

## **A Level Economics – Guidance on answering multiple choice questions**

### **Section A: Handling multiple choice questions in Economics**

As part of your assessment, you will be required to take multiple choice tests. These consist of questions (sometimes called stems) and a choice of four possible answers, of which you must choose one as the correct answer. Multiple choice tests can be rewarding and help you achieve high grades, if you are prepared and know how to handle them.

Many students underestimate multiple choice tests, because they consider them easier than essays and other open-ended questions. You should not make this mistake. Multiple choice questions (MCQs) can be difficult and tricky. They often have a broad coverage, spanning the entire content of the specification. This means that you cannot skip and overlook topics.

They sometimes require knowledge of specific details and most certainly, an understanding of the basic concepts and their relationships to one another. Therefore you must make sure you understand the definitions you are studying, as simple memorising would not be enough to enable you to distinguish between similarly worded answers. MCQs also test your ability to understand written statements and to do it efficiently under time pressure. Keep in mind that the content may be shuffled – do not expect the questions to follow the precise sequence of your syllabus.

Although MCQs can be tricky, they also offer some advantages. The most obvious one, perhaps, is that you have the answer before your eyes. You just need to recognise it. You don't need to write lengthy and elaborate answers to show your understanding of the subject matter. MCQ tests usually contain a large number of questions, and although this means a broader range of revision, it also means each question is worth less overall, so one wrong answer does not lower your mark too much.

Here are some tips to help you improve your MCQ tests scores.

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## **Before you start answering the questions**

- Read the instructions carefully and make sure you understand what is required and set yourself a limit on how much time you want to spend on the multiple choice section
- Scan quickly the entire test, noting the total number of questions.

## **Answering MCQs**

- You might want to scan the test again and identify questions that you can answer immediately and do those first
- It is very important that you read each question carefully and are certain of what is being asked. Sometimes a part of the answer is contained in the question. It is also easy to misread the question and thus give the wrong answer
- When you read the question, try to answer it first **WITHOUT** looking at the answers provided. You reduce the chance of being misled by the answers
- Before choosing an answer, read **ALL** four. Do it even if you are sure of your answer. Sometimes answers have very similar wording and you might get confused
- If you don't know the answer, start eliminating answers you are sure are **NOT** correct. Then choose the one that looks most likely to you
- Be aware of answers that say the same thing in different ways: this is probably not the correct answer
- If two of your four answers say the opposite thing, one of them is probably correct
- Sometimes stems or answers to other questions give you hints to questions you were not sure of. Look out for those and when necessary, go back and change your answer.

## **Section B: Working through some examples**

Let's work through some examples of MCQs. These examples are from topics that you meet near the beginning of your studies. We will look not just at the right answer but at the incorrect answers too. These incorrect options are often called distracters. In working these through we will see how we can put into practice some of the tips to help improve the MCQ score.

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## Question One

The workers in a factory currently earn £240 for a 40 hour week. The management offers them a choice between either a straight 10% wage increase or an increase in the weekly wage to £260 along with a reduction in hours from 40 to 39 hours.

Disregarding the value of leisure time, what is the opportunity cost to each worker of opting for the 39 hour week?

- A** £4.00
- B** £6.00
- C** £20.00
- D** £24.00

## Answering Question One

Opportunity Cost is a key concept in economics and its principle applies to many areas of economic activity. Here it's applied to wages. As in this question, you will often need to make simple calculations so a calculator might be handy.

Option one is an increase of 10% of 240 pounds = 24 pounds. To get this what does the worker have to give up, that is, the opportunity cost? The pay increase if the extra leisure hour is taken is 260-240 pounds = 20 pounds per week. So the lost income through opting for the extra leisure hour is 4 pounds, the opportunity cost. This suggests answer A. Checking the other options you can see that both C and D are plausible but wrong answers because both figured in our calculations. To be good at MCQs you have to think with precision!

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## Question Two

Which one of the following is a distinctive feature of a pure public good?

- A** It is produced by the state
- B** It is produced at zero cost
- C** Greater consumption by one person implies less by another
- D** Nobody can be excluded from consuming it

## Answering Question Two

Some MCQs involve knowing the definition of an important economic term. Here it's the term 'public good'. A is a believable answer in that the state provides goods for members of the public. But you have to know that this is not the meaning of the term. B has to be wrong. The production of any good involves the use of scarce resources and cannot therefore be produced at zero cost. C is also plausible and wrong. It is the exact opposite of a public good. It is true of a private good. If you consume an apple then I cannot consume it. Now consider D. This is one of the key features of a public good. If street lighting is provided, for example, one cannot prevent people from consuming it.

## Question Three

In a centrally planned economy, which of the following would be most likely to explain the failure of particular industries to achieve their output targets?

