

Exam practice: paper 1 (SL and HL)

Introduction to paper 1

Paper 1 has the same structure for both standard and higher levels.

	Paper 1: SL and HL
Duration of paper 1	1 hour and 30 minutes
Focus and structure of paper 1	Section A focuses on section 1 of the syllabus (microeconomics). Students must answer one question from a choice of two. Section B focuses on section 2 of the syllabus (macroeconomics). Students must answer one question from a choice of two.
Structure of questions and marks earned in paper 1	Each question consists of two parts, (a) and (b). Students must answer both parts. Part (a) earns a maximum of 10 marks, and part (b) a maximum of 15 marks, making a total of 25 marks for the question.
Assessment objectives in paper 1	Part (a) of the questions examines assessment objectives 1, 2 and 4. Part (b) of the questions examines assessment objectives 1, 2, 3 and 4.
Maximum marks earned in paper 1, and percentage in total IB Economics grade	Since the student must answer two questions, paper 1 earns a maximum of 50 marks. Paper 1 accounts for 40% of the student's overall grade at standard level, and 30% of the student's overall grade at higher level.

Organisation of paper 1 questions in the CD-ROM

Paper 1 questions are organised by section, i.e. section A on microeconomics followed by section B on macroeconomics, and by chapter within each section. This makes it easier for you to practise exam questions as you study each chapter in the textbook.

The syllabus consists of 'SL/HL core' topics, which are topics that are common to both SL and HL, and of HL topics that are for HL only. Corresponding to this division, the questions in each chapter have been divided into 'SL/HL core', which should be attempted by all students at both SL and HL, and 'HL' which should be attempted by HL students.

(HL students may note that some chapters may not have any HL questions; this is because there are no HL topics in these chapters that are examined in HL paper 1.)

You will notice that in each chapter there are more part (a) questions than part (b) questions. The reason for this is that the syllabus contains more learning outcomes with command terms that correspond to assessment objective 2, which is the one most commonly used for part (a) questions. (For example, Chapter 2 has no command terms at all corresponding to assessment objective 3, and therefore no part (b) questions.) Note that you will find markschemes to many of the paper 1 questions on the teacher support website at ibdiploma.cambridge.org.

Paper 1 section A: Microeconomics

Chapter 2 Competitive markets: demand and supply

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) questions

- 2.1 (a) Explain the meaning of the law of demand, and using examples and diagrams, distinguish between movements along and shifts of the demand curve. **[10 marks]**
- 2.2 (a) Explain the meaning of the law of supply, and using examples and diagrams, distinguish between movements along and shifts of the supply curve. **[10 marks]**
- 2.3 (a) 'Quantity demanded increases as price falls. Yet as demand falls, price falls.' Using diagrams, explain whether these two statements contradict each other. **[10 marks]**
- 2.4 (a) 'Quantity supplied increases as price increases. Yet as supply increases, price falls.' Using diagrams, explain whether these two statements contradict each other. **[10 marks]**
- 2.5 (a) You observe that over time, the number of computers produced and sold increases, and the price of computers falls. Using diagrams, explain whether this violates the law of supply. **[10 marks]**
- 2.6 (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. Using diagrams, explain whether this violates the law of demand. **[10 marks]**
- 2.7 (a) In the standard demand and supply analysis, an increase in demand, *ceteris paribus*, leads to a larger equilibrium quantity supplied, and yet supply does not change. Using a diagram, explain how this is possible. **[10 marks]**
- 2.8 (a) Growing populations and rising incomes in economically less developed countries have affected the price of meat, which is a normal good. Referring to the concept of excess demand, analyse the effects on the price of meat by use of a diagram. **[10 marks]**
- 2.9 (a) Using a diagram, and referring to the

concept of excess supply, analyse the effects of falling costs of agricultural inputs and technological improvements in agriculture on the affordability of food. **[10 marks]**

- 2.10 (a) Using the production possibilities model, explain how scarcity, choice and opportunity cost are related to each other. **[10 marks]**
- 2.11 (a) Assuming an increase in the market demand for chocolate, analyse the role of the price mechanism in reallocating resources. **[10 marks]**
- 2.12 (a) Assuming a fall in the market supply of oil, analyse the role of the price mechanism in reallocating resources. **[10 marks]**
- 2.13 (a) Explain how allocative efficiency is related to the concepts of consumer surplus and producer surplus. **[10 marks]**
- 2.14 (a) Using the concepts of marginal benefit and marginal cost, explain how allocative efficiency is achieved at competitive market equilibrium. **[10 marks]**

Chapter 3 Elasticities

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) question

- 3.1 (a) Referring to the four elasticity concepts and their respective meanings, distinguish between those elasticities that involve movements along a demand or supply curve, and those that involve shifts of the curve(s). **[10 marks]**

