Economics

International Baccalaureate

Topic Tests

Higher Level: Units 1 and 2

D Glover

Update v1.1, November 2022

zigzageducation.co.uk

POD
11400

Contents

Teacher's Introduction

This resource consists of a set of Topic Tests that have been written to support the teaching of Unit 1 and Unit 2 of the Higher Level IB Economics syllabus. It allows teachers and students to check their understanding and consolidate knowledge of each part of the IB specification. In each Topic Test there is a mixture of numerical, multiple-choice, short-answer and essay-style questions of various levels of difficulty.

Remember!
Always check the exam board website for new information, including changes to the specification and sample assessment material.

Each Topic Test is accompanied by a set of detailed answers that could be handed out to students as a basis for 'model' answers in the examination. Note that although the Topic Test questions aren't always in exam format, the questions within have been written carefully with the intention of testing the range of assessment objectives and often borrow aspects that are similar to those in the exam.

Most of the case studies in the Topic Tests include up-to-date economic data and scenarios that should place economic theory in recent history, enrich students' general knowledge of the subject, and prepare students for the Data Response aspects of the examination. Moreover, the resource also includes plenty of opportunities for students to practise the Quantitative Skills required as part of the IB syllabus.

It is intended that these Topic Tests should be presented to students *after* teaching the parts of the specification that are to be tested. However, the Topic Tests could also be given to students as homework in order to consolidate their knowledge outside of the classroom, or certain aspects could be used as a supplement to in-class learning.

It is important to note that this resource should be used as a complement to other resources such as textbooks and practice exam papers, and not in isolation. These Topic Tests include plenty of explanation of the theory in the mark scheme, but students should be encouraged to access information as widely as possible.

H Higher Level content is indicated like this.

It is hoped that this resource, as well as offering support for teaching the essential elements of the IB Economics syllabus, will help students fully prepare for their examinations. The economic environment is constantly in flux, and full of fascinating current issues. This resource attempts to share some of these current issues as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of economists!

D Glover, January 2022

v1.1 Update November 2022
p. 2 – mark scheme for long-answer questions update to reflect the IB marking criteria

Mark Scheme: Levels of Response Tables for Long-answer Que

10 marks

	Assessment criteria
0	No relevant answer given.
1–2	Little relevant knowledge is displayed by the respondent. A few concepts ma inconsistently, and with inaccurate or absence of thought behind the causes terminology is used, it is unclear whether their meanings are understood.
3–4	Limited relevant knowledge is displayed by the respondent. Understanding o shown, but links to the question are minimal. Some economic terminology is
5–6	Broadly relevant knowledge is displayed by the respondent. Some knowledge partially linked to the question. Descriptive content is strong, but the answer content. Some economic terminology is used correctly. The answer may be a diagrammatical content, though this is not compulsory.
7–8	Relevant knowledge is displayed by the respondent. Knowledge of economic linked to the question. Descriptive and explanatory content is consistent, and economic terminology. Diagrammatical content is likely to be present but ma
9–10	Specific and accurate knowledge of the economic concepts is displayed by th are clear, with relevant examples. Analysis is well reasoned and logical, and a Economic terminology is used correctly throughout. Diagrammatical content fully explained.

15 marks

	Assessment criteria
0	No relevant answer given.
1–3	Little relevant knowledge is displayed by the respondent. A few concepts ma inconsistently, and with inaccurate or absence of thought behind the causes terminology is used, it is unclear whether their meanings are understood. Th or evaluative content. Examples given are lacking in relevance or absent enti
4–6	Limited relevant knowledge is displayed by the respondent. Understanding o shown, but links to the question are minimal. Some economic terminology is evaluative element is advanced. A relevant example is given, but not elabora
7–9	Broadly relevant knowledge is displayed by the respondent. Some knowledge partially linked to the question. Descriptive content is strong, but the answer content. Some economic terminology is used correctly. Displays basic reason on one side of an argument. Supporting evidence is present and relevant, bu
10–12	Relevant knowledge is displayed by the respondent. Knowledge of economic linked to the question. Descriptive and explanatory content is consistent, and economic terminology. Diagrammatical content is likely to be present but ma content is well argued and mostly well balanced. A relevant example is given integrated into the evaluation.
13–15	Specific and accurate knowledge of the economic concepts is displayed by th are clear, with relevant examples. Analysis is well reasoned and logical, and a Economic terminology is used correctly throughout. Diagrammatical content explained. Evaluative content is present throughout and well balanced. Evalu and examples are used logically and fully developed.

