IGCSE ECONOMICS · PAPER 1 (UNITS 1.1 AND 1.2) · PRACTICE MOCK

Paper 1 Mock: Microeconomics and Business Economics

Mock paper MOCK1 | **Total: 80 marks** | **Time: 90 minutes**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Question 1: The Market System

1(a) A student works a Saturday shift instead of playing in a football match. The opportunity cost of working is: **(1)**

A the wages earned
B the football match given up
C the cost of travel to work
D nothing, as she is paid

1(b) Which of the following would shift the demand curve for coffee to the right? **(1)**

A A rise in the price of coffee
B A rise in the price of tea
C A fall in incomes, if coffee is a normal good
D A rise in the cost of coffee beans

1(c) Define **market equilibrium**. **(1)**

The table shows demand and supply in a local market for mangoes.

Price (US$ per kg)	2	3	4	5	6
Quantity demanded (kg)	900	750	600	450	300
Quantity supplied (kg)	300	450	600	750	900

1(d) Using the table, calculate the total revenue received by sellers at the equilibrium price. You are advised to show your working. **(2)**

1(e) The price rises from US$4 to US$5. Calculate the price elasticity of demand. You are advised to show your working. **(2)**

1(f) State **one** factor, other than price, that affects the supply of a product. **(1)**

1(g) Explain how a fall in the price of fertiliser would affect the market for mangoes. **(3)**

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Source: A Bumper Mango Harvest in Sundapur

Good weather in the fictional country of Sundapur produced a record mango harvest, 30% bigger than last year. Market prices quickly fell by 40%. Most mangoes are sold fresh within a week of picking, as storage facilities are limited.

Demand for mangoes in Sundapur is price inelastic. Some larger growers have started selling dried mango and juice abroad, where prices are higher.

Fictional case, written for this paper.

1(h) With reference to the extract, assess the likely impact of the bumper harvest on mango growers in Sundapur. **(9)**

(Total for Question 1 = 20 marks)

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Question 2: Market Failure and the Mixed Economy

2(a) Which of the following is a characteristic of a public good? **(1)**

A Excludable
B Rival
C Non-excludable
D Always provided by private firms

2(b) Privatisation is best described as: **(1)**

A transferring public sector assets to the private sector
B nationalising private firms
C removing all regulations
D creating a monopoly

2(c) State **one** method a government could use to reduce a negative externality. **(1)**

2(d) What is meant by an **external cost**? **(2)**

2(e) Draw a supply and demand diagram to show the effect of a tax on plastic bags. **(3)**

2(f) Explain **one** possible advantage of privatisation. **(3)**

Source: Congestion in Port Halden

Traffic in the fictional city of Port Halden has doubled in ten years. Air pollution is now twice the WHO recommended level, and the average commute takes 70 minutes. Local businesses say delays cost them US$300m a year.

The city council plans a US$8 daily congestion charge for cars entering the centre, with the revenue spent on new electric buses. Shopkeepers fear customers will go to out-of-town malls, and low-income workers say they cannot afford the charge.

Fictional case, written for this paper.

2(g) With reference to the extract, assess whether a congestion charge is the best way to reduce the external costs of traffic in Port Halden. **(9)**

(Total for Question 2 = 20 marks)

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Question 3: Production, Costs and Market Structure

3(a) Which of the following is a fixed cost for a café? **(1)**

A Coffee beans
B Milk
C Rent
D Paper cups

3(b) Which of the following is a feature of monopoly? **(1)**

A Many sellers
B Barriers to entry
C Firms are price takers
D Perfect information

3(c) Define **productivity**. **(1)**

3(d) What is meant by **economies of scale**? **(2)**

An independent café in Lavera has the following monthly figures.

Fixed costs	Variable cost per cup	Price per cup	Cups sold
US$2000	US$1.50	US$3.50	1800

3(e) Calculate the café's monthly profit. You are advised to show your working. **(3)**

3(f) Explain **one** reason why small firms can survive alongside large firms. **(3)**

3(g) Explain why prices in the Lavera coffee market tend to stay stable. **(3)**

Source: Coffee in Lavera

In the fictional city of Lavera, three coffee chains have 75% of the market. Their prices are almost identical. Instead of cutting prices, they compete through advertising, loyalty cards, new seasonal drinks and smartphone apps.