Part (a) and part (b) questions

- 3.2 (a) Using examples, explain the factors that determine whether the demand for a good is price-elastic or price-inelastic. **[10 marks]**
- (b) Increases in the price of petrol (gasoline) have led taxi drivers to increase taxi fares in the hope that their revenues will rise. Evaluate their decision on economic grounds. **[15 marks]**
- 3.3 (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) 'A producer of a good can expect to increase total revenue by increasing the price of the good produced and sold.' Examine the validity of this statement, using diagram(s) in your answer. **[15 marks]**
- 3.4 (a) Using examples, explain the factors that determine whether the supply of a good is price-elastic or price-inelastic. **[10 marks]**
- (b) Examine the relevance to producers and the economy of differing values of income elasticity of demand for primary products, manufactured products and services. **[15 marks]**
- 3.5 (a) Suggest likely values for the price elasticity of supply of (i) Picasso's paintings, and (ii) copies of Picasso's paintings. **[10 marks]**
- (b) Examine the importance of a knowledge of cross-price elasticity of demand to firms facing changing prices of substitute or complementary goods. **[15 marks]**
- 3.6 (a) It is often observed that the price elasticity of demand for primary commodities is relatively low while that of manufactured goods is relatively high. Using diagrams, explain why. **[10 marks]**
- (b) Examine the importance to producers of price elasticity of demand and income elasticity of demand. **[15 marks]**
- 3.7 (a) Referring to the concept of income elasticity of demand (*YED*) and using examples, explain the factors that cause *YED* to have (i) a positive or negative value, and (ii) a value less than one or a value greater than one. **[10 marks]**
- (b) Using the concept of *YED*, examine why agriculture is often referred to as a 'declining industry'. **[15 marks]**
- 3.8 (a) Referring to the concept of cross-price elasticity of demand (*XED*) and using examples, explain the factors that cause *XED* to have a positive, negative or zero value. **[10 marks]**
- (b) A government interested in increasing its tax revenues favours the imposition of an indirect tax on yachts rather than on cigarettes. Examine whether its preference for taxing yachts can be justified on economic grounds. **[15 marks]**

Chapter 4 Government intervention

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) questions

- 4.1 (a) Explain in what circumstances a government might impose indirect (excise) taxes and subsidies. **[10 marks]**
- 4.2 (a) Using diagrams, explain how indirect (excise) taxes and subsidies may lead to over- or underproduction of a good and allocative inefficiency. **[10 marks]**
- 4.3 (a) Explain why governments sometimes impose price ceilings and price floors. **[10 marks]**
- 4.4 (a) Using diagrams, explain how price ceilings and price floors lead to over- or underproduction of a good and allocative inefficiency. **[10 marks]**
- 4.5 (a) 'Price controls, like indirect taxes and subsidies, are a form of government intervention in the market, yet they differ in that price controls give rise to disequilibrium market outcomes.' Explain. **[10 marks]**
- 4.6 (a) The ceiling of a room is its upper surface and the floor is its lower surface. Yet in demand and supply analysis we have the reverse: a price ceiling lies below equilibrium price and a price floor lies above equilibrium price (if they are to be effective). Explain why this is so. **[10 marks]**
- 4.7 (a) Explain, using diagrams, how price ceilings and price floors give rise to shortages (excess demand) and surpluses (excess supply). **[10 marks]**

Part (a) and part (b) questions

- 4.8 The government decides to impose an indirect tax on wine of €0.15 per litre.
- (a) Using a diagram, analyse the effects on market outcomes. **[10 marks]**
- (b) Discuss the consequences of the tax for stakeholders. **[15 marks]**
- 4.9 The government decides to grant a subsidy on milk of €0.15 per litre.
- (a) Using a diagram, analyse the effects on market outcomes. **[10 marks]**
- (b) Discuss the consequences of the tax for stakeholders. **[15 marks]**

- 4.10 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.
- Explain the effects of the two policies on the quantity of the good produced and on allocative efficiency. **[10 marks]**
 - Compare and contrast the effects of each policy on market outcomes and stakeholders. **[15 marks]**
- 4.11 In 1973, OPEC (Organization of the Petroleum Exporting Countries) increased the price of crude oil, which is the key input in petrol (gasoline) production. This led to an increase in the price of petrol. Some countries initially responded by imposing price controls (a price ceiling) on petrol.
- Explain the impacts of the price ceiling in the petrol market. **[10 marks]**
 - Examine the consequences of the policy of petrol price ceilings on the economy (including resource allocation and welfare) and stakeholders. **[15 marks]**
- 4.12 The United States and the European Union (EU) use price floors for sugar to support sugar producers.
- Explain the impacts on the US or EU market for sugar. **[10 marks]**
 - Examine the consequences for the economy (including resource allocation, welfare and government measures to dispose of the surpluses) and stakeholders. **[15 marks]**
- 4.13 (a) Using a labour market diagram, explain the impacts on the labour market and the economy of the imposition of a minimum wage that is above the equilibrium wage for unskilled labour. **[10 marks]**
- (b) Discuss the consequences for stakeholders. **[15 marks]**
- 4.14 Greece has legislation that determines a national minimum wage. At one time the government proposed that the law be suspended (not enforced) in areas that have high unemployment. Public reaction to the proposal was mixed, with some people in favour and others against.
- Explain what the proposal was trying to achieve. **[10 marks]**
 - Discuss the likely impacts of such a policy, considering who may gain, who may lose, and why. **[15 marks]**

