

# Cambridge IGCSE™

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## ECONOMICS

Paper 1 Multiple Choice

0455/12

February/March 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)

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### 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.

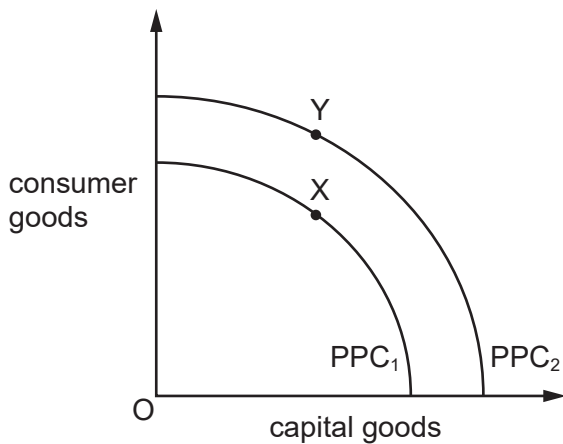
Any rough working should be done on this question paper.

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

- 1 What could cause a reduction in the factors of production in a country?
- A a decrease in the population
  - B a discovery of new resources
  - C an advance in technology
  - D an increase in the unemployment rate
- 2 A government reduces social security spending by \$10bn in order to increase defence spending by \$10bn.  
What is this an example of?
- A expansionary fiscal policy
  - B market forces
  - C price stability
  - D reallocation of resources
- 3 The diagram shows an economy located at point X on an initial production possibility curve,  $PPC_1$ .  
The government would like to move to point Y on  $PPC_2$ .



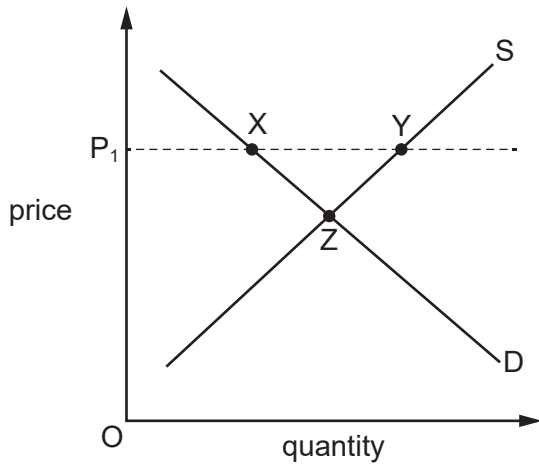
Which policy is likely to achieve this outcome?

- A Cut indirect taxes on consumer goods.
- B Encourage the immigration of skilled labour into the country.
- C Train the unemployed to help them get jobs.
- D Transfer resources from the production of capital goods to the production of consumer goods.

4 What is likely to reduce the price of an airline's flights?

- A increased competition from new airline companies
- B increased demand for flights
- C increased fuel prices
- D increased wages for airline staff

5 The diagram shows the market for a good.



If the current disequilibrium price is at  $P_1$ , what will need to happen to adjust to the market equilibrium at point Z?

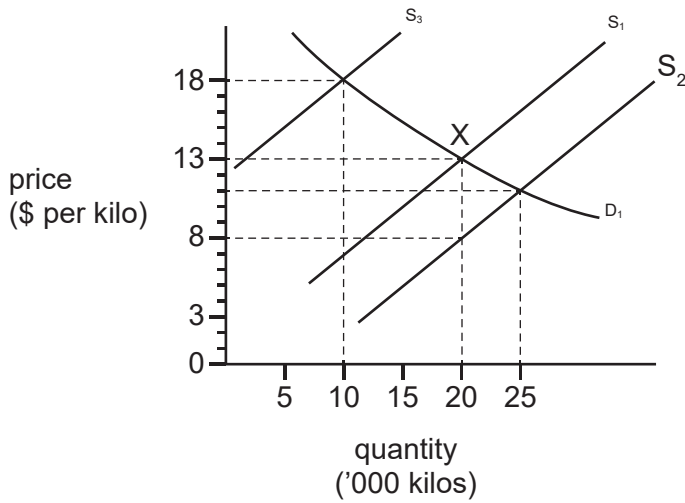
- A A contraction in supply from Y to Z and an extension in demand from X to Z.
  - B The demand curve will need to shift to the right from X to Y.
  - C The government will need to set a minimum price at  $P_1$ .
  - D The supply curve will need to shift to the left from Y to X.
- 6 Which combination of changes in price and quantity demanded would result in a price elasticity of demand of  $-0.1$ ?

	percentage change in price	percentage change in quantity demanded
A	-0.05	-0.05
B	10	-1
C	20	100
D		20.1

- 7 What is a key feature of the market economic system?
- A both the private and public sectors play an important role in the allocation of resources
  - B competition between firms results in lower prices and more choice for consumers
  - C the government always intervenes to reduce market failure and increase competition
  - D the transfer of ownership of private sector assets to the public sector
- 8 Some private sector firms in a free market allocate resources inefficiently, by causing external costs. Which economic concept does this describe?
- A opportunity cost
  - B diseconomies of scale
  - C market failure
  - D specialisation

- 9 A government gives farmers a subsidy of \$5 per kilo to supply food on the open market, where X is the original equilibrium position.

