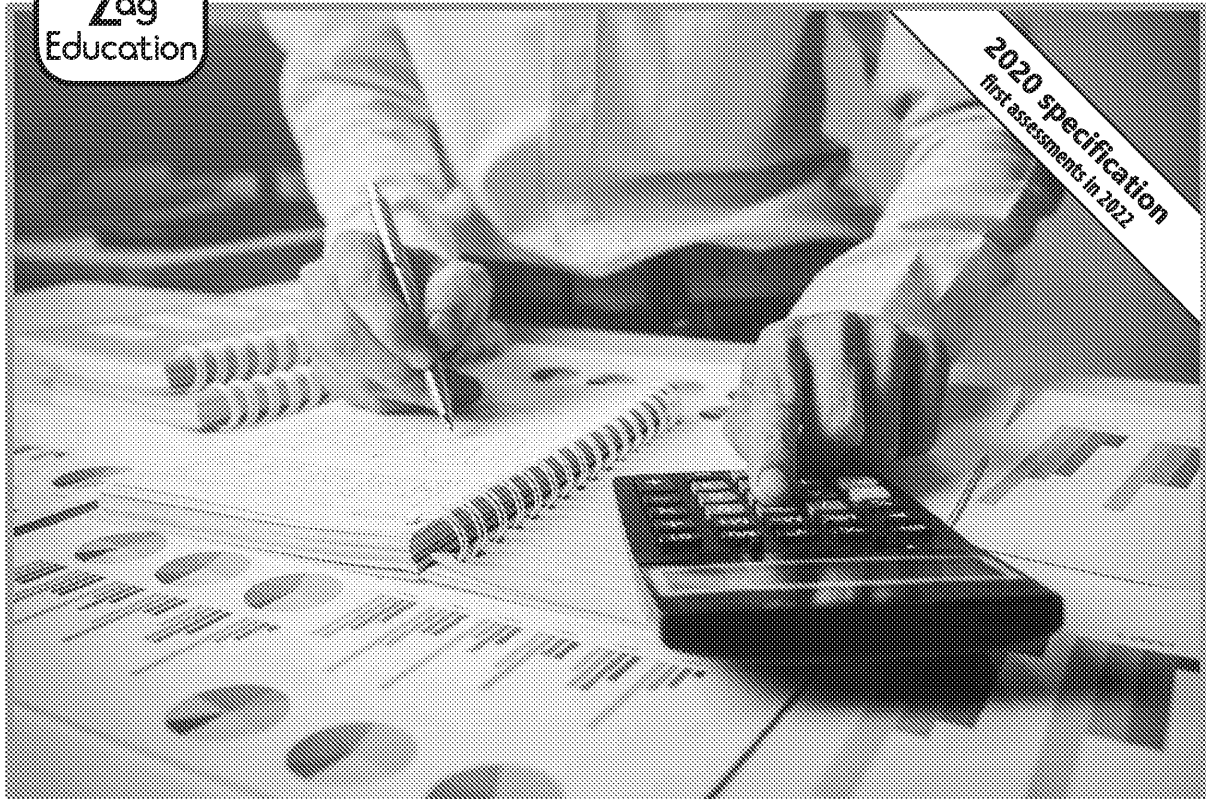




Topic Tests

Standard Level: Units 3 and 4

D Glover

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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 Standard 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.

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 Questions

10 marks

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

15 marks

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

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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 income?

A Savings	C Exports
B Vaccinations	D Imports
3. Which of the following constitutes a withdrawal from the circular flow of income?

A Investment	C Taxes
B Government spending	D Exports
4. What is meant by the circular flow of income?
5. Explain the circular flow of income in the UK using a suitable diagram.
6. What is meant by economic 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 2015–2016.

Table 1

	2015	2016
Nominal GDP (£)	1,873,000 million	1,940,000 million
Real GDP (£)	1,832,000 million	X million