HL (HL paper 1)**Part (a) question**

- 4.15 (a) Using diagrams, explain how the incidence (burden) of indirect taxes on consumers and producers is affected by the price elasticity of demand and the price elasticity of supply of the particular goods being taxed. **[10 marks]**

Chapter 5 Market failure**SL/HL core topics
(SL paper 1 and HL paper 1)****Part (a) questions**

- 5.1 (a) Analyse the meaning of 'market failure', using the concept of allocative efficiency. **[10 marks]**
- 5.2 (a) Referring to the difference between (i) marginal private and marginal social benefits, and (ii) marginal private and marginal social costs, explain why externalities are a type of market failure. **[10 marks]**
- 5.3 (a) Using the concept of a negative production externality, explain the impacts on resource allocation and social welfare of the practice in some poor countries where very poor farmers clear forests to create more arable land for farming. **[10 marks]**
- 5.4 (a) Using the concept of a negative consumption externality, explain the impacts on resource allocation and social welfare of the use of petrol (gasoline) for cars. **[10 marks]**
- 5.5 (a) Using the concept of a positive production externality, explain the impacts on resource allocation and social welfare of a firm's discovery of a new robot technology that is widely adopted by other firms. **[10 marks]**
- 5.6 (a) Using the concept of a positive consumption externality, explain the impacts on resource allocation and social welfare of a possible discovery of a cure for HIV/AIDS. **[10 marks]**
- Part (a) and part (b) questions**
- 5.7 (a) Explain how government regulations can be used to correct negative production externalities arising from the use of fossil fuels. **[10 marks]**

- (b) Evaluate the effectiveness of government regulations. **[15 marks]**
- 5.8 (a) Explain how market-based policies can be used to correct negative production externalities arising from the use of fossil fuels. **[10 marks]**
- (b) Evaluate the effectiveness of market-based policies. **[15 marks]**
- 5.9 (a) Explain how tradable pollution permits (cap and trade schemes) permits can lead to an improvement in the allocation of resources. **[10 marks]**
- (b) 'Tradable pollution permits (cap and trade schemes) are the most effective method governments can use to deal with the problem of fossil fuel emissions.' Discuss this view. **[15 marks]**
- 5.10 (a) Explain how carbon taxes can lead to an improvement in the allocation of resources. **[10 marks]**
- (b) 'Carbon taxes are the most effective method governments can use to deal with the problem of fossil fuel emissions.' Discuss this view. **[15 marks]**
- 5.11 (a) Explain how the provision of subsidies can help correct positive production externalities resulting from a firm's activities in research and development (R&D). **[10 marks]**
- (b) Evaluate alternative government responses to the problem of positive production externalities. **[15 marks]**
- 5.12 (a) Explain how the provision of subsidies can help correct positive consumption externalities resulting from the consumption of education services. **[10 marks]**
- (b) Compare and contrast alternative policies that might be used by government in an effort to correct positive consumption externalities. **[15 marks]**
- 5.13 (a) Using the concept of 'merit good', explain why education and health care services are underprovided by the market. **[10 marks]**
- (b) Discuss policy options available to governments to correct this problem. **[15 marks]**
- 5.14 (a) Explain the difference between merit goods and demerit goods. **[10 marks]**
- (b) Examine policies governments can use to correct the problems posed by merit and demerit goods. **[15 marks]**
- 5.15 (a) 'An indirect tax imposed by the government on petrol (gasoline) for the purpose of addressing the problem of pollution will be less effective the more inelastic is the demand for petrol.' Explain. **[10 marks]**
- (b) Discuss alternative policies governments may pursue to correct the negative externalities caused by the use of petrol (gasoline). **[15 marks]**
- 5.16 (a) Explain how merit goods and public goods each represent a type of market failure. **[10 marks]**
- (b) Discuss alternative policies that governments can pursue to deal with each of these types of market failure. **[15 marks]**
- 5.17 (a) Using the concepts of rivalry and excludability and providing examples, distinguish between private goods and public goods. **[10 marks]**
- (b) Discuss the implications of direct government provision of merit goods and public goods. **[15 marks]**
- 5.18 (a) Referring to the difference between common access resources and resources purchased by firms, explain why common access resources pose a threat to sustainability. **[10 marks]**
- (b) Compare and contrast carbon taxes and cap and trade schemes as alternative policies to deal with threats to sustainability. **[15 marks]**
- 5.19 (a) Using the concept of common access resources, explain how economic growth based on use of fossil fuels and extreme poverty can both lead to unsustainable resource use. **[10 marks]**
- (b) Evaluate alternative government policy responses to correct production and consumption externalities that threaten sustainability. **[15 marks]**
- 5.20 (a) Explain why international co-operation may be necessary in order for governments to deal effectively with threats to sustainability. **[10 marks]**
- (b) Discuss the potential contributions of two of the following for achieving sustainability: (i) legislation, (ii) carbon taxes, (iii) cap trade schemes, and (iv) funding for clean technology. **[15 marks]**