Topic Test 1.1: What is economics?

1. Economics is a 'social science'. Explain what is meant by a social science.

2. (a) Identify the **four** factors of production.
   (b) What are the rewards/economic benefits for each of these factors of pr

3. What is meant by the 'basic economic problem'?

4. Identify which **three** of the following are 'needs'.

A	Food	**D**	Shelter
B	Internet	**E**	Holidays
C	Jewellery	**F**	Clothing

5. Explain the relationship between scarcity and sustainability.

6. Explain the relationship between interdependence and economic well-being

7. Explain, using an example, how scarcity necessarily means that economic ag

8. With reference to the concept of 'trade-offs', define the term opportunity co

9. Which of the following is the definition of a free good?
   A A free good is a good that is free of charge at the point of use – e.g. stre
   B A free good is a good that's use has zero opportunity cost.
   C A free good is a good that is thought of as 'scarce'.
   D A free good is something you get for free as a promotional offer from a

10. State the **three** basic economic questions.

11. Explain **two** different economic systems.

12. How do *market* economies allocate resources?

13. How do *planned* economies allocate resources?

14. What is meant by the production possibility curve (PPC)?

15. Table 1 displays information on the production possibilities of a fictional eco

Table 1

Pizzas	Pastas
0	320
100	240
200	160
300	80
400	0

(a) Draw the PPC for this economy.
(b) Using your PPC from (a) identify the following:
  (i) Scarcity
  (ii) Productive efficiency
  (iii) Inefficiency
(c) What is the opportunity cost of producing 100 more pizzas if the econo
producing 200 pizzas and 160 pastas?

16. What two factors can cause the PPC to shift?

17. Explain the assumptions underlying the PPC model.

18. Explain, with the aid of a diagram:
  (i) Constant opportunity cost
  (ii) Increasing opportunity cost

19. What is meant by the circular flow of income?

20. Which of the following constitutes an injection into the circular flow of inco

A	Savings	**C**	Exports
B	Vaccinations	**D**	Imports

21. Which of the following constitutes a withdrawal from the circular flow of in

A	Investment	**C**	Taxes
B	Government spending	**D**	Exports

22. Explain the circular flow of income model using a suitable diagram.

Preview of Questions Ends Here

This is a limited inspection copy. Sample of questions ends here to avoid students previewing questions before they are set. See contents page for details of the rest of the resource.

Topic Test 2.12: The market's inability to achieve equity (HL ON

1. Equity means a system in which everyone has access to basic necessities and a s

   [Award 1 mark for a partially correct definition; Award 2 marks for a correct defi

2. In the circular flow of income, physical flows constitute the exchange of goods a monetary flows refer to monetary exchanges. Household's supply of the factors final output are physical flows. Household's expenditure and firm's provision of production are monetary flows.

   [2 marks for clear distinction between physical and monetary flows; 1 mark for a conveys the general meaning]

3. Capitalism is rooted in the private ownership of indu erefore, inequality system in which a relatively small number of i control the means to p

   Capitalism rewards assets tha productive more than assets that are productivity lowers a sts and bolsters profit margins. Therefore, to an asset t bu ome will be unequally distributed to those who are m or eve ie ecause they are simply more productive.

   [Maxim arks. 3–4 marks for a strong explanation of two, well-supported re consequence of capitalism; 1–2 marks for a limited explanation that indicates an listed one reason.]

