

**1Name:**

**Class group :**

**Revision + course guide for SL and HL Economics 2011-2015**

**SYLLABUS OUTLINE: HL 185 Things to do!**

**SYLLABUS OUTLINE: SL 119 Things to do!**

**Weighting: How much detail do you need? Read this carefully. It will save you valuable time. Each ½ equals approx. 1 page of notes including diagrams**

- 1 = define
- 2 = define + example
- 3 = define + example + diagram
- 4 = important concept requiring ability to explain + analyse
- 5 = critical concept requiring ability to evaluate/discuss

**Is a "term/ word" in the syllabus?**

Do a search? Select "Control f" and you can search for the "term / word"

<b>Process Folio Completion Dates</b>		<b>Teaching Hours</b>		<b>Teaching Sequence</b>
<b>NOTE: Penalties will apply for not meeting the completion dates</b>				
		<b>SL</b>	<b>HL</b>	
<b>Section 1: Microeconomics</b>		35	95	<b>Intro - 45</b> (dictionary 100)
1.1 Competitive markets: demand and supply (some topics HL only)	September 20 (G 11)			
1.2 Elasticity	October 10 (G 11)			
1.3 Government intervention (some topics HL extension)	October 31 (G 11)			
1.4 Market failure (some topics HL only)	November 30 (G 11)			
1.5 Theory of the firm and market structures (HL only)	February 28 (G 11)			
<b>Section 2: Macroeconomics</b>		40	50	<b>Micro - 200</b>
2.1 The level of overall economic activity (one topic HL extension)	March 15 (G 11)			
2.2 Aggregate demand and aggregate supply (one topic HL only)	April 15 (G 11)			
2.3 Macroeconomic objectives ( plus one topic HL only)	May 21 - August 1 of G11/G12			
2.4 Fiscal policy	September 15 (G 12)			
2.5 Monetary policy	October 15 (G 12)			
2.6 Supply-side policies	November 2 (G 12)			
<b>Section 3: International economics</b>		25	45	<b>300 - Micro</b>
3.1 International trade (one topic HL extension, plus one topic HL only)	November 15 (G 12)			
3.2 Exchange rates (some topics HL extension)	November 30 (G12)			
3.3 The balance of payments (one topic HL extension, plus some topics HL only)	January 10 (G 12)			
3.4 Economic integration (one topic HL extension)	January 20 (G 12)			
3.5 Terms of trade (HL only)	January 30 (G 12)			
<b>Section 4: Development economics (Completed in Grade 11)</b>		30	30	<b>400 - Micro</b>
4.1 Economic development	October 20 (G 11)			
4.2 Measuring development	November 10 (G 11)			
4.3 The role of domestic factors	December 15 (G 11)			
4.4 The role of international trade (one topic HL extension)	January 30 (G 11)			
4.5 The role of foreign direct investment (FDI)	February 15 (G11)			
4.6 The roles of foreign aid and multilateral development assistance	March 31 (G 11)			
4.7 The role of international debt	April 30 (G11)			
4.8 The balance between markets and intervention	May 10 (G11)			
<b>Internal assessment</b>		20	20	<b>500 - Macro + Development</b>
Portfolio of three commentaries				
<b>900 - Development</b> (dictionary 900)	<b>800 - Development</b>			<b>700 - International +Development</b>
	4.3			3.1
	4.5			4.4
	4.6			3.3
	4.7	3.4		
	(dictionary 800)	3.5		
		(dictionary 700)		
<b>Total teaching hours required</b>		<b>150</b>	<b>240</b>	<b>600 - Macro</b> 2.3 2.4 2.5 2.6 (dictionary 600)

**2015-16**

syllabus



<http://www.yellowsubmariner.com>

This guide will help you to work through the syllabus independently. In this you have a detailed and complete list of all the content you are required to know and understand.

