

> Paper 1 (SL and HL)

In Paper 1, students must answer one question from a choice of three, for a maximum of 25 marks. Each question has two parts. Part (a) is worth 10 marks, while part (b) is worth 15 marks. Questions are drawn from the four parts of the syllabus. (For more information see *Introduction to IB Economics assessment: Exam papers and internal assessment* in the digital coursebook.)

Chapter 1

Core (SL and HL)

Chapter 1 has only Part (a) questions.

- 1.1 a Explain whether the production possibilities model is useful in explaining the concept of a free good. [10 marks]
- 1.2 a Distinguish between a free market economy, planned economy and mixed economy in the methods they use to answer the basic economic questions. [10 marks]
- 1.3 a Use the circular flow of income model to explain the interdependence between economic decision-makers in a mixed economy. [10 marks]

HL only

Chapter 1 has no **HL only** questions that are examined in Paper 1.

Chapter 2

Core (SL and HL)

Chapter 2 has only Part (a) Core questions at SL, but both Part (a) and Part (b) questions at HL.

- 2.1 a You observe that over a period of some years the price of strawberries has increased, and the quantity of strawberries consumers buy has also increased. Explain whether this violates the law of demand. [10 marks]
- 2.2 a Using the concepts of marginal benefit and marginal cost, explain how allocative efficiency is achieved at competitive market equilibrium. [10 marks]

HL only

- 2.3 a With reference to the laws of demand and supply, distinguish between the law of diminishing marginal utility and the law of diminishing marginal returns. [10 marks]
- b Using real-world examples, discuss the contribution of behavioural economics to the study of consumer behaviour. [15 marks]

Chapter 3

Core (SL and HL)

- 3.1 a Referring to the concept of income elasticity of demand (*YED*) and using examples, explain the factors that cause *YED* to have: [10 marks]
- i a positive or negative value, and
- ii a value less than one or a value greater than one.
- b Increases in the price of petrol (gasoline) have led taxi drivers to increase taxi fares in the hope that their revenues will rise. Using real-world examples, evaluate their decision on economic grounds. [15 marks]

HL only

- 3.2 a While the price elasticity of supply for primary commodities is often relatively low, that of manufactured goods is relatively high. Using diagrams, explain why. [10 marks]
- b Using real-world examples, examine the relevance for producers and for sectors of the economy of differing values of income elasticity of demand for primary products, manufactured products and services. [15 marks]

Chapter 4

Core (SL and HL)

- 4.1 a Using diagrams, explain how indirect taxes and subsidies may lead to over- or underproduction of a good and allocative inefficiency. [10 marks]
- b A government wants to provide income support for farmers, and is debating whether to provide subsidies or price floors for agricultural products with government purchases of the excess supplies. Using real-world examples, compare and contrast the effects of each policy on market outcomes and stakeholders. [15 marks]
- 4.2 a Explain **three** reasons for government intervention in markets. [10 marks]
- b Using real-world examples, examine the consequences on the market and stakeholders, of the use of price ceilings to make essential food products more affordable. [15 marks]

HL only

Chapter 4 has no **HL only** questions that are examined in Paper 1.

Chapter 5

Core (SL and HL)

- 5.1 a 'An indirect tax imposed by the government on petrol (gasoline) for the purpose of addressing the problem of pollution will be less effective depending on the price elasticity of demand for petrol (gasoline).' Explain. [10 marks]
- b Using real-world examples, discuss alternative policies governments may pursue to correct the negative externalities caused by demerit goods. [15 marks]
- 5.2 a Referring to the tragedy of the commons, explain why common pool resources are a type of market failure. [10 marks]
- b Using real-world examples, examine the potential contributions of **two** of the following for achieving sustainability: [15 marks]
- i legislation and regulation,
 - ii carbon taxes,
 - iii tradable permits, and
 - iv collective self-governance.

HL only

Chapter 5 has no **HL only** questions that are examined in Paper 1.

Chapter 6

Core (SL and HL)

- 6.1 a Using the concept of ‘merit good’, explain why education and health care services are underprovided by the market. [10 marks]
- b Using real-world examples, discuss policy options available to governments to correct the problem of underprovision of education and health care services. [15 marks]

HL only

- 6.2 a Using the distinction between adverse selection and moral hazard, explain why information asymmetries are a type of market failure. [10 marks]
- b Using real-world examples, evaluate possible government responses aimed at the correction of information asymmetries. [15 marks]

Chapter 7 (HL only)

Core (SL and HL)

Chapter 7 has no Core (SL and HL) questions that are examined in Paper 1.