HL HL (HL paper 1)**Part (a) and part (b) questions**

- 5.21 (a) Explain why information asymmetries are a type of market failure. **[10 marks]**
- (b) Evaluate possible government responses aimed at the correction of information asymmetries. **[15 marks]**
- 5.22 (a) Using the concept of welfare loss, explain why monopoly power is a type of market failure. **[10 marks]**
- (b) Discuss government responses to the problem of monopoly power. **[15 marks]**

Chapter 6 The theory of the firm I: Production, costs, revenue and profit (Higher level topic)

HL HL topics (HL paper 1)**Part (a) questions**

- 6.1 (a) Explain the law of diminishing marginal returns, referring to average and marginal product curves. **[10 marks]**
- 6.2 (a) Explain the difference between diminishing marginal returns and decreasing returns to scale. **[10 marks]**
- 6.3 (a) Distinguish between decreasing returns to scale and diseconomies of scale. **[10 marks]**
- 6.4 (a) Using a diagram, explain the relationships between the average product and marginal product curves, and the average variable cost and marginal cost curves. **[10 marks]**
- 6.5 (a) Explain the factors accounting for the downward-sloping portion of the average total cost curve in the short run and in the long run. **[10 marks]**
- 6.6 (a) Explain the difference between increasing, decreasing and constant returns to scale and their relevance to a firm's cost curves. **[10 marks]**
- 6.7 (a) Explain the difference between the short run and the long run as this applies to the firm's production and costs. **[10 marks]**
- 6.8 (a) Use the concept of normal profit to explain why a firm might be interested in keeping its business running even though it may be earning zero economic profit. **[10 marks]**

Chapter 7 The theory of the firm II: Market structures (Higher level topic)

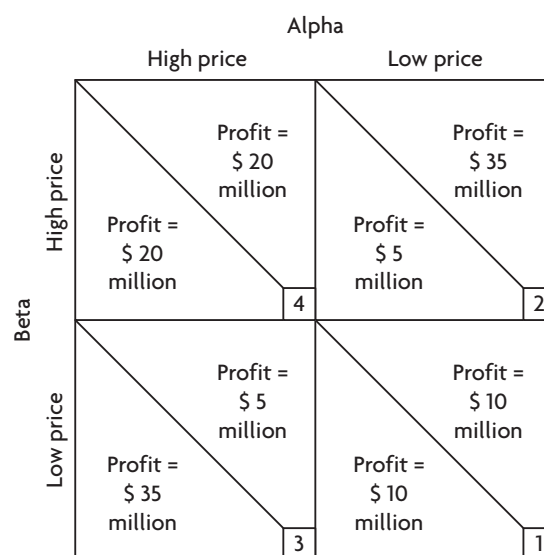
HL topics (HL paper 1)**Part (a) and part (b) questions**

- 7.1 (a) Using diagrams, explain what it means for a firm to be a 'price-taker'. **[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.' Evaluate this statement. **[15 marks]**
- 7.2 (a) Explain the relationship between price, the demand curve, average revenue and marginal revenue for firms that have market power and firms that do not. **[10 marks]**
- (b) Compare and contrast perfect competition and monopoly with respect to social welfare in the long run. **[15 marks]**
- 7.3 (a) Explain why a firm in perfect competition that earns supernormal profits in the short run is unable to maintain the same profit levels in the long run. **[10 marks]**
- (b) 'Monopoly will always be a less efficient market structure compared to perfect competition.' Evaluate this view. **[15 marks]**
- 7.4 (a) Using diagrams, explain under what conditions a perfectly competitive firm will (i) continue to produce in the short run even though it is making a loss, and (ii) shut down in the short run. **[10 marks]**
- (b) 'Perfect competition is the only market structure where efficiency is achieved; therefore, it should always be the preferred form of market organisation.' Evaluate this view. **[15 marks]**
- 7.5 (a) Using diagrams, explain under what conditions a perfectly competitive firm will (i) shut down in the short run, and (ii) shut down in the long run. **[10 marks]**
- (b) Compare and contrast the profit-maximising firm in perfect competition and monopoly with respect to price and output levels. **[15 marks]**
- 7.6 (a) Referring to barriers to entry, explain whether there is a difference between the short-run and long-run equilibrium of the monopolist. **[10 marks]**

