CAMBRIDGE
International Education

Specimen Paper Answers – Paper 1

Cambridge IGCSE™ / IGCSE (9–1)
Economics 0455 / 0987

Cambridge O Level
Economics 2281

For examination from 2027

Cambridge Pathway

Contents

Introduction

These specimen answers have been produced by Cambridge International ahead of the examination in 2027 to exemplify standards for those teaching Cambridge IGCSE / IGCSE (9-1) / O Level Economics. Questions have been selected from Specimen Paper 1.

There are forty questions on this paper and candidates are expected to answer **all** questions. We have provided answers, marks and guidance for ten of the questions, and they are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained. There is also a list of common mistakes and guidance for candidates for each question.

The specimen materials are available to download from the School Support Hub

2027 Specimen Paper 01

2027 Specimen Paper Mark Scheme 01

Past exam resources and other teaching and learning resources are available on the School Support Hub

Details of the assessment

The syllabus is available at www.cambridgeinternational.org

All candidates take two components. Candidates will be eligible for grades A* to G.

For information on the assessment objectives (AOs), see section 2.

Paper 1 – Multiple Choice

Multiple-choice paper, 1 hour, 40 marks

This is a compulsory paper consisting of 40 multiple-choice questions.

Questions are based on all the subject content.

Candidates answer all questions. The questions may require candidates to make calculations and analyse diagrams.

Calculators may be used in the examination.

The paper assesses the following assessment objectives:

AO1 Knowledge and understanding
AO2 Analysis

Question 6

A firm reduces the price of its product from \$100 to \$90. The quantity demanded increases from 1000 to 1500.

What is the price elasticity of demand (PED)?

A –0.1

B –0.2

C –0.5

D –5.0

Specimen answer

D

Mark awarded = 1 out of 1

Examiner comment

The correct answer is D. The formula used to calculate the price elasticity of demand (PED) is percentage change in quantity demanded divided by the percentage change in price. From the data, the percentage change in quantity demand is +50% and the percentage change in price is –10%. Dividing +50% by –10% gives the answer –5.0. Remember, the minus (–) sign is used because the relationship between the variables is a negative one.

Common errors and general guidance for candidates

A is not correct. –0.1 would have been the result if the candidate had selected the percentage change in price as a decimal value.

B is not correct. –0.2 would have been the result if the candidate had inverted the formula. This is a very common error.

C is not correct. –0.5 would have been the result if the candidate had selected the percentage change in quantity demanded as a decimal value.

Question 7

What can a government analyse through the use of price elasticity of demand (PED)?

A how a change in income tax affects a current account deficit

B how a tax on the production of a good affects tax revenue

C how changes in the rate of interest affect unemployment

D how providing more merit goods affects social welfare

Specimen answer

B

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **B**. A tax on the production of a good would increase its price. This in turn would decrease the quantity demanded of the good. Price elasticity of demand would help the government to calculate by how much the quantity demanded of the good would decrease in response to the change in the price. This would allow the government to analyse how the tax on the production of the good would affect tax revenue.

Common errors and general guidance for candidates

A, **C** and **D** are not correct as none of these would involve a change in price, which is essential for the concept of price elasticity of demand. **A** involves a change in income tax, **C** involves a change in the rate of interest, and **D** involves an increase in the supply of merit goods.

Question 8

A firm cannot obtain the additional raw materials needed to increase production of a good above 50 000 units. What is the price elasticity of supply (PES) at 50 000 units if the price of the good increases by 10%?

A 0

B 0.1

C 1

D 10

Specimen answer

A

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **A**. The formula used to calculate the price elasticity of supply (PES) is, percentage change in quantity supplied divided by the percentage change in price. From the data provided the firm cannot obtain additional raw materials so it cannot increase its quantity supplied above 50 000 units when the price rises. This would make the percentage change in quantity supplied 0% which when divided by 10% which would be 0.

Common errors and general guidance for candidates

B is not correct. 0.1 would have been the result if the candidate had selected the percentage change in price as a decimal value.

C is not correct. 1 would have been the result if the percentage change in quantity supplied had been the same as the percentage change in price.

D is not correct. 10 would have been the result if the candidate had selected the percentage change in price as value**.**

Question 9

A monopolist uses oil in its production process that causes pollution. The monopolist is efficient at producing large quantities of its product which is sold at a very low price.

What is the likely cause of market failure?