HL only

- 7.1 a Using diagrams, distinguish between a firm that is a ‘price-taker’ and a firm that is a ‘price-maker’. [10 marks]
- b ‘It is useless to study the market model of perfect competition because it does not allow for the possibility of economies of scale, a feature of many real-world industries.’ Using real-world examples, examine this statement. [15 marks]
- 7.2 a Explain why market power is a type of market failure.
- b Using real-world examples, discuss the policy options available to governments in order to deal with abuse of market power. [15 marks]

Chapter 8

Core (SL and HL)

- 8.1 a Using the circular flow of income model, distinguish between the income, output and expenditure approaches to national income accounting. [10 marks]
- b Using real-world examples, evaluate the use of national income statistics as the basis for making comparisons over time and as the basis for comparing the standard of living across countries. [15 marks]
- 8.2 a Explain whether you agree or disagree with the following:
‘If a government wants a measure of its population’s average income level, it should use GDP *per capita* figures; if it wants a measure of the quantity of output produced on average per person, it should use GNI *per capita* figures.’ [10 marks]

HL only

Chapter 8 has no **HL only** questions that are examined in Paper 1.

Chapter 9

Core (SL and HL)

- 9.1 a Using diagrams, distinguish between inflationary and recessionary (deflationary) gaps. [10 marks]
- b Assume that the economy is in a recessionary (deflationary) gap and there is unemployment of labour. Using real-world examples, compare and contrast what will happen in the view of a monetarist/new classical economist and in the view of a Keynesian economist, if there is no government intervention. [15 marks]
- 9.2 a Explain the reasoning behind the shapes of the long-run aggregate supply (*LRAS*) curve and the Keynesian *AS* curve. [10 marks]
- b Using real-world examples, compare and contrast the impact of an increase in aggregate demand on the price level and real GDP in the monetarist/new classical and Keynesian perspectives. [15 marks]

HL only

Chapter 9 has no **HL only** questions that are examined in Paper 1.

Chapter 10

Core (SL and HL)

- 10.1 a Explain the meaning of the natural rate of unemployment. [10 marks]
- b Economic policy-makers should place a greater emphasis on maintaining a low rate of inflation rather than a low unemployment rate. Using real-world examples, discuss this view. [15 marks]
- 10.2 a Referring to how inflation is measured, explain some problems in accurately measuring inflation. [10 marks]
- b 'Since inflation has negative consequences for an economy, policy-makers should aim toward achieving deflation.' Using real-world examples, discuss this view. [15 marks]

HL only

- 10.3 a Using a Phillips curve diagram, explain how stagflation impacts on unemployment and inflation. [10 marks]
- b Using real-world examples, compare and contrast the policy implications of the short-run and long-run Phillips curves. [15 marks]

Chapter 11

Core (SL and HL)

- 11.1 a Using the *PPC* and *AD-AS* models, explain the role of investment in economic growth. [10 marks]
- b 'Economic growth always has positive effects on living standards and the distribution of income.' Using real-world examples, evaluate this statement. [15 marks]

HL only

- 11.2 a Explain the possible costs for an economy of a high level of government debt. [10 marks]

Chapter 11 has no Part (b) **HL only** questions that are examined in Paper 1.

Chapter 12

Core (SL and HL)

- 12.1 a** Referring to the distinction between direct and indirect taxes, explain how direct taxes can be used to redistribute income in favour of lower income groups. [10 marks]
- b** Using real-world examples, evaluate the possible contribution of any **two** of the following policies to reduce poverty and economic inequality: reduce inequality of opportunity through investment in human capital; universal basic income; policies to reduce discrimination; minimum wages. [15 marks]
- 12.2 a** Mountainland has a Gini coefficient 0.53 and Flatland of 0.35. Using Lorenz curves in the same diagram, explain which of the two countries has a more equal distribution of income. [10 marks]
- b** 'As long as absolute poverty is decreasing, income and wealth inequality have a neutral impact on economic growth.' Using real-world examples, evaluate this statement. [15 marks]

HL only

Chapter 12 has no **HL only** questions that are examined in Paper 1.