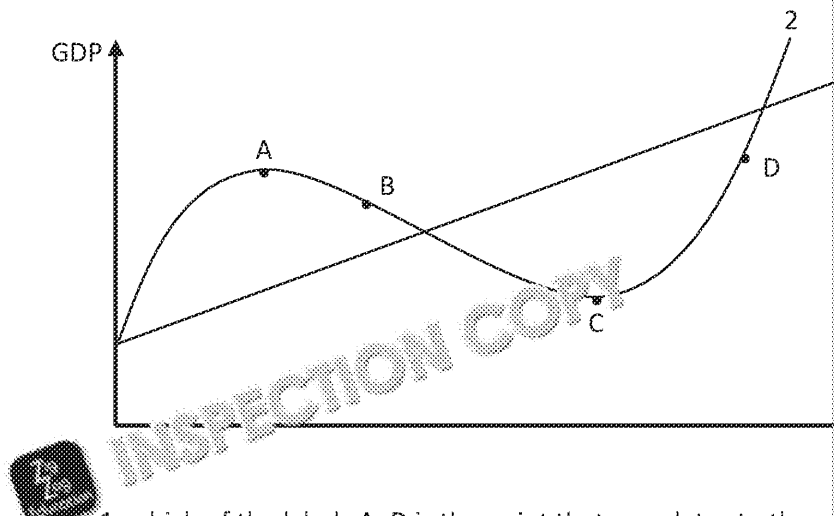
- (i) Calculate the rate of nominal GDP growth for 2015–2016.
 - (ii) If real GDP grew by 1.8% from 2015–2016. What would the real GDP for 2016 be?
 - (iii) The UK's population was approximately 65,000,000 in 2016. What was the real GDP per capita?
10. (i) Why do countries measure GDP?
(ii) State and explain **two** difficulties of measuring GDP.
 11. Explain **two** issues with using GDP statistics to compare the standard of living *within* a country over time.
 12. Distinguish between GDP and GNI.
 13. (i) Explain purchasing power parity (PPP) theory.
(ii) Explain **one** benefit of using PPP theory.

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

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

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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.

4.10b: Strategies for economic growth

1. International financial crises such as those of the late 1990s (Asian financial crisis, Russian financial crisis, Latin American Recession) means that there is an important role to be played by international financial institutions in maintaining the international financial system and supporting developing economies.

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 international financial system.
- The IMF attempts to help prevent and resolve international financial crises.
- The IMF is involved in surveillance activity in an attempt to address money laundering (and, increasingly, terrorism).

Why the IMF does what it does:

- In order to reduce the negative economic impacts of BoP problems or imbalances.
- In order to reduce the negative impacts of protectionism on vulnerable economies.
- In order to create a stable financial stability and promote economic growth.
- Students can be awarded for citing examples of specific actions/advice, etc. that are in line with the aims of the IMF.

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

[Maximum 4 marks. 3–4 marks for strongly assessing the role of the IMF, providing a clear and accurate assessment, applied accurately to the question, using supporting data where needed; 1–2 marks for a weak assessment focusing too much on either advantages or disadvantages. Being underdeveloped or incomplete.]

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

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

[Maximum of 4 marks. 3–4 marks for accurately assessing the effectiveness of the WTO in promoting economic development through international trade, linking the question to the answer through clear and accurate assessment; 1–2 marks for an adequate assessment however lacking detail and sufficient reasons.]

3. **D** – **A**, **B**, and **C** are all true of Official Development Assistance, making **D** correct. Making developing economies dependent on aid is not a sustainable finding long-term solutions to under-development.

[1 mark for correct response]

4. Microfinance refers to the provision of banking services to low-income households, including micro-savings. Microfinance is popular in LDCs because it allows impoverished households to access financial services that they would usually be unable to access from the banking sector because of a lack of collateral, stable employment and income, or other factors.

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

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5. Advantages:

- *Investment:* Microfinance is intended to increase investment by allowing the excluded from formal financial services to access credit. Microfinance might be used to purchase livestock that could help them break the cycle of poverty by selling the produce to the community. Investment creates employment, increases incomes, and promotes economic development.
- *Risk-taking:* If microfinance in an LDC involves micro-insurance, there is evidence that it should be encouraged. Insurance provides an important safety-net for risk-takers who rely on their personal finances to absorb a business failure. Investment usually requires risk and so there is a considerable theoretical basis that extending micro-insurance might provide a catalyst for capital investment and, subsequently, economic growth.
- *Safety:* Microfinance is a safer alternative to local 'loan sharks'. Often local interest rates are as high as 500% because a lack of alternatives allows them to abuse their market power. If interest rates are high on microcredit schemes, they are usually lower than the rate charged by loan sharks.
- *Savings:* Microfinance encourages people to save. It increases their savings, which is the importance of savings as a fundamental determinant of economic growth.
- *Equality:* Microfinance's original motivation was to improve access to credit for poor households. Therefore, it can be viewed as important in terms of economic development as a reduction in inequality between genders and income groups in society that promotes growth.
- *Information Asymmetries:* Microfinance tends to be administered by local institutions, which reduces the informational asymmetries that would exist between the microfinance institutions and the excluded from financial services. Importantly, reducing these asymmetries means that communities excluded from financial services are now able to benefit from the financial services.
- *Financial Security:* Microfinance might provide financial security that allows people to improve their nutrition, improved health and better educational outcomes.