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- (b) 'Monopoly should be regulated by the government because it always gives rise to socially undesirable effects.' Evaluate this statement. **[15 marks]**
- 7.7 (a) Using a diagram, explain the meaning of 'natural monopoly'. **[10 marks]**
- (b) Evaluate the view that producers are the only stakeholders that can benefit from a monopoly market structure. **[15 marks]**
- 7.8 (a) Explain the role of product differentiation in making the demand and revenue curves facing the monopolistically competitive firm similar to those of a monopolist. **[10 marks]**
- (b) 'In contrast to monopoly, monopolistically competitive firms earn normal profit in the long run; therefore, they are a more efficient type of market structure.' Discuss. **[15 marks]**
- 7.9 (a) Analyse the role of non-price competition for firms in monopolistic competition and oligopoly. **[10 marks]**
- (b) 'Monopolistic competition is preferable to perfect competition because it allows for consumer choice.' Discuss. **[15 marks]**
- 7.10 (a) Explain whether a firm in perfect competition is able to achieve allocative and productive efficiency in the short run and in the long run. **[10 marks]**
- (b) Evaluate the view that whereas monopoly is likely to be inefficient, it offers benefits to society that firms under perfect competition are unable to provide. **[15 marks]**
- 7.11 (a) Explain how the short-run and long-run equilibrium positions of a firm in monopolistic competition may differ from each other. **[10 marks]**
- (b) 'Firms in perfect competition and in monopolistic competition are equally efficient because they both earn zero economic profit in the long run.' Evaluate this statement. **[15 marks]**
- 7.12 (a) Explain whether a firm in monopolistic competition can achieve allocative and productive efficiency. **[10 marks]**
- (b) Compare and contrast perfect competition with monopolistic competition. **[15 marks]**
- 7.13 (a) Explain desirable and undesirable features of a monopoly firm. **[10 marks]**

- (b) Evaluate the view that perfect competition is a preferable type of market structure to monopoly. **[15 marks]**
- 7.14 (a) Explain how the short-run and long-run equilibrium positions of a monopolist and a firm in monopolistic competition differ from each other. **[10 marks]**
- (b) Evaluate the desirability of monopoly from consumers' and society's point of view, and compare with monopolistic competition. **[15 marks]**
- 7.15 (a) Explain why prices in non-collusive oligopoly tend to be stable over extended periods of time. **[10 marks]**
- (b) Evaluate the role of legislation and regulation designed to reduce monopoly power. **[15 marks]**
- 7.16 (a) Distinguish between collusive and non-collusive oligopoly. **[10 marks]**
- (b) Discuss the view that governments should always try to increase the degree of competition in industries by reducing monopoly power. **[15 marks]**
- 7.17 (a) Analyse the goals, incentives and difficulties faced by a cartel. **[10 marks]**
- (b) Explain how the 'prisoner's dilemma' facing two oligopolistic firms, Alpha and Beta, shown in the figure below, illustrates the firms' interdependence and their conflicting incentives to compete or to collude. **[15 marks]**



- 7.18 (a) Explain how a revenue-maximising monopolist decides how much output to produce and what price to charge. **[10 marks]**

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- (b) A publisher who is a monopolist agrees to pay the author of a book 10% of revenues from the sales of the book. Using diagrams, compare and contrast the price and quantity most likely preferred by the author and the price and quantity most likely preferred by the publisher. [15 marks]
- 7.19 (a) Explain the conditions that must be satisfied for a firm to be able to practise price discrimination. [10 marks]
- (b) Using diagrams, analyse the role of price elasticity of demand in third-degree price discrimination practised by a profit-maximising firm. [15 marks]

Paper 1 section B: Macroeconomics

Chapter 8 The level of overall economic activity

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) questions

- 8.1 (a) Using a diagram to show the income flow of the circular flow model, identify the four factors of production and their respective payments. [10 marks]
- 8.2 (a) Using a circular flow diagram, explain how the size of the flows will change depending on the relative size of leakages and injections. [10 marks]
- 8.3 (a) Explain the possible importance of using 'green GDP' as a measure of economic activity. [10 marks]
- 8.4 (a) Using a business cycle diagram, explain the phases of the business cycle and the long-term growth trend. [10 marks]
- 8.5 (a) Using the circular flow model, describe the relationship between the income flow, the expenditure flow and the value of output flow. [10 marks]
- 8.6 (a) Explain what factors can account for different values of GDP and GNI (GNP) for a single country. [10 marks]

Part (a) and part (b) questions

- 8.7 (a) Using the circular flow model, explain what might happen to the level of income of an economy if it experiences an increase in exports and an increase in taxes. [10 marks]

- (b) Examine the output approach, the income approach and the expenditure approach to measuring national income and the value of output produced by an economy. [15 marks]

- 8.8 (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 (GNP) *per capita* figures. [10 marks]
- (b) 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]