A abuse of monopoly power

B demerit goods

C diseconomies of scale

D external costs of production

Specimen answer

D

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **D**. Pollution would be an external cost of production because the costs associated with it, such as damage to the environment, would affect people not directly involved in production (third parties) and not the producer. These external costs would be paid for by society rather than by the monopolist creating the pollution (social costs are greater than private costs). This under-valuation of the firm's costs would lead to overproduction and so to market failure.

Common errors and general guidance for candidates

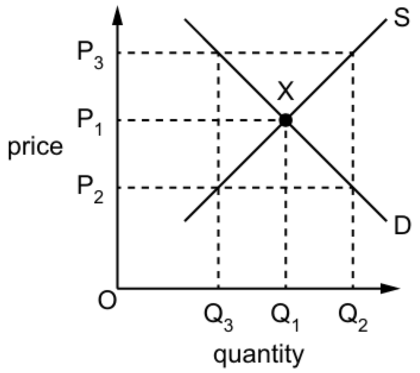
A is not correct. Abuse of monopoly power could be a cause of market failure with higher prices being charged for lower output. However, this is not the case here because question states that the monopolist produces large quantities of its product which it sells at a very low price.

B is not correct. Demerit goods could be a cause of market failure. However, this is not the case because there is no information failure.

C is not correct. Diseconomies of scale could be a cause of market failure because when a firm grows too large and experiences rising average costs in the long run, it can lead to inefficient allocation of resources. However, this is not the case because the monopolist is efficient at producing large quantities of its product.

Question 10

The diagram shows the market for a good. The equilibrium is at point X. The government fixes a maximum price for the good at P_2.



What will happen in the market as a result?

A The market equilibrium will remain the same.

B The quantity demanded will fall to Q_3.

C There will be excess demand.

D There will be excess supply.

Specimen answer

C

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **C**. At the maximum price of P_2 the market would have moved into disequilibrium. The quantity supplied would have contracted to Q_3 whilst the quantity demanded would have extended to Q_2. So, there would be excess demand ($Q_2 – Q_3$).

Common errors and general guidance for candidates

A is not correct. The equilibrium would not remain the same because this would require the price to stay at P_1, which was not the case. The maximum price P_2 would create a disequilibrium. Candidates might choose this option if they do not read the question carefully and assume that the maximum price is set at the highest level P_3.

B is not correct. At price P_2 it would have been the quantity supplied that contracted to Q_3, and the quantity demanded would have extended to Q_2.

D is not correct. For there to be excess supply it would have to be the supply that exceeded the demand. However, at price P_2 the demand exceeded the supply ($Q_2 – Q_3$).

Question 23

The table shows a government's revenue from taxation.

	$m
tax on company profits	100
income tax	600
import duties	30
sales tax	250

What is the total amount raised by indirect taxes?

A $250m

B $280m

C $700m

D $980m

Specimen answer

B

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **B**. The only two indirect taxes in the table are import duties ($30m) and sales tax ($250m) making the total amount raised by indirect taxes $280m.

Common errors and general guidance for candidates

A is not correct. $250m would be the total if the only indirect tax were the sales tax. Candidates might be tempted to choose this option because sales tax is an obvious tax on spending, and they may not realise that import duties also involve spending.

C is not correct. $700m would be the total if only the direct taxes were added together.

D is not correct. $980m would be the total if all the revenue from taxation were added together.

Question 24

The table shows selected statistics for an economy.

	$bn
exports	600
imports	700
government expenditure	550
government revenue	400

What is the government's budget position in terms of deficit or surplus?

A a deficit of $100 billion

B a deficit of $150 billion

C a surplus of $100 billion

D a surplus of $300 billion

Specimen answer

B

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **B**. The two statistics that comprise the government's budget position are government expenditure ($550bn) money paid out, and government revenue ($400bn) money coming in. The money paid out exceeds the money coming in by $150bn creating a budget deficit of $150bn.

Common errors and general guidance for candidates

A is not correct. A deficit of $100 billion would be the total if imports ($700bn) were incorrectly subtracted from exports ($600bn). Candidates often confuse the budget balance with the trade balance making this a common error, especially as the trade figures appear before the budget figures in the table. The advice as always is to read the whole question carefully.

C is not correct. A surplus of $100 billion would be the total if exports ($600bn) were incorrectly deducted from imports ($700bn).

D is not correct. A surplus of $300 billion would be the total if government revenue ($400bn) were incorrectly deducted from imports ($700bn).

Question 35

The table gives the GDP ($ billions), population (thousands) and GDP per head ($) for selected countries in a year.