Please use the various columns to help you guide your work. Some live hyperlinks links are also included (See 'video' column) to help you to find key parts of the syllabus for revision either for short video clips (**PAJ**) or for powerpoint slides (**PP**). Webnotes are numbered for your attention and numbers in brackets are worksheets that should also be useful for revision)

Tip! Use this document each time you do reading in the syllabus and tick of each item as you take notes!

ITEM	sl	hl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	Example	U-tube	W E I G H T	W E B N O T E
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## Section 1: Microeconomics

### 1.1 Competitive markets: Demand and supply

				<b>1.1 Competitive markets: Demand and supply</b> <b>Big Questions for 99:</b> <b>1 Why is the market system the best allocative system?</b> <b>2 What are the key factors that influence households and firms allocative decisions?</b> <b>3 Evaluate the market?</b>					
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#### Markets

<b>1</b>			The nature of markets	Outline the meaning of the term market.	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>2</b>	<b>100-114</b>
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<b>Demand</b>									
<b>2</b>			The law of demand	<ul style="list-style-type: none"> <li>Explain the negative causal relationship between price and quantity demanded.</li> <li>Describe the relationship between an individual consumer's demand and market demand.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u> <a href="#">PAJ</a>	<b>3</b>	<b>229</b>
<b>3</b>			The demand curve	<ul style="list-style-type: none"> <li>Explain that a demand curve represents the relationship between the price and the quantity demanded of a product, <i>ceteris paribus</i>.</li> <li>Draw a demand curve.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>110</b>
<b>4</b>			The non-price determinants of demand (factors that change demand or shift the demand curve)	<ul style="list-style-type: none"> <li>Explain how factors including changes in income (in the cases of normal and inferior goods), preferences, prices of related goods (in the cases of substitutes and complements) and demographic changes may change demand.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>229</b> <b>229</b>
<b>5</b>			Movements along and shifts of the demand curve	<ul style="list-style-type: none"> <li>Distinguish between movements along the demand curve and shifts of the demand curve.</li> <li>Draw diagrams to show the difference between movements along the demand curve and shifts of the demand curve.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>229</b>  <b>(235)</b> work sheet in red
<b>ITEM</b>	sl	hl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W e i g h t</b>	<b>W e b n o t e</b>
<b>6</b> <b>HL</b> <b>(only)</b>			Linear demand functions (equations), demand schedules and graphs	<ul style="list-style-type: none"> <li>Explain a demand function (equation) of the form <math>Q_d = a - bP</math>.</li> <li>Plot a demand curve from a linear function (eg. <math>Q_d = 60 - 5P</math>).</li> <li>Identify the slope of the demand curve as the slope of the demand function <math>Q_d = a - bP</math>, that is <math>-b</math> (the coefficient of <math>P</math>).</li> <li>Outline why, if the "a" term changes, there will be a shift of the demand curve.</li> <li>Outline how a change in "b" affects the steepness of the demand curve.</li> </ul>	Blink c 3	<u>Example</u>	<u>U-tube</u>	<b>3</b>	

