Economics

International Baccalaureate

Topic Tests

Higher Level: Units 3 and 4

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Contents

Teacher's Introduction

This resource consists of a set of Topic Tests that have been written to support the teaching of Unit 3 and Unit 4 of the IB Higher 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 it 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 logically and fully developed.

3.1: Measuring economic activity and illustrating its va

1. Explain the **three** methods of measuring national income.

2. Which of the following constitutes an injection into the circular flow of inco
   - **A** Savings
   - **B** Vaccinations
   - **C** Exports
   - **D** Imports

3. Which of the following constitutes a withdrawal from the circular flow of in
   - **A** Investment
   - **B** Government spending
   - **C** Taxes
   - **D** Exports

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

5. Explain the circular flow of in ... using a suitable diagram.

6. What is ... omic growth?

7. What is the difference between nominal and real GDP?

8. Explain **one** benefit of measuring GDP per capita.

9. Table 1 shows information about the UK's nominal and real GDP for 2015–2

Table 1

	2015	201
Nominal GDP (£)	1,873,000 million	1,940,000
Real GDP (£)	1,832,000 million	X

   (i) Calculate the rate of nominal GDP growth for 2015–2016.
   (ii) If real GDP grew by 1.8% from 2015–2016. What would the real GDP fo
   (iii) The UK's population was approximately 65,000,000 in 2016. What was
   GDP per capita?

10. (i) Why do countries measure GDP?
    (ii) State and explain **two** difficulties of measuring GDP.

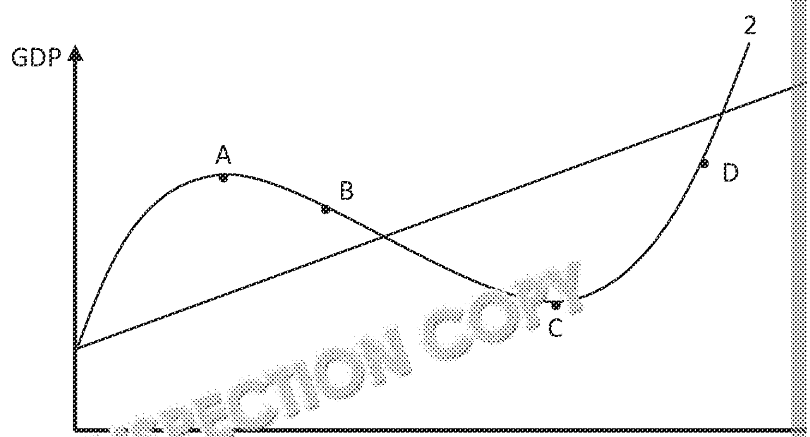
11. Explain **two** issues with using GDP statistics to compare the standard of livin *within* a country over time.

12. Distinguish between GDP and GNI.

13. (i) Explain purchasing po... (PPP) theory.
    (ii) Explain **one** b... of using PPP theory.

14. Figure 1 displays a diagram of the business cycle.

Figure 1



(i) In Figure 1, which of the labels A–D is the point that correlates to the re economy cycle?
(ii) In Figure 1, which of the labels A–D is the point that correlates to a 'boo
(iii) In Figure 1, which of the lines 1 and 2 corresponds to short-term fluctu to long-term growth trend?

15. State **one** alternative measure of well-being, and explain how it is measured

Preview of Questions Ends Here

4.10b: Strategies for economic growth

1. International financial crises such as those of the late 1990s (Asian financial cri Recession) means that there is an important role to be played by international fi in maintaining the international financial system and supporting developing ec

   What the IMF does:
   - The IMF lends to countries who have balance of payments (BoP) problems
   - The IMF can provide technical assistance and training.
   - The IMF attempts to strengthen and increase the effectiveness of the inter
   - The IMF attempts to help prevent and resolve international financial crises
   - The IMF is involved in surveillance activity in an attempt to address money (and, increasingly, terrorism).

   Why the IMF does what it does:
   - In order to reduce the negativ impacts of BoP problems or impa
   - In order to reduce the impacts of protectionism on vulnerable ec
   - In order to creat financial stability and promote economic grow
   - St arded for citing examples of specific actions/advice, et s he aims of the IMF.

   Arguments against the way the IMF operates include that the conditions attach liberalisation, which some argue is to the benefit of richer nations and multi-na growth and stability of developing countries. In addition, it could be argued that privatisation and reduced government expenditure on social programmes have developing countries, which can exacerbate existing inequalities.

   [Maximum 4 marks. 3–4 marks for strongly assessing the role of the IMF, providi applied accurately to the question, using supporting data where needed; 1–2 mar focusing too much on either advantages or disadvantages. Being underdeveloped

2. The World Trade Organization (WTO) is an international inter-governmental o regulates international trade, with the explicit mandate of promoting 'free-trad

   The WTO serves a role in both developing and developed nations. In DCs, the W economic development by pressuring these nations to remove tariff barriers on products that LEDCs could specialise in, export, and develop economically thro pressure LEDCs from being protectionist, which might make them more able to capital goods that could park the process of industrialisation. However, note th and many countries erect non-tariff barriers that also prevent international tra have strong governance and well-functioning macroeconomic fundamentals in facilitated by the WTO alone will not be sufficient to bring about economic deve

   [Maximum of 4 marks. 3–4 marks for accurately assessing the effectiveness of the development through international trade, linking the question to the answer thro 1–2 marks for an adequate assessment however lacking detail and sufficient reas

3. **D** – **A**, **B**, and **C** are all true of Official Development A , making D correct making developing economies dependent o a than finding long-term under-development.