The effect is illustrated in the diagram shown.



What will be the new equilibrium price and quantity supplied as a result of the subsidy?

	equilibrium price (\$ per kilo)	quantity supplied ('000 kilos)
<b>A</b>	8	20
<b>B</b>	11	25
<b>C</b>	13	20
<b>D</b>	18	10

- 10 Why is a central bank important to producers?

- A** for the collection of corporation tax
- B** to maintain price stability
- C** for the provision of loan facilities
- D** for the provision of savings accounts

11 What might have caused savings to rise faster than incomes in a particular year?

- A incomes increased at a greater rate than inflation
- B increased consumer confidence leading to increased consumer spending
- C interest rates fell leading to a fall in the return on savings
- D the rate of income tax increased

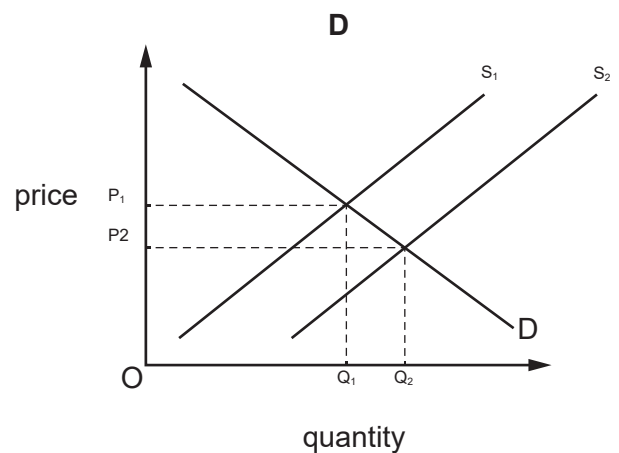
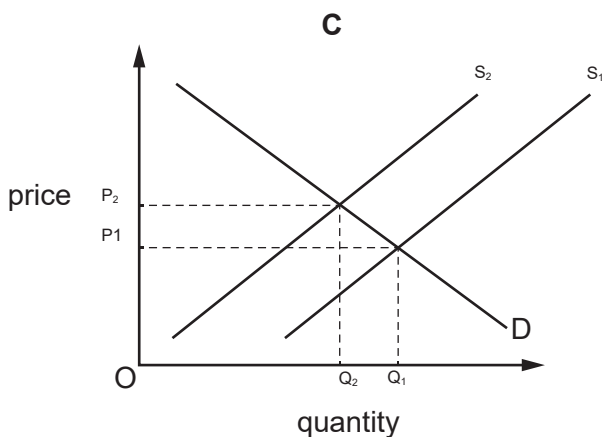
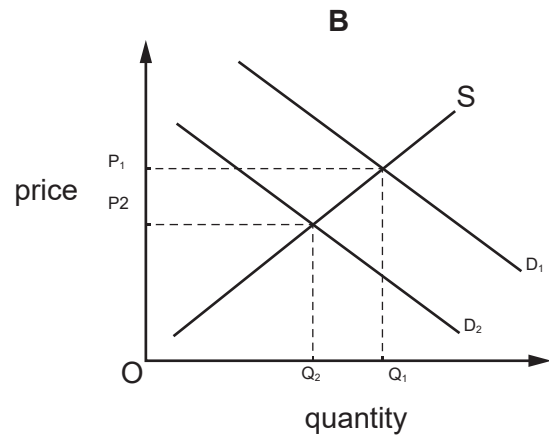
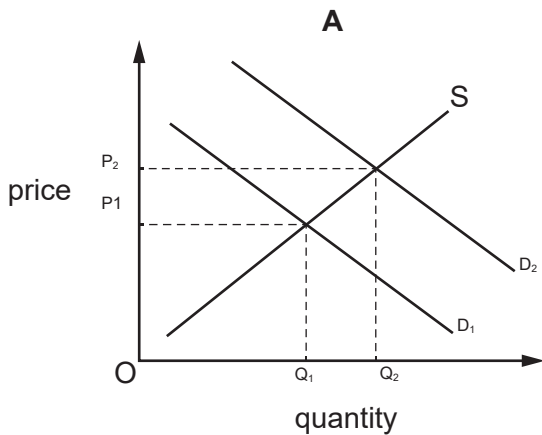
12 On average, doctors earn more than bus drivers.