Small independent cafés survive by offering local roasts and personal service. Last year one chain cut its prices by 15%, and the others matched the cut within a week.

Fictional case, written for this paper.

3(h) With reference to the extract, analyse how the large coffee chains compete in this market. **(6)**

(Total for Question 3 = 20 marks)

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Question 4: Labour Markets and Government Intervention

4(a) A minimum wage set above the equilibrium wage is most likely to cause: **(1)**

A a shortage of labour
B a surplus of labour (unemployment)
C lower wages
D no change in employment

4(b) Which of the following is an example of derived demand? **(1)**

A Demand for builders due to demand for new houses
B Demand for luxury cars
C Demand for holidays
D Demand for savings accounts

4(c) Define a **trade union**. **(1)**

4(d) What is meant by **geographical immobility of labour**? **(2)**

4(e) Explain how an increase in the demand for nurses would affect their wages. **(3)**

Source: A Higher Minimum Wage in Teranga

The fictional country of Teranga plans to raise its minimum wage by 20%, from US$5.00 to US$6.00 an hour, from next January. About 1.1 million workers, mainly in retail, farming and hotels, earn the minimum wage. Inflation is 3% and unemployment is 7%.

Trade unions say the rise will reduce poverty and motivate workers. Hotel owners say they will cut staff and invest in self-service check-in machines. Economists note that the economy grew by 5% last year and that demand for labour is rising.

Fictional case, written for this paper.

4(f) With reference to the extract, evaluate whether the government of Teranga should raise the minimum wage by 20%. **(12)**

(Total for Question 4 = 20 marks)

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Mark scheme: Paper 1 Mock: Microeconomics and Business Economics

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Question 1

1(a) *A student works a Saturday shift instead of playing in a football match. The opportunity cost of working is: (1 mark)*

Answer: B (the football match given up). The next best alternative forgone.

1(b) *Which of the following would shift the demand curve for coffee to the right? (1 mark)*

Answer: B (A rise in the price of tea). Tea is a substitute, so demand for coffee rises.

1(c) *Define market equilibrium. (1 mark)*

Where the quantity demanded equals the quantity supplied / the market clears (1).

1(d) *Using the table, calculate the total revenue received by sellers at the equilibrium price. You are advised to show your working. (2 marks)*

Equilibrium price US$4 and quantity 600 kg; TR = 4 × 600 (1).

Answer: US$2400 (1).

1(e) *The price rises from US$4 to US$5. Calculate the price elasticity of demand. You are advised to show your working. (2 marks)*

%ΔQd = (450 − 600) ÷ 600 × 100 = −25%; %ΔP = +25% (1).

PED = −25 ÷ 25 = −1 (unitary elastic) (1).

1(f) *State one factor, other than price, that affects the supply of a product. (1 mark)*

Any one (1): costs of production; technology; weather; taxes; subsidies; number of firms; prices of other goods.

1(g) *Explain how a fall in the price of fertiliser would affect the market for mangoes. (3 marks)*

Point: costs of production fall (1).

Development: supply shifts to the right (1), so price falls and quantity traded rises (1).

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1(h) *With reference to the extract, assess the likely impact of the bumper harvest on mango growers in Sundapur. (9 marks · levels)*

Knowledge/application: supply shifted right; price fell 40% while quantity rose 30%; demand price inelastic.

Analysis: with inelastic demand, the fall in price outweighs the rise in quantity, so total revenue falls (approx. 0.6 × 1.3 = 0.78, about −22%); limited storage means growers must sell quickly.

Evaluation: larger growers selling dried mango and juice abroad can avoid the fall; small growers worst hit; depends on whether next year's harvest is normal and on export demand.

Levels: L1 1–3 (points listed, little use of the data) · L2 4–6 (developed points, some use of the data, limited evaluation) · L3 7–9 (developed points on both sides using the data, with a supported judgement).

Question 2

2(a) *Which of the following is a characteristic of a public good? (1 mark)*

Answer: C (Non-excludable). People cannot be stopped from benefiting.

2(b) *Privatisation is best described as: (1 mark)*

Answer: A (transferring public sector assets to the private sector). State assets are sold to private owners.

2(c) *State one method a government could use to reduce a negative externality. (1 mark)*

Any one (1): tax; regulation/legislation; fines; pollution permits; subsidies for alternatives.

2(d) *What is meant by an external cost? (2 marks)*

A cost of production or consumption (1) borne by third parties, not paid by the producer or consumer (1).