<b>Supply</b>									
<b>7</b>			The law of supply	<ul style="list-style-type: none"> <li>Explain the positive causal relationship between price and quantity supplied.</li> <li>Describe the relationship between an individual producer's supply and market supply.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>  PAJ	<b>3</b>	<b>228</b>
<b>8</b>			The supply curve	<ul style="list-style-type: none"> <li>Explain that a supply curve represents the relationship between the price and the quantity supplied of a product, <i>ceteris paribus</i>.</li> <li>Draw a supply curve.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>111</b>
<b>9</b>			The non-price determinants of supply (factors that change supply or shift the supply curve)	<ul style="list-style-type: none"> <li>Explain how factors including changes in costs of factors of production (land, labour, capital and entrepreneurship), technology, prices of related goods (joint/competitive supply), expectations, indirect taxes and subsidies and the number of firms in the market can change supply.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>228</b>  <b>228</b>
<b>10</b>			Movements along and shifts of the supply curve	<ul style="list-style-type: none"> <li>Distinguish between movements along the supply curve and shifts of the supply curve.</li> <li>Construct diagrams to show the difference between movements along the supply curve and shifts of the supply curve.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>228</b>  <b>(236)</b> work sheet in red
<b>11</b>  <b>HL</b> <b>(only)</b>			Linear supply functions, equations and graphs	<ul style="list-style-type: none"> <li>Explain a supply function (equation) of the form <math>Q_s = c + dP</math>.</li> <li>Plot a supply curve from a linear function (eg, <math>Q_s = -30 + 20P</math>).</li> <li>Identify the slope of the supply curve as the slope of the supply function <math>Q_s = c + dP</math>, that is <math>d</math> (the coefficient of <math>P</math>).</li> <li>Outline why, if the "<math>c</math>" term changes, there will be a shift of the supply curve.</li> <li>Outline how a change in "<math>d</math>" affects the steepness of the supply curve.</li> </ul>	Blink c 3	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Market equilibrium</b>									
<b>12</b>			Equilibrium and changes to equilibrium	<ul style="list-style-type: none"> <li>Explain, using diagrams, how demand and supply interact to produce market equilibrium.</li> <li>Analyse, using diagrams and with reference to excess demand or excess supply, how changes in the determinants of demand and/or supply result in</li> </ul>	Blink c 1+ c2 + c3	<u>Example</u>	<u>U-tube</u>	<b>4</b>	<b>108</b>  <b>(262)</b> work sheet in red

<b>13</b>			Calculating and illustrating equilibrium using linear equations	a new market equilibrium. Calculate the equilibrium price and equilibrium quantity from linear demand and supply functions. • Plot demand and supply curves from linear functions, and identify the equilibrium price and equilibrium quantity. • State the quantity of excess demand or excess supply in the above diagrams.	Blink c 3	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>HL (only)</b>									

**The role of the price mechanism**

<b>14</b>			Resource allocation  <b>Big Q:</b> How does price react to changes in demand?  How does quantity react to changes in supply?	<ul style="list-style-type: none"> <li>Explain why scarcity necessitates choices that answer the “What to produce?” question.</li> <li>Explain why choice results in an opportunity cost.</li> <li>Explain, using diagrams, that price has a signaling function and an incentive function, which result in a reallocation of resources when prices change as a result of a change in demand or supply conditions.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>4</b>	108 104 102
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**Market efficiency**

<b>15</b>			Consumer surplus	<ul style="list-style-type: none"> <li>Explain the concept of consumer surplus.</li> <li>Identify consumer surplus on a demand and supply diagram.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u> <a href="#">PAJ</a>  <a href="#">PAJ</a>	<b>3</b>	106
<b>16</b>			Producer surplus	<ul style="list-style-type: none"> <li>Explain the concept of producer surplus.</li> <li>Identify producer surplus on a demand and supply diagram.</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u> <a href="#">PAJ</a>	<b>3</b>	106
<b>17</b>			Allocative efficiency	<ul style="list-style-type: none"> <li>Explain that the best allocation of resources from society’s point of view is at competitive market equilibrium, where social (community) surplus (consumer surplus and producer surplus) is maximized (marginal benefit = marginal cost).</li> </ul>	Blink c 1+ c2	<u>Example</u>	<u>U-tube</u>	<b>4</b>	104 106 267

**TOK**

**Theory of knowledge: potential connections**

To what extent is it true to say that a demand curve is a fictional entity?  
 What assumptions underlie the law of demand? Are these assumptions likely to be true? Does it matter if these assumptions are actually false?