Chapter 9 Aggregate demand and aggregate supply

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) questions

- 9.1 (a) Distinguish between 'demand' in microeconomics and 'aggregate demand' in macroeconomics. [10 marks]
- 9.2 (a) Explain the differing factors that give rise to a negatively sloped demand curve and a negatively sloped aggregate demand curve. [10 marks]
- 9.3 (a) Describe the four components of aggregate demand and explain two factors that influence each of these components and shift the aggregate demand curve. [10 marks]
- 9.4 (a) Explain the reasoning behind the shapes of the short-run aggregate supply (SRAS) curve and the long-run aggregate supply (LRAS) curve. [10 marks]
- 9.5 (a) Explain the reasoning behind the shapes of the long-run aggregate supply (LRAS) curve and the Keynesian AS curve. [10 marks]
- 9.6 (a) Referring to two factors that can cause an increase in short run aggregate supply, analyse the impacts on the economy in the short run. [10 marks]
- 9.7 (a) Analyse the possible effects on an economy of falling consumer and producer confidence. [10 marks]
- 9.8 (a) Distinguish between short-run equilibrium and long-run equilibrium in the monetarist/new classical perspective. [10 marks]

- 9.9 (a) Using the concepts of inflationary and recessionary (deflationary) gaps, explain whether or not it is possible for the equilibrium level of real GDP to differ from the full employment level of real GDP in the monetarist/new classical long run; and in the Keynesian version of the *AD-AS* model. **[10 marks]**

- 9.10 (a) Using diagrams, explain the factors that can cause shifts in the long-run aggregate supply (*LRAS*) and Keynesian *AS* curves over the long term. **[10 marks]**

Part (a) and part (b) questions

- 9.11 (a) An economy that finds itself at long-run equilibrium experiences a fall in interest rates. Explain the impacts over the short run and over the long run. **[10 marks]**
- (b) Assume that the economy is in a recessionary (deflationary) gap and there is unemployment of labour. In the absence of government intervention, compare and contrast what will happen in the view of a monetarist/new classical economist and in the view of a Keynesian economist. **[15 marks]**
- 9.12 (a) Using diagrams, distinguish between inflationary and recessionary (deflationary) gaps. **[10 marks]**
- (b) Compare and contrast possible equilibrium outcomes in the macroeconomy using the monetarist/new classical *LRAS* curve and Keynesian *AS* curve. **[15 marks]**
- 9.13 (a) Explain why an economy experiencing a recessionary (deflationary) gap will revert to long-run equilibrium in the monetarist/new classical model. **[10 marks]**
- (b) 'Increases in aggregate demand will always lead to increases in the economy's price level.' Discuss this view. **[15 marks]**
- 9.14 (a) Explain why, in the Keynesian perspective, an economy may achieve equilibrium at any level of output. **[10 marks]**
- (b) Compare and contrast the expected impact of an increase in aggregate demand on the price level in the monetarist/new classical and Keynesian perspectives. **[15 marks]**
- 9.15 (a) Using the monetarist/new classical model, distinguish between short-term fluctuations in output and long-run equilibrium. **[10 marks]**
- (b) Given a fall in interest rates, examine the possible impacts on the long-run equilibrium of an economy. **[15 marks]**

Chapter 10 Macroeconomic objectives I: Low unemployment, low and stable rate of inflation

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) questions

- 10.1 (a) Distinguish between the causes of frictional, seasonal and cyclical unemployment. **[10 marks]**
- 10.2 (a) Explain the possible causes of structural unemployment. **[10 marks]**
- 10.3 (a) Distinguish between the consumer price index and producer price index, referring to the uses of each. **[10 marks]**

Part (a) and part (b) questions

- 10.4 (a) Explain the difficulties involved in measuring unemployment. **[10 marks]**
- (b) Discuss the consequences and costs of unemployment. **[15 marks]**
- 10.5 (a) Using diagrams, distinguish between cost-push and demand-pull inflation. **[10 marks]**
- (b) Examine possible consequences for an economy of a high rate of inflation. **[15 marks]**
- 10.6 (a) Referring to how inflation is measured, explain some problems in accurately measuring inflation. **[10 marks]**
- (b) Compare and contrast the possible consequences for an economy of inflation and deflation. **[15 marks]**
- 10.7 (a) Using diagrams to show possible causes of inflation, explain why economists measure a core/underlying rate of inflation. **[10 marks]**
- (b) 'While both inflation and deflation are undesirable, deflation poses greater risks for an economy compared to inflation.' Discuss this statement. **[15 marks]**
- 10.8 (a) Explain why the rate of inflation experienced by different income groups may be different from the rate of inflation calculated by use of the consumer price index (CPI). **[10 marks]**
- (b) 'Since inflation has negative consequences for an economy, policy-makers should aim toward achieving deflation.' Discuss this view. **[15 marks]**

Note: Questions relating to policies to deal with unemployment and inflation will be included in Chapter 12 (see textbook, page 347).