   [1 mark for correct respo

4. Microf re the provision of banking services to low-income househ insura micro-savings. Microfinance is popular in LDCs because it allows impove households to access financial services that they would usually b banking sector because of a lack of collateral, stable employment and income, o

   [2 marks for a clear explanation of microfinance; 1 mark for an explanation that general meaning]

5. Advantages:
- *Investment:* Microfinance is intended to increase investment by allowing th
excluded from formal financial services to access credit. Microfinance migh
to purchase livestock that could help them break the cycle of poverty by se
community. Investment creates employment, increases incomes, and provi
economic development.
- *Risk-taking:* If microfinance in an LDC involves micro-insurance, there is evid
should be encouraged. Insurance provides an important safety-net for risk-t
rely on their personal finances to absorb a business failure. Investment usua
and so there is a considerable theoretical basis that extending micro-insura
provide a catalyst for capital investment and, subsequently, economic growt
- *Safety:* Microfinance is a safer alternative to local 'loan sharks'. Often local
of up to 500% because a lack of alternatives allows them to abuse their ma
are high on microcredit schemes, they are usually far lower than the rate
- *Savings:* Microfinance encourages people in LDCs to increase their savings.
the importance of savings as a fundamental determinant of economic grow
- *Equality:* Microfinance's original motivation was to improve access to credi
households. Therefore it can be viewed as important in terms of economic
a reduction in inequality between genders and income groups in society th
- *Information Asymmetries:* Microfinance tends to be administered b
is a reduction in informational asymmetries that would exist between the
institutions. Importantly, reducing these asymmetries means that commun
excluded from financial services are now able to benefit from the financial
- *Financial Security:* Microfinance might provide financial security that allow
nutrition, improved health and better educational outcomes.

Disadvantages:
- *Debt:* Microfinance might have a negative impact on economic developme
households into a 'debt-trap'. It is stated that the rate of interest on micro-
(reflecting high risk of default), and so households might have to sacrifice
service their debt and interest payments. Repayments need to be made reg
circumstance or economic climate, meaning that the poor are extremely vu
- *Finance of Consumption instead of Investment:* Microfinance is the most suc
development if loans are used to finance investment rather than used in ob
individuals use microfinance for consumption instead of investment there
economic development will occur and situations of poverty might just be p

Evaluation:
- Investment is not *always* beneficial. Microcredit might allow economic age
is little guarantee that one's business is going to be successful. Formal fina
check the viability of one's business before extending credit.
- Microfinance cannot compensate for inadequacies of other important area
education, sanitation, nutrition, healthcare and other infrastructure. It nee
governmental efforts to improve the fundamentals of the economy.
- Communities might need to be educated about the basics of finance before
– without this basic knowledge microfinance might not be sustainable (e.g.
- Note that 'mission drift' can sometimes occur in which microfinance institu
wealthier, rather than poorer, individuals, and so the benefits of microfina
promoting economic development might be limited.

[Maximum 10 marks. 8–10 marks for a strong, well-supported evaluation. A well-
microfinance initiatives such as Grameen Bank have been successful in promoting
for a reasonable attempt at evaluating, but lacking detail; 1–3 marks for a limited
be unsupported.]

6. *For:*
Primarily, the environmental Kuznets curve would suggest that economic growt outcomes to be improved, and is, therefore, an essential factor in achieving sust evidence for the Kuznets curve would suggest that for some pollutants, there is GDP passes a certain threshold – e.g. sulphur dioxide emissions tend to decrease Therefore, if the Kuznets curve stands up to empirical testing, this would sugges for sustainable development.

If a country's GDP is higher, there should be more resources that can be dedicat outcomes. Naturally, after alleviating poverty and covering the basic necessities nations should be able to use resources for improving the natural environment. invest in providing renewable sources of energy – this is an investment that wo governments that must focus on providing their populations with the basics. Mo should have higher discretionary incomes and these allow consumers to absorb associated with products produced to better environmental standards.

Furthermore, wealthier economies have more resources in which they can inve effect of improving efficiency so that more output can be produced with less res would, therefore, reduce a country's strain on natural resources in the present, benefit from these resources equally. LEDCs don't tend to have a high level of sa spent on covering life's basic necessities – this necessarily means that they liter invest in more efficient, pollution-reducing technology.

Finally, political institutions in wealthier countries tend to function more effecti often corrupt, and policies often benefit special-interest groups. Therefore, in w a better ability to impose taxes and regulations that can be used to improve env

Against:
However, there is also evidence that the Kuznets curve doesn't hold true. CO_2 e strictly increase as GDP increases, which would suggest that economic growth c polluting at increasing rates – the US for instance has one of the highest levels o

Moreover, economic growth that is based on a non-renewable – and, therefore, itself be sustainable because the resource will at some point end. Once it runs ou resources to meet the needs of the present, let alone the needs of future generat becomes scarcer and the price increases as a result, production might shift to m resources – whether this is possible depends on how rapidly these alternatives

Finally, even if alternatives are developed, the effects of a current consumption terms of climate change might have long-lasting effects on future generations. E renewable and polluting resources would not be sustainable in this sense.

[Maximum 10 marks. 8–10 marks for a strong in-depth evaluation, with sound we and against economic growth towards sustainable development; 4–7 marks for an lacking in depth analysis and detail; 1–3 marks for a limited attempt at evaluatio question, or missing sufficient reasoning.

7. Governments can finance deficits by increasing taxes, borrowing finances, or

[1 mark per correct response]

Preview of Answers Ends Here