			<p><b>1.2 Elasticity</b></p> <p><b>Big Questions:</b></p> <p>1 Why is elasticity important for firms and government?</p> <p>2 How does elasticity affect markets in terms of resource allocation and market size?</p> <p>3 Evaluate the impact of 2 elasticities for 2 stakeholders.</p>	Blink c 4	<u>Example</u>	<u>U-tube</u>		
<b>Price elasticity of demand (PED)</b>								
<b>18</b>		Price elasticity of demand+ its determinants	<ul style="list-style-type: none"> <li>• Explain the concept of price elasticity of demand, understanding that it involves responsiveness of quantity demanded to a change in price, along a given demand curve.</li> <li>• Calculate PED using the following equation.</li> </ul> <p><i>PED= percentage change in quantity demanded divided by percentage change in price</i></p> <ul style="list-style-type: none"> <li>• State that the PED value is treated as if it were positive although its mathematical value is usually negative.</li> <li>• Explain, using diagrams and PED values, the concepts of price elastic demand, price inelastic demand, unit elastic demand, perfectly elastic demand and perfectly inelastic demand.</li> <li>• Explain the determinants of PED, including the number and closeness of substitutes, the degree of necessity, time and the proportion of income spent on the good.</li> <li>• Calculate PED between two designated points on a demand curve using the PED equation above.</li> <li>• Explain why PED varies along</li> </ul>	Blink c 4	<u>Example</u>	<u>U-tube</u>  <a href="#">PAJ</a>  <a href="#">PAJ</a>  <a href="#">PP</a>  <a href="#">PAJ</a>  <a href="#">PAJ</a>	<b>3</b>	<b>201</b> <b>202</b>             <b>201</b> <b>202</b>

			a straight line demand curve and is not represented by the slope of the demand curve.					
<b>19</b>		Applications of price elasticity of demand	<ul style="list-style-type: none"> <li>• Examine the role of PED for firms in making decisions regarding price changes and their effect on total revenue.</li> <li>• Explain why the PED for many primary commodities is relatively low and the PED for manufactured products is relatively high.</li> <li>• Examine the significance of PED for government in relation to indirect taxes.</li> </ul>	Blink c 4	<u>Example</u>	<u>U-tube</u>	<b>4</b>	<b>708</b> <b>241</b>
<b><u>Cross price elasticity of demand and its determinants</u></b>								
<b>20</b>			<ul style="list-style-type: none"> <li>• Outline the concept of cross price elasticity of demand, understanding that it involves responsiveness of demand for one good (and hence a shifting demand curve) to a change in the price of another good.</li> <li>• Calculate XED using the following equation.</li> </ul> <p><b><i>XED</i></b> <b><i>percentage change in quantity demanded of good x divided by percentage change in price of good y</i></b></p> <ul style="list-style-type: none"> <li>• Show that substitute goods have a positive value of XED and complementary goods have a negative value of XED.</li> <li>• Explain that the (absolute) value of XED depends on the closeness of the relationship between two goods.</li> </ul>	Blink c 4	<u>Example</u>	<u>U-tube</u> <a href="#">PAJ</a>	<b>3</b>	<b>204</b>
<b>21</b>		Applications of cross price elasticity of demand	<ul style="list-style-type: none"> <li>• Examine the implications of XED for businesses if prices of substitutes or complements change.</li> </ul>	Blink c 4	<u>Example</u>	<u>U-tube</u>	<b>4</b>	<b>204</b>

**Income elasticity of demand and its determinants**

<b>22</b>			<ul style="list-style-type: none"> <li>• Outline the concept of income elasticity of demand, understanding that it involves responsiveness of demand (and hence a shifting demand curve) to a change in income.</li> <li>• Calculate YED using the following equation.</li> </ul> <p><b><i>YED = percentage change in quantity demanded divided by percentage change in income</i></b></p> <ul style="list-style-type: none"> <li>• Show that normal goods have a positive value of YED and inferior goods have a negative value of YED.</li> <li>• Distinguish, with reference to YED, between necessity (income inelastic) goods and luxury (income elastic) goods.</li> </ul>	Blink c 4	<u>Example</u>	<u>U-tube</u> <a href="#">PAJ</a>	<b>3</b>	<b>204</b>
<b>23</b>		Applications of income elasticity of demand	<ul style="list-style-type: none"> <li>• Examine the implications for producers and for the economy of a relatively low YED for primary products, a relatively higher YED for manufactured products and an even higher YED for services.</li> </ul>	Blink c 4	<u>Example</u>	<u>U-tube</u>	<b>4</b>	<b>204</b>