2(e) *Draw a supply and demand diagram to show the effect of a tax on plastic bags. (3 marks)*

Axes labelled price and quantity (1); supply shifts left S1 → S2 (1); price rises and quantity falls, P1 → P2 and Q1 → Q2 labelled (1).

2(f) *Explain one possible advantage of privatisation. (3 marks)*

Point: e.g. greater efficiency (1).

Development: the profit motive and competition push firms to cut costs (1), so prices may fall or quality improve (1).

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2(g) *With reference to the extract, assess whether a congestion charge is the best way to reduce the external costs of traffic in Port Halden. (9 marks · levels)*

For: makes drivers pay part of the external cost; cuts traffic and pollution; revenue funds electric buses (a better alternative).

Against: low-income workers hit hardest (regressive); shops lose customers to malls; demand for driving may be inelastic so traffic falls little.

Judgement: effective if alternatives (buses) are good; possibly combine with regulation or exemptions; depends on the level of the charge and PED for driving.

Levels: L1 1–3 (points listed, little use of the data) · L2 4–6 (developed points, some use of the data, limited evaluation) · L3 7–9 (developed points on both sides using the data, with a supported judgement).

Question 3

3(a) *Which of the following is a fixed cost for a café? (1 mark)*

Answer: C (Rent). Does not change with output.

3(b) *Which of the following is a feature of monopoly? (1 mark)*

Answer: B (Barriers to entry). Barriers keep rivals out.

3(c) *Define productivity. (1 mark)*

The output per unit of input (e.g. per worker) in a period of time (1).

3(d) *What is meant by economies of scale? (2 marks)*

Falling average costs (1) as a firm expands its output/scale (1).

3(e) *Calculate the café's monthly profit. You are advised to show your working. (3 marks)*

TR = 3.50 × 1800 = US$6300 (1).

TC = 2000 + (1.50 × 1800) = US$4700 (1).

Profit = US$1600 (1).

3(f) *Explain one reason why small firms can survive alongside large firms. (3 marks)*

Point: e.g. they serve a niche / offer personal service (1).

Development: they offer what large firms cannot, e.g. local roasts (1), so loyal customers will pay a higher price (1).

3(g) *Explain why prices in the Lavera coffee market tend to stay stable. (3 marks)*

Point: firms are interdependent / fear a price war (1).

Development: if one cuts its price, rivals match it (1), so all lose revenue and profit; non-price competition is safer (1).

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3(h) *With reference to the extract, analyse how the large coffee chains compete in this market. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): oligopoly; non-price competition; interdependence.

Application (2): three chains with 75%; advertising, loyalty cards, seasonal drinks, apps; 15% price cut matched within a week.

Analysis (2): branding and differentiation build loyalty and allow similar prices without a price war; price competition is quickly matched so gains no market share.

Knowledge 2 · Application 2 · Analysis 2.

Question 4

4(a) *A minimum wage set above the equilibrium wage is most likely to cause: (1 mark)*

Answer: B (a surplus of labour (unemployment)). Supply of labour exceeds demand.

4(b) *Which of the following is an example of derived demand? (1 mark)*

Answer: A (Demand for builders due to demand for new houses). Labour demand comes from demand for the product.

4(c) *Define a trade union. (1 mark)*

An organisation representing workers in a particular industry or profession that protects their rights (1).

4(d) *What is meant by geographical immobility of labour? (2 marks)*

When workers find it difficult (1) to move from one area/region to another to find work (1).

4(e) *Explain how an increase in the demand for nurses would affect their wages. (3 marks)*

Point: demand for labour shifts right (1).

Development: at the old wage there is a shortage of nurses (1), so wages rise and more nurses are employed (1).

4(f) *With reference to the extract, evaluate whether the government of Teranga should raise the minimum wage by 20%. (12 marks · levels)*

For: higher incomes for 1.1m low-paid workers; reduces poverty and inequality; motivation and productivity; less spent on benefits; strong growth (5%) means rising demand for labour may absorb the cost.

Against: theory predicts job losses (W above equilibrium); hotels will cut staff and automate; higher costs may raise prices (inflation); 20% is a large single rise.

Judgement: likely beneficial if phased in; depends on PED for labour, the state of the economy and whether firms can raise productivity; a clear supported conclusion is needed for top marks.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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