PRE-IB ECONOMICS PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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.

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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!

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Questions

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1. If nominal return is 8% and inflation is 3%, what is the approximate real return?

A. 5%

B. 11%

C. 3%

D. -5%

2. Which statement about sustainability is true?

A. Sustainability means maximizing current consumption.

B. Sustainability means meeting present needs without compromising future generations.

C. Sustainability is irrelevant to economic policy.

D. Sustainability only concerns environmental issues.

3. Which of the following is NOT a determinant of supply?

A. Prices of factors of production

B. Technology

C. Prices of related outputs

D. Prices of consumer goods

4. Which statement best describes comparative advantage?

A. A country should specialize in goods with the lowest opportunity cost and trade to obtain a greater combined output.

B. A country should attempt to produce all goods domestically to avoid trade.

C. A country should specialize in goods with the highest opportunity cost and trade.

D. A country should impose quotas on all potential imports to protect domestic producers.

5. What is the short-run Phillips curve relationship?

A. Direct relationship between unemployment and inflation.

B. No relationship between unemployment and inflation.

C. Inverse relationship between unemployment and inflation in the short run.

D. Unemployment causes inflation to rise at all times.

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6. What are the four major components of GDP?

A. GDP's four major components are Consumption, Investment, Government Spending, and Net Exports.

B. Capital goods, Services, Wages, Profits.

C. Consumption, Savings, Taxes, Imports.

D. Production, Prices, Employment, Growth.

7. Name three factors that influence long-run economic growth.

A. Population growth and natural resource endowments.

B. Short-term fiscal policy changes.

C. Consumer preferences for luxury goods.

D. Investment in physical capital, investment in human capital, and technological progress/innovation.

8. Externalities affect market outcomes by...

A. Externalities cause markets to perfectly reflect all costs and benefits.

B. Externalities are never captured by market prices.

C. Externalities create costs or benefits not reflected in prices.

D. Externalities always improve social welfare.

9. Which statement best describes a mixed economy?

A. Private property and markets for most goods with some government intervention to provide public goods, regulate markets, and address equity.

B. Government ownership of all resources.

C. No government intervention.

D. Purely free-market with no public goods.

10. What does the long-run aggregate supply (LRAS) curve represent?

A. The economy's actual GDP at a particular moment.

B. The maximum possible output the economy can produce if all resources are fully employed.

C. The economy's potential output at full employment given available resources and technology.

D. The sum of investment and net exports.

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Answers

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

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Explanations

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1. If nominal return is 8% and inflation is 3%, what is the approximate real return?

A. 5%

B. 11%

C. 3%

D. -5%

Real return shows how much your purchasing power grows after inflation. When rates are not very high, you can estimate it by subtracting inflation from the nominal return. Here, 8% nominal minus 3% inflation gives about 5% real return. If you want the exact figure, real return is (1.08)/(1.03) − 1 ≈ 0.0485, or about 4.85%, which is still closest to 5%. So the best answer is 5%.

2. Which statement about sustainability is true?

A. Sustainability means maximizing current consumption.

B. Sustainability means meeting present needs without compromising future generations.

C. Sustainability is irrelevant to economic policy.

D. Sustainability only concerns environmental issues.

Sustainability means using resources today in a way that preserves the ability of future generations to meet their needs. It centers on intergenerational equity and long-term stewardship of the environment, economy, and society. The statement that aligns with this idea says we should meet present needs without compromising those of future generations. That captures the balance between current well-being and preserving resources and ecological health for tomorrow. The other ideas clash with this view: maximizing current consumption focuses on the present at the expense of the future; sustainability is not irrelevant to economic policy—policies shape resource use, pollution, and long-term growth; and sustainability involves more than just environmental issues, incorporating economic and social dimensions as well.

3. Which of the following is NOT a determinant of supply?

A. Prices of factors of production

B. Technology

C. Prices of related outputs

D. Prices of consumer goods

Supply is about how much producers are willing and able to offer at each price, given their costs and incentives. Production costs—what firms pay for inputs like labor, raw materials, and energy—directly influence how much they can profitably produce, so a rise in input costs tends to reduce supply, while cheaper inputs expand it. Advances in technology can make production cheaper or faster, shifting the supply outward. Prices of related outputs matter because if the same inputs could be used to make a different product that's more profitable, firms may switch production, changing the supply of the original good. Expectations, taxes and subsidies, and the number of sellers also play roles in determining supply. The price of consumer goods, by contrast, affects demand: it changes how much consumers want to buy, not how much producers are willing to supply. Therefore, the price of consumer goods is not a determinant of supply.

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4. Which statement best describes comparative advantage?

A. A country should specialize in goods with the lowest opportunity cost and trade to obtain a greater combined output.

B. A country should attempt to produce all goods domestically to avoid trade.

C. A country should specialize in goods with the highest opportunity cost and trade.

D. A country should impose quotas on all potential imports to protect domestic producers.

Comparative advantage is about producing goods at the lowest opportunity cost, meaning you sacrifice less of other goods to produce one more unit. When a country specializes in the good for which its opportunity cost is lowest and then trades, both countries can reach a higher combined output than if they tried to produce everything themselves. This is the essence of gains from trade: differences in opportunity costs allow resources to be used more efficiently overall, expanding what each country can consume. The other statements miss this idea. Producing everything domestically eliminates the gains from trade. Specializing in the highest opportunity cost would make a country less efficient, not more. Imposing quotas blocks trade and reduces overall welfare, not describing how comparative advantage works.