**For Revision use:**

- [263: Worksheet: Price Elasticity of Demand \(PeD\)](#)
- [264: Worksheet: elasticity and taxes](#)

**Price elasticity of supply and its determinants**



24			<ul style="list-style-type: none"> <li>• Explain the concept of price elasticity of supply, understanding that it involves responsiveness of quantity supplied to a change in price along a given supply curve.</li> <li>• Calculate PES using the following equation.</li> </ul> <p><b>PES=</b> <b>percentage change in quantity supplied divided by percentage change in price</b></p> <ul style="list-style-type: none"> <li>• Explain, using diagrams and PES values, the concepts of elastic supply, inelastic supply, unit elastic supply, perfectly elastic supply and perfectly inelastic supply.</li> <li>• Explain the determinants of PES, including time, mobility of factors of production, unused capacity and ability to store stocks.</li> </ul>	Blink c 4	Example	U-tube <a href="#">PAJ</a>	3	204
25		Applications of price elasticity of supply	<ul style="list-style-type: none"> <li>• Explain why the PES for primary commodities is relatively low and the PES for manufactured products is relatively high.</li> </ul>	Blink c 4	Example	U-tube	4	
			<p><b>1.3 Government intervention- 3 types</b></p> <p><b>Big Questions:</b></p> <ol style="list-style-type: none"> <li>1. Explain 3 ways that governments intervene in markets</li> <li>2. Evaluate 2 types of government interventions showing with diagrams how different stakeholders are affected.</li> <li>3. Does price control work?</li> </ol>	Blink c 5	Example	U-tube		
<b>(1) Indirect taxes</b>								
26		Specific (fixed amount) taxes and <i>ad valorem</i> (percentage) taxes and their impact	<ul style="list-style-type: none"> <li>• Explain why governments impose indirect (excise) taxes.</li> <li>• Distinguish between specific and <i>ad valorem</i> taxes.</li> <li>• Draw diagrams to show specific and <i>ad valorem</i> taxes, and analyse their impacts on</li> </ul>	Blink c 5	Example	U-tube	4	206 255

			on markets	market outcomes. • Discuss the consequences of imposing an indirect tax on the stakeholders in a market, including consumers, producers and the government.					
<b>27 HL Only</b>			Tax incidence and price elasticity of demand and supply	<ul style="list-style-type: none"> <li>• Explain, using diagrams, how the incidence of indirect taxes on consumers and firms differs, depending on the price elasticity of demand and on the price elasticity of supply.</li> <li>• Plot demand and supply curves for a product from linear functions and then illustrate and/or calculate the effects of the imposition of a specific tax on the market (on price, quantity, consumer expenditure, producer revenue, government revenue, consumer surplus + producer surplus).</li> </ul>	Blink c 5	<u>Example</u>	<u>U-tube</u>	<b>3</b>	206 255
<b>(2) Subsidies</b>									
<b>28</b>			<b>Subsidies</b> Impact on markets	<ul style="list-style-type: none"> <li>• Explain why governments provide subsidies, and describe examples of subsidies.</li> <li>• Draw a diagram to show a subsidy, and analyse the impacts of a subsidy on market outcomes.</li> <li>• Discuss the consequences of providing a subsidy on the stakeholders in a market, including consumers, producers+ government</li> </ul>	Blink c 5	<u>Example</u>	<u>U-tube</u>	<b>4</b>	206
<b>ITEM</b>	sl	hl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W e i g h t</b>	<b>W e b n o t e</b>
<b>29 HL Only</b>			<b>Subsidies</b> Impact on markets	<ul style="list-style-type: none"> <li>• Plot demand and supply curves for a product from linear functions and then illustrate and/or calculate the effects of the provision of a subsidy on the market (on price, quantity, consumer expenditure, producer revenue, government</li> </ul>	Blink c 5	<u>Example</u>	<u>U-tube</u>	<b>3</b>	206