Based on the data, which country has the highest standard of living?

		GDP ($bn)	population (thousands)	GDP per head ($)
A	Bangladesh	460	171 186	2 688
B	Chile	301	19 604	15 351
C	South Africa	406	59 894	6 776
D	Trinidad and Tobago	28	1 531	18 289

Specimen answer

D

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **D**. GDP per head is an accepted measure of the standard of living. Trinidad and Tobago has the highest GDP per head at $18 289.

Common errors and general guidance for candidates

A, B and **C** are not correct. This is because none of these countries have a GDP per head greater than Trinidad and Tobago.

Question 39

The price of a good produced in the United States (US) is $10 and this good is exported to South Africa. The initial foreign exchange rate between the US dollar ($) and South African Rand (ZAR) is $1 = 20 ZAR. The foreign exchange rate then changes to $1 = 19 ZAR.

How does the price of the good change in South Africa?

	change in price (ZAR)
A	price decreases by 1 ZAR
B	price decreases by 10 ZAR
C	price increases by 1 ZAR
D	price increases by 10 ZAR

Specimen answer

B

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **B**. At the original exchange rate, the initial price in South Africa would be 200 ZAR (10 x 20 ZAR). When the exchange rate changed, the price would be 190 ZAR (10 x 19 ZAR) so the price decreases by 10 ZAR.

Common errors and general guidance for candidates

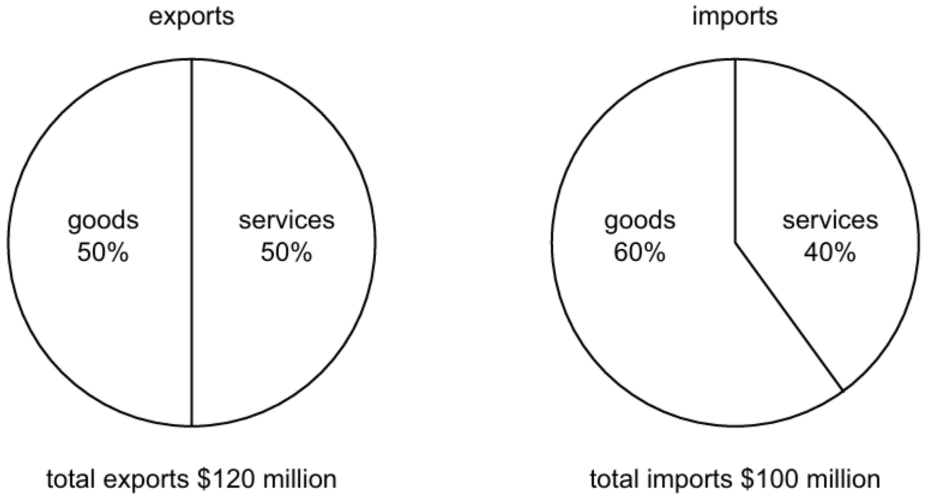
A is not correct. This would be correct if the change in the $ to ZAR exchange rate of 1 ZAR was selected and deducted from the ZAR price. The exchange rate movement has been correctly interpreted as an appreciation of the ZAR.

C is not correct. This would be correct if the price of the good had been incorrectly taken as $1 and the change in the $ to ZAR exchange rate had been incorrectly interpreted as a depreciation (decrease) of the ZAR.

D is not correct. This would be correct if the price change of the good had correctly been accounted for at $10, but the change in the $ to ZAR exchange rate had been incorrectly interpreted as a depreciation of the ZAR.

Question 40

The diagrams show the levels of exports and imports of a country.



What is true for this country?

A Exports of goods are worth $60 million.

B Imports of goods are worth $50 million.

C Exports of services are worth $50 million.

D Imports of services are worth $60 million.

Specimen answer

A

Mark awarded = 1 out of 1

Examiner comment

The correct answer is **A**. Exports of goods are worth 50% of $120 million which would equate to $60 million.

Common errors and general guidance for candidates

B is not correct. Imports of goods would be worth $60 million, 60% of $100m. A common error made by candidates is to confuse the total import and export figures and the goods and service percentages. A careful reading of the data and checking of calculations is valuable with this and other such items.

C is not correct. Exports of services would be worth $60 million, 50% of $120m. Candidates might choose this option if they do not read the question carefully and forget to use the total value of exports beneath the pie chart.

D is not correct. Imports of services would be worth $40 million, 40% of $100m. Candidates might choose this option if they do not read the import data carefully and confuse the goods and services percentages.

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