national level?
- A increased average costs of production  
B increased diversification  
C increased exposure to external shocks  
D increased income equality

28 Which change is **not** associated with the spread of globalisation?

- A greater movement of labour
- B longer product supply chains
- C more effective tariff barriers
- D wider use of technology

29 What describes a fixed exchange rate system?

- A the central bank sets an inflation target
- B the government sets prices in the markets for goods
- C the money in the economy buys the same quantity of goods each year
- D the value of the currency is fixed against another currency

30 A country's balance of payments goes into a current account deficit.

What is most likely to increase immediately as a consequence of this deficit?

- A economic growth
- B exchange rate
- C money supply
- D unemployment rate

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