			expenditure, consumer surplus and producer surplus).					
		<a href="#">(3) Price Controls</a>		Blink c 5	<a href="#">Example</a>	<a href="#">U-tube</a>		223
<b>30</b>		Price ceilings (maximum prices): rationale, consequences and examples	<ul style="list-style-type: none"> <li>• Explain why governments impose price ceilings, and describe examples of price ceilings, including food price controls and rent controls.</li> <li>• Draw a diagram to show a price ceiling, and analyse the impacts of a price ceiling on market outcomes.</li> <li>• Examine the possible consequences of a price ceiling, including shortages, inefficient resource allocation, welfare impacts, underground parallel markets and non-price rationing mechanisms.</li> <li>• Discuss the consequences of imposing a price ceiling on the stakeholders in a market, including consumers, producers and the government.</li> </ul>		<a href="#">Example</a>	<a href="#">U-tube</a>	<b>5</b>	223
<b>31</b> <b>HL</b> <b>Only</b>		<b>Price controls</b> Price ceilings (maximum prices): rationale, consequences and examples	<ul style="list-style-type: none"> <li>• Calculate possible effects from the price ceiling diagram, including the resulting shortage and the change in consumer expenditure (which is equal to the change in firm revenue).</li> </ul>	Blink c 5	<a href="#">Example</a>	<a href="#">U-tube</a>	<b>3</b>	223
<b>32</b>		Price floors (minimum prices): rationale, consequences and examples	<ul style="list-style-type: none"> <li>• Explain why governments impose price floors, and describe examples of price floors, including price support for agricultural products and minimum wages.</li> <li>• Draw a diagram of a price floor, and analyse the impacts of a price floor on market outcomes.</li> <li>• Examine the possible consequences of a price floor, including surpluses and government measures to dispose of the surpluses, inefficient resource allocation and welfare impacts.</li> <li>• Discuss the consequences of imposing a price floor on the stakeholders in a market, including consumers,</li> </ul>	Blink c 5	<a href="#">Example</a>  <b>NOTE:</b> There is a link here with item <b>146</b> in section 3.2 Take a look at webnote 323 and managed exchange rate systems.  Same diagram is used for 1.3 and 3.2.	<a href="#">U-tube</a>  <a href="#">PAJ</a>	<b>5</b>	223