Which change would be likely to reduce the earnings gap between doctors and bus drivers?

- A a decrease in the profit earned by bus companies
- B a decrease in the qualifications needed to be a doctor
- C an increase in demand for medical care
- D an increase in the number of people passing the driving test

13 A car manufacturer has increased the amount of specialisation in its factory.

Which diagram shows the impact on the market for the manufacturer's cars?



- 14 A group of workers in a firm joins a trade union.

What would the union be expected to do?

- A arrange for labour-saving technology to be introduced
- B discuss safety issues in the workplace with the employer
- C ensure job security by promoting the firm's products through advertising
- D negotiate new contracts with major buyers of the firm's products

- 15 The table shows the output, total fixed cost and total variable cost of a firm.

output	total fixed cost	total variable cost
5	1000	1000
10	1000	2000
15	1000	3000
20	1000	4000

What can be concluded from the data?

- A average fixed cost remains constant
  - B average total cost rises
  - C average variable cost remains constant
  - D total cost falls
- 16 What allows a monopoly to charge a high price for its products and still make a profit?

	number of substitute products	barriers to entry into the industry
A	many	high
B	many	low
C	none	high
D	none	low

17 Which government actions are primarily aimed at achieving an international impact?

	setting a minimum wage	depreciating the exchange rate	deregulating industry	introducing tariffs
<b>A</b>	no	no	yes	yes
<b>B</b>	no	yes	no	yes
<b>C</b>	yes	yes	no	no
<b>D</b>	yes	no	yes	no

18 Governments aim to encourage stable prices because inflation can result in a current account deficit on the balance of payments.

How does high inflation contribute to a current account deficit?

- A** Countries have to barter manufactured goods for raw materials.
- B** Goods manufactured for export lose their competitiveness.
- C** Numbers of foreign visitors increase.
- D** Spending on imported goods is reduced.

19 Which feature of a tax is **not** desirable?

- A** certainty regarding the payment required
- B** convenient payment method
- C** equal payments by all citizens
- D** flexibility in different economic circumstances

20 What is an example of expansionary monetary policy?

- A** a reduction in the money supply
- B** a reduction in the rate of income tax
- C** a reduction in trade union power
- D** a reduction in the rate of interest

- 21 A country has high unemployment and low inflation. To reduce unemployment, the government increases its spending on education and training causing a budget deficit.

What is the most likely effect of this policy on inflation in the short run and the long run?

	short run	long run
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 22 The following information was published by an economy's central bank.

In which case was real GDP growth highest?

	rate of nominal GDP growth (%)	rate of inflation (%)
<b>A</b>	2.0	1.0
<b>B</b>	7.0	5.0
<b>C</b>	9.0	13.0
<b>D</b>	10.0	11.0

- 23 The table shows the percentage change in some items of the Consumer Prices Index (CPI) in a year.

item	% increase in price
energy	16
food	18
housing	10
transport	17

What will be the most likely consequence of these changes?

- A** interest rates will need to be reduced  
**B** there will be a more equal distribution of income  
**C** there will be cost-push inflation  
**D** there will be demand-side deflation

24 Cuba is said to be transitioning towards a market economic system.

What is the most likely impact of this on the pattern of employment in Cuba?

- A a decrease in the proportion of workers employed in the public sector
- B a decrease in the proportion of workers employed in the private sector
- C a decrease in the proportion of workers employed in small firms
- D a decrease in the proportion of workers employed in the tertiary sector

25 What is **not** a component of the Human Development Index (HDI)?

- A expected years of schooling
- B income per head
- C life expectancy at birth
- D stock of natural resources

26 What could explain the rise in a country's population size despite a fall in its birth rate?

- A A birth rate that exceeds the death rate.
- B A death rate that exceeds the birth rate.
- C Net emigration exceeds the birth rate.
- D Net emigration exceeds the death rate.

27 What is a basis for specialisation at a national level?

- A diseconomies of scale
- B increased costs of production
- C superior resource allocation
- D wide variety of goods produced

28 The import of a product from country X into country Y has been banned.

What is this an example of?

- A embargo
- B quota
- C subsidy
- D tariff

29 What is necessary to be able to operate a fixed exchange rate system?

- A free movement of capital and workers
- B free trade between all economies
- C permission from trading partners
- D reserves of foreign currencies

30 A developing economy has a surplus on its trade in goods of \$75 billion and a deficit on its trade in services of \$25 billion, while its current account is in overall balance.

Which values for primary income and secondary income result in the current account being in balance?

	primary income	secondary income
A	deficit of \$20 billion	surplus of \$120 billion
B	deficit of \$30 billion	deficit of \$70 billion
C	surplus of \$35 billion	surplus of \$15 billion
D	surplus of \$40 billion	deficit of \$90 billion

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