4. Essentially, barriers to entry are obstacles which prevent potential entrants fro barriers to entry protect incumbent firms from the threat of competition. Note *natural* – e.g. a firm has control of an essential resource – or *artificial* – e.g. a pat

   [2 marks for a clear explanation of barriers to entry; 1 mark for an explanation th the general meaning]

5. Advantages:
   - *Research and Development:* Monopolies make super-normal profits, while p make *normal* profit. Therefore, monopolies are one of the only market stru reinvest profit in R&D. If investment in technology is important in expandi economy, then monopolies can be thought of positively, compared to comp competed away and there is no room for investment.
   - *Natural Monopoly:* In some industries, the minimum efficient scale of prod *necessary* for a monopoly to exist. It wouldn't make sense to break up such market because firms would inevitably make a loss at smaller quantities o
   - *International Competition:* If an economy wishes to compete on an internat a monopoly might be the only market structure in which this is possible – is small.

   Disadvantages:
   - *Inefficiency:* Monopolies are neither allocatively or productively efficient. T welfare loss on society insofar that there could be ter allocation of soc
   - *Consumer Surplus Loss:* Since monopolies h a *higher* price for the perfectly competitive market, on the u l level there will be a reducti

   [Maximum 4 marks. 4 mark d valuation mentioning both one advanta monopoly. 2–3 mark dence of evaluative comments, though they may the arg 1 imited evaluation and failing to address either one adv

6. 'Regula pture' occurs when a government's regulatory bodies are subvert interest of those who operate in the industry that the body is charged with regu government failure.

   [2 marks for a clear explanation of the problem of regulatory capture; 1 mark for which conveys the general meaning]

7. Positive:

- *Non-Price Competition:* It's possible that regulation could force firms to comp
Where the Big Six are limited in their ability to charge higher prices, they mig
way to attract consumers through a non-price competitive approach – e.g. fr
perspective, regulation might encourage firms to focus on consumer satisfac
- *Improve Efficiency:* Primarily, regulation's principal function is to force firm
behave as if they were perfectly competitive. It could be possible, for instan
more competitively by removing barriers to entry (e.g. preventing the vert
supplying and power-generating firms) in order to make the market more
would force the Big Six to act competitively, even if the market is not tradit
be possible to limit the Big Six's ability to charge higher prices by imposing
prices down to a level that would be closer to an allocatively efficient perfe
Ultimately, the objective of regulation is to force firms to behave competiti

Negative:

- *Introduction of Inefficiencies:* If the Big Six benefit from considerable econo
introduce inefficiencies (particularly productive inefficiency) into the mark
energy market is an example of a 'natural monopoly' and so fragmenting p
inefficiencies that would make society worse-off. Note that the minimum ef
tends to be high, so regulating the Big Six might involve a trade-off betwee
against the losses to productive efficiency. If productive efficiency decreas
industry could in fact rise.
- *Less Reinvestment:* It's also important to consider that regulation will have
margins. It might be considered important to decrease these firms' ability
because they are providing an essential commodity. However, another per
firms' ability to invest in welfare-improving technology, and so regulation
static and dynamic forms of efficiency.

Evaluation:

- *Nature of Regulation:* Regulation's effect on the behaviour of firms will dep
If a price ceiling is introduced but the price is too low, it might serve to red
smaller firms from operating in the market (e.g. because these firms will n
scale to operate). However, removing vertical integration is likely to impro
- *Inertia of Customers:* Regulation of the Big Six does little to tackle the essen
inertia. It would be better to focus on ways to improve consumers switchi
directly for instance.

*[Maximum 10 marks. 8–10 marks for providing a clear evaluation of the impact o
firms in the UK's energy industry. Applied accurately to the question using suppor
for an adequate evaluation, however might be underdeveloped or lacking in detai
may be unfocused or incorrect.]*

Preview of Answers Ends Here