HL HL topics (HL paper 1)**Part (a) and part (b) questions**

- 10.9 (a) Using a Phillips curve diagram, explain how stagflation impacts on unemployment and inflation. **[10 marks]**
- (b) Using a Phillips curve diagram, discuss the possible trade-off between unemployment and inflation. **[15 marks]**
- 10.10(a) Using the concept of the natural rate of unemployment, explain the relationship between the long-run aggregate supply curve and the long-run Phillips curve. **[10 marks]**
- (b) Compare and contrast the policy implications of the short-run and long-run Phillips curves regarding a possible trade-off between inflation and unemployment. **[15 marks]**

Chapter 11 Macroeconomic objectives II: Economic growth and equity in the distribution of income

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) questions

- 11.1 (a) Explain the importance of productivity improvements for economic growth. **[10 marks]**
- 11.2 (a) Referring to the difference between equity and equality, explain why the market system may lead to an inequitable distribution of income. **[10 marks]**
- 11.3 (a) Explain the following statement. 'The Lorenz curve and the Gini coefficient are two different ways to show the same thing; the first is an illustration and the second is a measure based on the illustration.' **[10 marks]**
- 11.4 (a) Explain methods that can be used to measure the degree of equality (or inequality) of income distribution in a population. **[10 marks]**
- 11.5 (a) Explain the difference between absolute poverty and relative poverty. **[10 marks]**
- 11.6 (a) Using examples, explain the difference between proportional, progressive and regressive taxation. **[10 marks]**

Part (a) and part (b) questions

- 11.7 (a) Oceanland produces two types of goods: civilian goods and military goods. Using the production possibilities model, describe the factors that can cause economic growth in Oceanland. **[10 marks]**
- (b) 'There is an inevitable trade-off between economic growth and sustainability.' Evaluate this statement.* **[15 marks]**
- 11.8 (a) Using the monetarist/new classical model, describe the factors that can cause economic growth, shown as an increase in potential output. **[10 marks]**
- (b) 'Improvements in a population's standards of living and income distribution are the natural outcomes of economic growth.' Discuss this statement.* **[15 marks]**
- 11.9 (a) Explain why investment in different types of capital is important for economic growth. **[10 marks]**
- (b) Discuss the likely consequences of economic growth for an economy's unemployment, inflation and its current account.* **[15 marks]**
- 11.10(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) Discuss advantages and disadvantages of using direct taxes as a method to redistribute income. **[15 marks]**
- 11.11(a) Explain some causes and consequences of poverty. **[10 marks]**
- (b) Evaluate the use of transfer payments and provision of merit goods as policies to redistribute income. **[15 marks]**
- 11.12(a) Explain two methods (other than direct taxes) that governments can use as methods to redistribute income in favour of lower income groups. **[10 marks]**
- (b) Compare and contrast alternative policies to promote greater equality in income distribution with respect to their possible effects on efficiency. **[15 marks]**
- 11.13(a) Mountainland has a Gini coefficient 0.53 and Flatland of 0.35. Draw their possible Lorenz curves in the same diagram and explain which of the two countries has a more equal distribution of income. **[10 marks]**

- (b) Mountainland's government decides to increase direct taxes and make them more progressive, and to use the additional tax revenues to increase transfer payments and provision of merit goods. Draw a possible new Lorenz curve for Mountainland, and evaluate the use of these policies.

[15 marks]

*This topic is discussed in Chapter 19, but is included here because its corresponding learning outcome appears in Chapter 11 (see page 301) and is therefore examined in paper 1 section B under macroeconomics

Chapter 12 Demand-side and supply-side policies

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) questions

- 12.1 (a) Explain the sources of government revenues and the categories of government spending. [10 marks]
- 12.2 (a) Explain the following statement: 'The shape of the aggregate supply curve may be an important factor influencing the effects of demand-side policies.' [10 marks]
- 12.3 (a) Referring to the role of central banks in the economy, and using a demand and supply of money diagram, explain how interest rates are determined. [10 marks]
- 12.4 (a) Referring to contractionary and expansionary policy, analyse the role of interest rates in influencing the level of aggregate demand. [10 marks]
- 12.5 (a) Distinguish between the policy of inflation targeting and policies that aim to balance the objectives of full employment and low inflation. [10 marks]
- 12.6 (a) Explain how policies that are intended to encourage competition might contribute to growth in potential output. [10 marks]

Part (a) and part (b) questions

- 12.7 (a) Explain how automatic stabilisers help smooth out short-term fluctuations of the business cycle. [10 marks]
- (b) Compare and contrast the effectiveness of fiscal policy and monetary policy in dealing with recession. [15 marks]