Disadvantages:

- *Debt:* Microfinance might have a negative impact on economic development if it traps households into a 'debt-trap'. It is stated that the rate of interest on microfinance is high (reflecting high risk of default), and so households might have to sacrifice consumption to service their debt and interest payments. Repayments need to be made regardless of the circumstance or economic climate, meaning that the poor are extremely vulnerable.
- *Finance of Consumption instead of Investment:* Microfinance is the most successful if loans are used to finance investment rather than used in other ways. If individuals use microfinance for consumption instead of investment there is no economic development and situations of poverty might just be perpetuated.

Evaluation:

- Investment is not *always* beneficial. Microcredit might allow economic agents to start a business, but there is little guarantee that one's business is going to be successful. Formal financial institutions usually check the viability of one's business before extending credit.
- Microfinance cannot compensate for inadequacies of other important areas such as education, sanitation, nutrition, healthcare and other infrastructure. It needs to be supported by governmental efforts to improve the fundamentals of the economy.
- Communities might need to be educated about the basics of finance before microfinance can be successful – without this basic knowledge microfinance might not be sustainable (e.g. people might not understand interest or repayment schedules).
- Note that 'mission drift' can sometimes occur in which microfinance institutions serve wealthier, rather than poorer, individuals. So the benefits of microfinance might be limited to promoting economic development for a limited group.

[Maximum 10 marks. 8–10 marks for a long, well-supported evaluation. A well-supported evaluation of the Grameen Bank have been successful in promoting economic development for a reasonable number of people, but lacking detail; 1–3 marks for a limited evaluation.]

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6. *For:*

Primarily, the environmental Kuznets curve would suggest that economic growth leads to improved environmental outcomes to be improved, and is, therefore, an essential factor in achieving sustainable development. Evidence for the Kuznets curve would suggest that for some pollutants, there is a threshold level of GDP passes a certain threshold – e.g. sulphur dioxide emissions tend to decrease after a certain level of GDP. Therefore, if the Kuznets curve stands up to empirical testing, this would suggest that economic growth is essential for sustainable development.

If a country's GDP is higher, there should be more resources that can be dedicated to improving environmental outcomes. Naturally, after alleviating poverty and covering the basic necessities, nations should be able to use resources for improving the natural environment, such as investing in providing renewable sources of energy – this is an investment that would benefit future generations. Governments that must focus on providing their populations with the basics. More developed countries should have higher discretionary incomes and these allow consumers to absorb the costs associated with products produced to better environmental standards.

Furthermore, wealthier economies have more resources in which they can invest in research and development, leading to the effect of improving efficiency so that more output can be produced with less resource use. Therefore, a country's strain on natural resources in the present, as a result of economic growth, would be less if the resources were used more efficiently. LEDCs don't tend to have a high level of savings, so they are more likely to spend on satisfying life's basic necessities – this necessarily means that they likely invest in more efficient, pollution-reducing technology.

Finally, political institutions in wealthier countries tend to function more effectively. They are less often corrupt, and policies often benefit special-interest groups. Therefore, in wealthier countries, there is a better ability to impose taxes and regulations that can be used to improve environmental outcomes.

Against:

However, there is also evidence that the Kuznets curve doesn't hold true. CO₂ emissions continue to strictly increase as GDP increases, which would suggest that economic growth continues to lead to increasing rates of polluting at increasing rates – the US for instance has one of the highest levels of CO₂ emissions per capita.

Moreover, economic growth that is based on a non-renewable resource – and, therefore, is not itself sustainable because the resource will at some point end. Once it runs out, there will be no resources to meet the needs of the present, let alone the needs of future generations. As the resource becomes scarcer and the price increases as a result, production might shift to more sustainable resources – whether this is possible depends on how rapidly these alternatives are developed.

Finally, even if alternatives are developed, the effects of a current consumption of non-renewable resources in terms of climate change might have long-lasting effects on future generations. Even if 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 well-reasoned arguments for and against economic growth towards sustainable development; 4–7 marks for an evaluation that is lacking in depth analysis and detail; 1–3 marks for a limited attempt at evaluation, or missing sufficient reasoning.]

7. Governments can finance deficits by increasing taxes, borrowing finances, or printing money. [1 mark per correct response]

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Preview of Answers Ends Here

This is a limited inspection copy. Sample of answers ends here to stop students looking up answers to their assessments. See contents page for details of the rest of the resource.