Chapter 13

Core (SL and HL)

- 13.1 a** Analyse the role of interest rates in maintaining full employment and a low and stable rate of inflation. [10 marks]
- b** Using real-world examples, compare and contrast the effectiveness of fiscal policy and monetary policy in dealing with recession. [15 marks]

HL only

- 13.2 a** Comment on the following statement: 'Given an increase in government spending financed by government borrowing, the impact on real GDP depends on the relative strength of the multiplier and crowding out.' [10 marks]
- b** Using real-world examples, the *AD-AS* model and the business cycle diagram, discuss the role of automatic stabilisers in the use of fiscal policy to close deflationary (recessionary) and inflationary gaps. [15 marks]

Chapter 14

Core (SL and HL)

- 14.1 a** In an international trade system where there are no barriers to trade (no trade protection), explain under what conditions a country is likely to become an importer or an exporter of a product. [10 marks]
- b** Using real-world examples and taking into consideration the welfare losses of trade protection measures, discuss whether production subsidies or tariffs are preferable from society's point of view. [15 marks]

HL only

- 14.2 a** The *PPC* in the *PPC* model shows the maximum quantities of different goods that a country can produce and consume. Yet if countries specialise and trade with each other, they may consume at a point outside their *PPC*. Explain how this is possible. [10 marks]

- b** Using real-world examples, evaluate the following statement: ‘Specialisation and trade according to comparative advantage should be the basis for international trade.’ [15 marks]

Chapter 15

Core (SL and HL)

- 15.1 a** Distinguish between the different types of trading blocs and monetary union. [10 marks]
b Using real-world examples, evaluate the view that trade protection measures cannot be justified under any circumstances. [15 marks]
15.2 a Explain the role of the World Trade Organization in the global trading system referring to challenges it faces. [15 marks]
b Using real-world examples, discuss potential advantages and disadvantages a country may expect when it joins a free trade area (FTA). [15 marks]

HL only

- 15.3 b** Using real-world examples and referring to the concepts of trade creation and trade diversion in addition to other factors, evaluate a country’s decision to become a member of a free trade area (FTA). [15 marks]

Chapter 15 has no part (a) **HL only** questions that are examined in Paper 1.

Chapter 16

Core (SL and HL)

- 16.1 a** Explain **three** factors that may lead to a depreciation in a country’s exchange rate. [10 marks]
b Using real-world examples, discuss the likely effects of a currency devaluation on the economy of a country. [15 marks]
16.2 a Explain the meaning of the interdependence of the accounts in the balance of payments and why there is a zero balance. [10 marks]
b Using real-world examples, evaluate the extent to which a currency appreciation may benefit or harm an economy. [15 marks]

HL only

Chapter 16 has no **HL only** questions that are examined in Paper 1.

Chapter 17 (HL only)

Core (SL and HL)

Chapter 17 has no Core (SL and HL) questions.

HL only

- 17.1 a** Explain the likely effects of a persistent current account deficit on a country’s exchange rate. [10 marks]
b Using real-world examples, evaluate expenditure-switching and expenditure-reducing policies as methods to reduce a persistent account deficit. [15 marks]
17.2 a Explain the roles of the Marshall-Lerner condition and J-curve effect for a country facing a current account deficit. [10 marks]
b Using real-world examples, discuss potential advantages and disadvantages of monetary union. [15 marks]

Chapter 18

Core (SL and HL)

- 18.1 a Explain different ways that economic development may be measured. [10 marks]
b Economists formerly thought that the pursuit of economic development was equivalent to the pursuit of economic growth. Using real-world examples, evaluate this perspective regarding the achievement of economic development. [15 marks]

HL only

- 18.2 a Analyse the possible effects of poverty on the sustainability of resource use. [10 marks]

Chapter 18 has no part (b) **HL only** questions that are examined in Paper 1.

Chapter 19

Core (SL and HL)

- 19.1 a Explain why lack of infrastructure and low levels of education and health act as barriers to economic development. [10 marks]
b Using real-world examples, discuss the significance of dependence of production and exports on the primary sector in developing countries. [15 marks]
19.2 a Explain the importance of appropriate technology to economic growth and development. [10 marks]
b Using real-world examples, discuss the significance of gender equality for economic development. [15 marks]

HL only

Chapter 19 has no **HL only** questions that are examined in Paper 1.

Chapter 20

Core (SL and HL)

- 20.1 a Explain the main features of import substitution and export promotion as trade strategies to achieve economic growth and development. [10 marks]
b Using real-world examples, discuss the benefits a developing country may expect to enjoy from diversification of production and exports. [15 marks]
20.2 a Explain the role that microfinance can play in an anti-poverty strategy. [10 marks]
b Using real-world examples, evaluate the role of foreign aid in economic growth and development. [15 marks]

HL only

Chapter 20 has no **HL only** questions that are examined in Paper 1.