- A** A change in consumer tastes
- B** An increase in the savings ratio
- C** A deficiency in aggregate effective demand
- D** Miscalculation of the interdependence between industries

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## Answering Question Three

You spend much time developing a basic understanding of how a market economy functions but it can help to look at how a centrally planned economy might work (or not) so it is good to know the advantages and disadvantages of such a system. Think about the advantages of a market system. Industries cope with a change in taste via changes in market prices, with changes in the savings ratio by changes in interest rates and with changes in aggregate demand by raising and lowering output and prices (see answers A, B C). Now look again at D. This is a key problem in a planned economy, where output plans are made by the state. In a market economy governments don't set output targets and problems of interdependence between industries are dealt with via price adjustments of intermediate outputs. So the answer we arrive at is D.

## Question Four

In principle, which of the following is an advantage of a planned economy?

- A** Decisions are taken on the basis of social costs and benefits
- B** Production is characterised by decreasing returns to scale
- C** The government always balances the budget
- D** The pattern of production reflects the preferences of consumers

## Answering Question Four

A planned economy has been shown to have considerable weaknesses. As this has become clear many countries have moved away from this system to a more market orientated one. But here the question asks for what, in principle, might be an advantage and by implication a disadvantage of a market system. D is an advantage of a market system. Now look at C. Market systems certainly do not guarantee this but neither does a planned system. Now look again at B. Different industries rather than different systems are characterised by decreasing returns to scale. So perhaps A will give us the right answer. Yes, private producers work on the basis of maximising private (profit maximising) benefits and tend to ignore external benefits. It takes a government to internalise these external benefits by, for example, imposing indirect taxes. A planned economy can, in principle, take these into account when planning output levels. So answer A is correct.

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## Question Five

Which of the following conditions must be satisfied if a good is to be supplied through the market?

- A** There are a large number of buyers and sellers
- B** There are no restrictions on the entry of new firms into the industry
- C** The goods supplied by different suppliers are homogeneous
- D** Those unwilling to pay for the good can be excluded from the benefits

## Answering Question Five

The key to this question is in understanding the term 'market'. It does not say 'supplied through a perfectly competitive market'. Consider answers A, B, and C. These are all necessary if a good is to be supplied under conditions of perfect competition. But now look again at D. If a producer cannot exclude people from the benefits of his output he cannot oblige them to pay. This is a feature of a public good of course. So the answer looked for is D.

## Question Six

Which of the following is a normative statement?

- A** Increased government spending cannot reduce unemployment
- B** The imposition of import tariffs will reduce unemployment
- C** A policy of controlling inflation which results in increased unemployment is undesirable
- D** The level of social security benefits is the primary factor influencing the level of unemployment

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## Answering Question Six

You should know the basic distinction between normative and positive statements. This question tests whether you can apply that knowledge. At first it seems that you have to have a huge level of knowledge. It covers various aspects of employment policy, inflation and even international trade policy. But don't panic. It isn't very hard if you know the meaning of normative and positive. Recall that a positive statement is one that can, in principle, be tested by reference to evidence. A normative statement cannot be so tested.

Now look at option A again. You do not have to have a view about the effect of government spending on employment. You just have to recognise that in principle it is possible to test this assertion by examining data relating to government spending and unemployment levels. So A cannot be correct. Exactly the same argument applies to statement B. In this case the evidence is very strong. Import tariffs tend to increase unemployment. But the issue is not whether the statement is correct. It is whether it is testable. So B is an incorrect choice of answer. Statement D is also clearly testable in principle. Now look at C once more. The word 'undesirable' is the key. The word begs the question: desirable in whose eyes? The statement can't be tested by evidence. C is the correct answer.

## Question seven

Which of the following is not held constant when a demand curve is drawn?

- A** Consumers' money incomes
- B** Consumers' tastes
- C** The price of the good itself
- D** The prices of complementary goods

## Answering Question Seven

This is a very straightforward question if you have a basic grasp of the topic. You are not given a diagram but sketching one for yourself will make the question easy. Sketch a demand curve. If you have done it correctly you have the price of the good up the vertical axis and the quantity demanded along the horizontal axis. The demand curve, then, shows the relationship between the price of the good and quantity demanded, all other things being held equal, or *ceteris paribus* as we sometimes say. As you lower the price you move along the curve and see the higher quantities now being demanded. The price of the good itself is varying as you do so. All other things affecting demand, including the factors described in A, B and D are held constant. So the answer is C.

## Question Eight

Demand for a good is said to be effective only when it is associated with

- Knowledge of the characteristics of the good
- Willingness and ability to pay for the good
- Sufficient disposable income to pay for the good
- The existence of an adequate supply of the good

## Answering Question Eight

At first glance all these answers might seem reasonable. Look at A again. People do indeed make better choices when they are well informed about a good. But you don't effectively purchase just because you know about it. Now look at C again. Having sufficient disposable income (after tax) is essential but not sufficient. You may not like the good at all. But if you have sufficient income and are willing to pay for it, then the demand is effective. So the answer is B. But we haven't mentioned D. If the good isn't supplied consumers can't purchase. But its provision isn't sufficient to make consumers purchase. So our answer is indeed B.

## One Final Tip

We hope this has helped you begin to think through answering MCQs. Here's one last tip. It has been shown that, assuming you have some knowledge of your subject, practice will almost always improve your score on MCQ tests. You get used to knowing what to look for. So keep practicing!

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