			producers and the government.						
<b>33</b> <b>HL</b> <b>Only</b>		Price floors (minimum prices): rationale, consequences and examples	<ul style="list-style-type: none"> <li>Calculate possible effects from the price floor diagram, including the resulting surplus, the change in consumer expenditure, the change in producer revenue, and government expenditure to purchase the surplus.</li> </ul>	Blink c 5	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>223</b>	
<b>TOK</b>									
<b>Theory of knowledge: potential connections</b>									
In what sense are we morally obliged to pay taxes? Is this the result of a promise that we have made ourselves? When was this promise made? (Make a distinction here between moral and legal obligations.)									
To what extent is government morally obliged to provide healthcare and welfare benefits to the unemployed?									
			<b>1.4 Market failure</b> <b>Big Questions for webnote 99:</b> <ol style="list-style-type: none"> <li>With expert use of diagrams give 2 detailed examples of how market failure takes place.</li> <li>Explain 3 of the possible solutions for market failure?</li> <li>Select one type of market failure. Evaluate the possible solutions for this market failure and decide which are the most effective solutions.</li> </ol>	Blink c 12	<u>Example</u>	<u>U-tube</u>			
<b>The meaning of market failure</b>									
<b>34</b>		Market failure as a failure to allocate resources efficiently	<ul style="list-style-type: none"> <li>Analyse the concept of market failure as a failure of the market to achieve allocative efficiency, resulting in an overallocation of resources (overprovision of a good) or an under-allocation of resources (under-provision of a good)</li> </ul>	Blink c 12	<u>Example</u>	<u>U-tube</u>	<b>4</b>	See the 'blue box' in web 224	
<b>Types of market failure</b>									
<b>35</b>		The meaning of externalities	<ul style="list-style-type: none"> <li>Describe the concepts of marginal private benefits (MPB), marginal social benefits (MSB), marginal private costs (MPC) and marginal social costs (MSC).</li> <li>Describe the meaning of externalities as the failure of the market to achieve a social optimum where <math>MSB = MSC</math>.</li> </ul>	Blink c 12	<u>Example</u>	<u>U-tube</u> <a href="#">PAJ</a>	<b>3</b>	See web 224	
<b>36</b>		Negative externalities of production and consumption	<ul style="list-style-type: none"> <li>Explain, using diagrams and examples, the concepts of negative externalities of production and consumption, and the welfare loss associated with the production or consumption of a good or service.</li> <li>Explain that demerit goods are goods whose</li> </ul>	Blink c 12	<u>Example</u>	<u>U-tube</u> <a href="#">PAJ</a>	<b>5</b>	<b>253</b> <b>225</b> <b>226</b>	

			consumption creates external costs. <ul style="list-style-type: none"> <li>Evaluate, using diagrams, the use of policy responses, including market-based policies (taxation and tradable permits), and government regulations, to the problem of negative externalities of production and consumption</li> </ul>					
<b>37</b>		Positive externalities of production and consumption	<ul style="list-style-type: none"> <li>Explain, using diagrams and examples, the concepts of positive externalities of production and consumption, and the welfare loss associated with the production or consumption of a good or service.</li> <li>Explain that merit goods are goods whose consumption creates external benefits.</li> <li>Evaluate, using diagrams, the use of government responses, including subsidies, legislation, advertising to influence behaviour, and direct provision of goods and services.</li> </ul>	Blink c 12	<u>Example</u>	<u>U-tube</u>	<b>5</b>	<b>252</b>
<b>38</b>		Lack of public goods	<ul style="list-style-type: none"> <li>Using the concepts of rivalry and excludability, and providing examples, distinguish between public goods (non-rivalrous and non-excludable) and private goods (rivalrous and excludable).</li> <li>Explain, with reference to the free rider problem, how the lack of public goods indicates market failure.</li> <li>Discuss the implications of the direct provision of public goods by government.</li> </ul>	Blink c 12	<u>Example</u>	<u>U-tube</u>	<b>5</b>	<b>252</b>
<b>39</b> up dated to 39		Common access resources and the threat to sustainability	<ul style="list-style-type: none"> <li>Describe, using examples, common access resources.</li> <li>Describe sustainability.</li> <li>Explain that the lack of a pricing mechanism for common access resources means that these goods may be overused/depleted/degraded as a result of activities of producers and consumers who do not pay for the resources that they use, and that this poses a threat to sustainability.</li> <li>Explain, using negative externalities diagrams, that economic activity requiring the use of fossil fuels to satisfy demand poses a threat to sustainability.</li> </ul>	Blink c 12	<u>Example</u>	<u>U-tube</u>	<b>5</b>	<b>252</b>