- 12.8 (a) Using diagrams, describe how fiscal policy can be used to close recessionary and inflationary gaps. [10 marks]
- (b) Evaluate the effectiveness of fiscal policy. [15 marks]
- 12.9 (a) Explain the following statement: 'Fiscal policy has a dual role: it can help smooth out short-term fluctuations in economic activity, and it can help promote growth in potential output.' [10 marks]
- (b) Evaluate the following statement. 'Demand-side policies can only deal with short-term stabilisation (price stability and unemployment) whereas supply-side policies can only promote long-term economic growth.' [15 marks]
- 12.10(a) Using diagrams, explain how monetary policy can be used to close recessionary and inflationary gaps. [10 marks]
- (b) Evaluate the effectiveness of monetary policy. [15 marks]
- 12.11(a) Referring to the objectives of supply-side policies, distinguish between interventionist and market-based supply-side policies. [10 marks]
- (b) Evaluate supply-side policies with respect to their ability to reduce unemployment and lower the rate of inflation. [15 marks]
- 12.12(a) Explain two types of interventionist supply-side policies and their expected effects on aggregate demand and aggregate supply. [10 marks]
- (b) 'Supply-side policies may have a positive impact on economic growth but this always comes at the cost of increased income inequalities and a negative effect on the government budget.' Evaluate this statement. [15 marks]
- 12.13(a) Explain how labour market reforms intending to make the labour market more flexible might contribute to growth in potential output. [10 marks]
- (b) Evaluate the policy of labour market reforms by considering their impacts on employment, inflation, economic growth and equity. [15 marks]
- 12.14(a) Explain how incentive-related policies are intended to lead to a rightward shift in the LRAS curve. [10 marks]
- (b) Evaluate incentive-related policies with respect to their effects on the economy and stake holders. [15 marks]

- 12.15(a) Using a diagram, explain the meaning of stagflation. **[10 marks]**
- (b) Evaluate the following statement. 'Whereas both fiscal and monetary policies can be used to close inflationary and deflationary gaps, they cannot successfully address supply-side causes of economic fluctuations (stagflation).' **[15 marks]**
- (b) Evaluate policies that can be used in an effort to lower this type of unemployment. **[15 marks]**
- 12.21(a) Explain the following statement. 'One way that a government can try to increase the economy's full employment level of output is by pursuing policies that lower structural unemployment.' **[10 marks]**
- (b) Discuss what policies might be most effective in lowering structural unemployment. **[15 marks]**

Policy questions on unemployment and inflation

The questions that follow refer to learning outcomes first appearing in Chapter 10, involving evaluation of policies to deal with unemployment (page 272) and inflation (page 281); these questions were postponed for Chapter 12 where the topics were discussed (page 347).

SL/HL core topics (SL paper 1 and HL paper 1)

Part (a) and part (b) questions

- 12.16(a) Explain why identification of the cause(s) of unemployment is important to formulating appropriate policies to lower the rate of unemployment in an economy. **[10 marks]**
- (b) Evaluate the use of demand-side policies to lower an economy's rate of unemployment. **[15 marks]**
- 12.17(a) Explain what policies might be used to lower structural unemployment. **[10 marks]**
- (b) Evaluate the use of supply-side policies as measures to lower structural unemployment. **[15 marks]**
- 12.18(a) Explain what government policies might be used in an effort to reduce both cyclical (demand-deficient) and structural unemployment. **[10 marks]**
- (b) Examine policies that governments can use to lower demand-deficient unemployment. **[15 marks]**
- 12.19 (a) Referring to contractionary and expansionary policy, analyse the role of interest rates in maintaining full employment. **[10 marks]**
- (b) Evaluate the appropriateness of supply-side policies to lower cyclical and structural unemployment. **[15 marks]**
- 12.20(a) Explain the type of unemployment that occurs when the economy is at less than full employment equilibrium. **[10 marks]**

- 12.22(a) Explain why the identification of the cause(s) of inflation is important to formulating appropriate policies to lower the rate of inflation in an economy. **[10 marks]**
- (b) Evaluate the use of demand-side policies as a method to reduce inflation. **[15 marks]**
- 12.23(a) Explain what policies might be used to lower cost-push inflation. **[10 marks]**
- (b) Evaluate alternative policies that might be used to deal with cost-push inflation. **[15 marks]**

HL topics (HL paper 1)

Part (a) and part (b) questions

- 12.24(a) Explain why it may be difficult to lower the rate of inflation as an economy approaches its full employment level of output. **[10 marks]**
- (b) Evaluate policies that a government might use to lower the natural rate of unemployment. **[15 marks]**
- 12.25(a) An economy that is in a recessionary gap has an unemployment rate of 10%. The government decides to pursue demand-side policies to lower the rate of unemployment. It estimates that the economy's natural rate of unemployment is 5%, whereas in fact this is actually 7%. Explain the possible consequences of its policies. **[10 marks]**
- (b) Discuss the following statement: 'If the priority of policy-makers is to lower the economy's rate of inflation, they must be prepared to accept a higher unemployment rate.' **[15 marks]**