

The IB Diploma Programme, for students aged 16 to 19, is an academically challenging and balanced programme of education that prepares students for success at university and life beyond. Students take courses in six different subject groups, maintaining both breadth and depth of study. Economics higher level is in group 3, individuals and societies. In addition, three core elements—the extended essay, theory of knowledge and creativity, action, service—are compulsory and central to the philosophy of the programme.

About the IB: For over 40 years the IB has built a reputation for high-quality, challenging programmes of education that develop internationally minded young people who are well prepared for the challenges of life in the 21st century and able to contribute to creating a better, more peaceful world.

The IB subject briefs illustrate key course components in the IB Diploma Programme.

- I. Course description and aims
- II. Curriculum model overview
- III. Assessment model
- IV. Sample questions

Overview of the economics higher level course and curriculum model

I. Course description and aims

The IB Diploma Programme economics higher level course aims to provide students with a core knowledge of economics, encourage students to think critically about economics, promote an awareness and understanding of internationalism in economics and encourage students' development as independent learners. Alongside the empirical observations of positive economics, students of the subject are asked to formulate normative questions and to recognize their own tendencies for bias.

In addition, the course is designed to:

- encourage the systematic and critical study of human experience and behaviour; physical, economic and social environments; and the economics and development of social and cultural institutions
- develop the capacity to identify, analyse critically and evaluate theories, concepts and arguments about the nature and activities of the individual and society
- enable students to collect, describe and analyse data used in studies of society; test hypotheses; and interpret complex data and source material
- promote an appreciation of the way learning is relevant to both the culture in which the student lives and the culture of other societies
- develop an awareness that human attitudes and beliefs are widely diverse and that the study of society requires an appreciation of such diversity
- enable the student to recognize that the content and methodologies of the subjects in group 3 are contestable and that their study requires the toleration of uncertainty.

II. Curriculum model overview

Economics higher level

Components

Introduction to economics

Microeconomics

- Markets
- Elasticities
- Theory of the firm
- Market failure

Macroeconomics

- Measuring national income
- Introduction to development
- Macroeconomic models
- Demand-side and supply-side policies
- Unemployment and inflation
- Distribution of income

International economics

- Reasons for trade
- Free trade and protectionism
- Economic integration
- World Trade Organization (WTO)
- Balance of payments
- Exchange rates
- Balance of payment problems
- Terms of trade

Development economics

- Sources of economic growth and/or development
- Consequences of growth
- Barriers to economic growth and/or development
- Growth and development strategies
- Evaluation of growth and development strategies

III. Assessment model

Assessment for economics higher level

The IB assesses student work as direct evidence of achievement against the stated goals of the Diploma Programme courses, which are to provide students with:

- a broad and balanced, yet academically demanding, programme of study
- the development of critical-thinking and reflective skills
- the development of research skills
- the development of independent learning skills
- the development of intercultural understanding
- a globally recognized university entrance qualification.

The assessments aim to test all students' knowledge and understanding of key concepts through:

- applying and using scientific methods, techniques and terminology
- constructing, analysing and evaluating scientific hypotheses, research questions and predictions, scientific methods and techniques, and scientific explanations
- demonstrating both the personal skills of cooperation, perseverance and responsibility appropriate for effective scientific investigation and problem-solving and the manipulative skills necessary to carry out scientific investigations with precision and safety.

Assessment for economics higher level (continued)

The assessments aim to test all students' knowledge and understanding of key concepts through various activities that demonstrate their ability to:

- understand and apply economic concepts and theories to a range of circumstances and a variety of situations
- analyse information through the use of economic concepts and theories
- evaluate concepts and theories from different economic perspectives.

Students' success in the economics higher level course is measured by combining their grades on external and internal assessment.

In external assessment components, students must be able to demonstrate an understanding of both basic facts and complex concepts related to the full economics syllabus. The internal assessment measures students' ability to produce a portfolio of three commentaries—no more than 750 words—based on a news media extract that links economic theory to a real-world situation. Each article must be based on a different section of the syllabus (microeconomics, macroeconomics, international economics, and development economics).