5. What is the short-run Phillips curve relationship?

A. Direct relationship between unemployment and inflation.

B. No relationship between unemployment and inflation.

C. Inverse relationship between unemployment and inflation in the short run.

D. Unemployment causes inflation to rise at all times.

In the short run, unemployment and inflation move in opposite directions. When unemployment is low, the labor market is tight, wages tend to rise, costs push up prices, and inflation increases. When unemployment is high, demand weakens and price pressures ease, so inflation tends to fall. This inverse relationship is a characteristic feature of the short-run Phillips curve. Longer-run, expectations adjust, and the trade-off disappears, with the curve becoming vertical at the natural rate of unemployment. The other descriptions don't fit the short-run pattern: a direct relationship would mean higher unemployment goes with higher inflation, which isn't what the short-run relationship shows; saying there's no relationship ignores the observed trade-off; and saying unemployment always causes inflation to rise over time ignores when demand is weak or when inflation expectations adjust.

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6. What are the four major components of GDP?

A. GDP's four major components are Consumption, Investment, Government Spending, and Net Exports.

B. Capital goods, Services, Wages, Profits.

C. Consumption, Savings, Taxes, Imports.

D. Production, Prices, Employment, Growth.

The main idea being tested is how GDP is broken down by the expenditure approach into four spending categories. GDP is the total value of final goods and services produced in an economy in a given period, and using the expenditure method we sum the spending on those final goods and services. Those four spending categories are household consumption, business investment, government purchases, and net exports (exports minus imports). This setup captures how the economy uses its output: what households buy, what firms invest to produce more in the future, what the government spends on goods and services, and how much is traded with the rest of the world. Net exports being part of the mix explains why imports reduce GDP if they exceed exports, since those domestic dollars are spent on foreign goods rather than domestically produced ones. The other options mix different concepts: wages and profits are incomes earned rather than direct expenditure components in the GDP identity; capital goods or services are not separate four parts but items that fall under investment or consumption; savings or taxes, and broad measures like production, prices, employment, or growth, are not the four spending components that sum to GDP.

7. Name three factors that influence long-run economic growth.

A. Population growth and natural resource endowments.

B. Short-term fiscal policy changes.

C. Consumer preferences for luxury goods.

D. Investment in physical capital, investment in human capital, and technological progress/innovation.

Long-run economic growth comes from expanding the economy's productive capacity over time. The three main channels that build this capacity are investment in physical capital, investment in human capital, and technological progress/innovation. Investing in physical capital means adding more factories, machines, infrastructure, and tools. With more and better equipment, workers can produce more output per hour, lifting overall growth in the long run. Investing in human capital involves education and training that raise workers' skills and knowledge. A more capable workforce can use technology more effectively, improve productivity, and support higher output over time. Technological progress or innovation shifts the production frontier upward, making all inputs more productive. New methods, processes, and ideas enable more output from the same amount of labor and capital, fueling sustained growth. These three work together to expand what the economy can produce in the long run. By contrast, population growth and natural-resource endowments can influence growth, but they don't by themselves guarantee a lasting rise in productive capacity. Short-term fiscal policy changes affect the business cycle rather than long-run growth, and consumer preferences for luxury goods alter demand patterns more than the economy's capacity to produce in the long run.

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8. Externalities affect market outcomes by...

A. Externalities cause markets to perfectly reflect all costs and benefits.

B. Externalities are never captured by market prices.

C. Externalities create costs or benefits not reflected in prices.

D. Externalities always improve social welfare.

Externalities occur when the actions of buyers or sellers affect others who are not part of the market transaction, and those effects are not reflected in market prices. This means private costs or benefits differ from social costs or benefits, so resources can be misallocated. A negative externality, like pollution, imposes costs on bystanders that the producer doesn't pay, while a positive externality, such as vaccination, offers benefits to others that the individual may not be compensated for. Therefore, externalities create costs or benefits not reflected in prices. The other statements aren't correct because prices do not always capture all effects, externalities can be addressed or mitigated through policy (so they aren't "never" priced), and welfare is not guaranteed to improve in every case.

9. Which statement best describes a mixed economy?

A. Private property and markets for most goods with some government intervention to provide public goods, regulate markets, and address equity.

B. Government ownership of all resources.

C. No government intervention.

D. Purely free-market with no public goods.

A mixed economy blends private ownership and markets with some government involvement. Most resources are owned privately and markets allocate most goods, but the government steps in to provide public goods (like roads and national defense), regulate markets to prevent abuses and cope with externalities, and use taxes and transfers to address equity. This combination sits between a purely market system (little or no government role) and a fully planned economy (government owns everything), reflecting how many real-world economies operate.

10. What does the long-run aggregate supply (LRAS) curve represent?

A. The economy's actual GDP at a particular moment.

B. The maximum possible output the economy can produce if all resources are fully employed.

C. The economy's potential output at full employment given available resources and technology.

D. The sum of investment and net exports.

The main idea is that long-run aggregate supply shows the economy's capacity to produce goods and services when all resources are being used efficiently and technology is fixed. In the long run, prices and wages adjust, so the level of real GDP isn't driven by the price level but by how much the economy can produce with its resources and knowledge. This makes the LRAS curve vertical, reflecting that potential output is determined by factors like the size of the workforce, the amount of capital, and technology. Over time, improvements in resources or technology shift this capacity to the right, while a decline would shift it left. The statement that best captures this is that the LRAS is the economy's potential output at full employment given available resources and technology. It isn't about the actual GDP at a specific moment, nor about a simple sum of investment and net exports.

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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:

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We wish you the very best on your exam journey. You've got this!

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