Assessment at a glance

Type of assessment	Format of assessment	Time (hours)	Weighting of final grade (%)
External			80
<i>Paper 1</i>	Two questions, one from Section 1 and one from Section 2 of the syllabus	1.5	30
<i>Paper 2</i>	A data-response paper based on Section 3 and 4 of the syllabus	1.5	30
<i>Paper 3</i>	Calculations based paper based on all four sections of the syllabus	1	20
Internal			20
<i>Portfolio</i>	A portfolio of three commentaries		

IV. Sample Questions

- (a) Explain how changes in price work to reallocate resources in a market.
(b) Discuss the view that the overuse of common access resources is best addressed by government. (Paper 1)
- Study the extract below and answer the questions that follow. (Paper 2)

The Indian prime minister has tried to reduce concerns that the country is headed for a balance of payments crisis, similar to the one that the country experienced in 1991. At that time, India was on the verge of defaulting on its foreign debt and had to be rescued by the International Monetary Fund (IMF). There are a few key similarities between the situation in 2013 and the situation in 1991. India still has a persistent current account deficit and its weak currency, the rupee, makes it more difficult to finance the deficit. Officials are worried because the current account deficit is larger, and the rupee is weaker than it was in 1991.

The rupee has declined by more than 15% between May and August this year (2013), and has hit a record low against the US dollar. This is largely to do with the expectation that the Federal Reserve (US central bank) may not continue to use monetary policy to stimulate the US economy. As a result, there is speculation that the US **interest rate** might rise at some point in the future. The consequence of this is that money is leaving developing economies such as India.

The countries that are most at risk are those with large current account deficits, and India has one of the largest. The current account deficit hit a record high of 6.7% of gross domestic product (GDP) in 2012. Domestic issues make the situation even worse: India has a large budget deficit as well as a high rate of inflation. Both are reasons why portfolio investors would like to take their money out of India. Furthermore, economic growth has also dropped to 5%, the slowest growth since 2003.

In a recent speech, the prime minister noted that the current account deficit was high, and blamed increased imports of gold as a key factor. In recent months, the government has sharply raised **tariffs** on gold. Surprisingly, the Indian government and the central bank have also proposed measures to support the rupee.

After the crisis in 1991, there were many reforms and the country became more globally integrated. This led to a period of strong growth. However, reforms have slowed down and analysts say that this has prevented India from reaching its tremendous potential. The threat of a crisis may be just what is needed for the government to speed up the supply-side reforms necessary to increase growth and reduce the current account deficit. These reforms would include policies to promote industry, reduce the regulatory burdens and importantly increase investment in education.

Source: adapted from www.bbc.co.uk, 8 August 2013; www.businessweek.com, 19 August 2013 and <http://online.wsj.com>, 17 August 2013]

- (i) Define the term **interest rate** indicated in bold in the text.
(ii) Define the term **tariffs** indicated in bold in the text.
- Distinguish between a current account deficit and a budget deficit.
- Using an exchange rate diagram for the rupee (India's currency), explain how the value of the rupee has been affected by the expectation that the US central bank may change its monetary policy.
- Using information from the text/data and your knowledge of economics, evaluate the policies that India might use to reduce the current account deficit.

- (a) In the small town of Burbia, the weekly demand and supply functions for a pack of cigarettes are as follows (Paper 3)

$$QD = 700 - 25P \quad QS = 100 + 50P$$

Where QD and QS are quantities in packs per week and P is the price per pack in dollars

- Calculate QD and QS at a price of \$14 per pack
- Calculate the price which would result in a demand of 475 packs per week.
- Calculate the equilibrium price and quantity.
- Draw the demand and supply curves using a price range from \$2 to \$16 per pack. Each curve should be labeled.
- In order to discourage the consumption of cigarettes, the government imposes a specific indirect tax of \$6 per pack. On the above graph, plot the new supply curve to illustrate the effect of the indirect tax.
- Sketch a diagram and use it to explain how the new supply curve would have been different if the government had imposed an ad valorem tax on cigarettes.
- Calculate the total weekly revenue earned by the government from the specific tax.
- Calculate the change in weekly consumer spending on cigarettes in Burbia as a result of the tax.
- Explain why the value of price elasticity of demand is important for a government which is attempting to use taxation to discourage the consumption of a product.

Learn more about how the IB Diploma Programme prepares students for success at university by going online to www.ibo.org/universities or email us at recognition@ibo.org.

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