			<ul style="list-style-type: none"> <li>• Explain that the existence of poverty in economically less developed countries creates negative externalities through over-exploitation of land for agriculture, and that this poses a threat to sustainability.</li> <li>• Evaluate, using diagrams, possible government responses to threats to sustainability, including legislation, carbon taxes, cap and trade schemes, and funding for clean technologies.</li> <li>• Explain, using examples, that government responses to threats to sustainability are limited by the global nature of the problems and the lack of ownership of common access resources, and that effective responses require international cooperation.</li> </ul>				<b>5</b>	
<b>40 HL Only</b>		Asymmetric information	<ul style="list-style-type: none"> <li>• Explain, using examples, that market failure may occur when one party in an economic transaction (either the buyer or the seller) possesses more information than the other party.</li> <li>• Evaluate possible government responses, including legislation, regulation and provision of information.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>41 HL Only</b>		Abuse of monopoly power	<ul style="list-style-type: none"> <li>• Explain how monopoly power can create a welfare loss and is therefore a type of market failure.</li> <li>• Discuss possible government responses, including legislation, regulation, nationalization and trade liberalization.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>4</b>	

## TOK

### Theory of knowledge: potential connections

To what extent is the obligation to seek sustainable modes of consumption a moral one?

What knowledge issues are involved in assessing the role of technology in meeting future patterns of consumption and decreasing

the negative externalities of consumption associated with fossil fuels?

What are the knowledge issues involved in determining what is a rational cost to pay for halting climate change?

How could we know if economically more developed countries are morally justified in interfering in the development of economically less developed countries on the grounds of climate change?

How can we know when climate change is sufficiently serious to warrant government interfering in the freedom of its citizens to consume?

How can we calculate the external costs of producing and running items such as light bulbs or motor vehicles? For example, low energy light bulbs consume less energy but they require more energy to produce, and some brands contain materials that are harmful to the environment such as mercury. Hybrid cars consume less energy to run but consume more energy to produce.

What are the problems in knowing whether climate change is produced by human activity?

			<p><b>1.5 Theory of the firm and market structures (HL only)</b></p> <p><b>Big Questions for webnote 99:</b></p> <ol style="list-style-type: none"> <li>1. Does monopoly work?</li> <li>2. Is a focus on revenue or costs more important for a firm?</li> <li>3. Select two type of competitive firm and evaluate which is the best model for society.</li> </ol>	Blink cc 6-11	<u>Example</u>	<u>U-tube</u>			
<b>Production and costs</b>									
<b>42 HL Only</b>		Production in the short run: the law of diminishing returns	<ul style="list-style-type: none"> <li>• Distinguish between the short run and long run in the context of production.</li> <li>• Define total product, average product and marginal product, and construct diagrams to show their relationship.</li> <li>• Explain the law of diminishing returns.</li> <li>• Calculate total, average and marginal product from a set of data and/or diagrams.</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>251</b>	
<b>43 HL Only</b>		Costs of production: economic costs	<ul style="list-style-type: none"> <li>• Explain the meaning of economic costs as the opportunity cost of all resources employed by the firm (including entrepreneurship).</li> <li>• Distinguish between explicit costs and implicit costs as the two components of economic costs.</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>211 218 216</b>	
<b>44 HL Only</b>		Costs of production in the short run	<ul style="list-style-type: none"> <li>• Explain the distinction between the short run and the long run, with reference to fixed <b>factors</b> and variable <b>factors</b>.</li> <li>• Distinguish between total costs, marginal costs and average costs.</li> <li>• Draw diagrams illustrating the</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>3</b>	<b>216</b>	

				relationship between marginal costs and average costs, and explain the connection with production in the short run.					
<b>45</b> <b>HL</b> <b>Only</b>			Production in the long run: returns to scale	<ul style="list-style-type: none"> <li>Distinguish between increasing returns to scale, decreasing returns to scale and constant returns to scale.</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>3</b>	211
<b>46</b> <b>HL</b> <b>Only</b>			Costs of production in the long run	<ul style="list-style-type: none"> <li>Outline the relationship between short-run average costs and long-run average costs.</li> <li>Explain, using a diagram, the reason for the shape of the long-run average total cost curve.</li> <li>Describe factors giving rise to economies of scale, including specialization, efficiency, marketing and indivisibilities.</li> <li>Describe factors giving rise to diseconomies of scale, including problems of coordination and communication.</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>3</b>	216
<b>Revenues</b>									
<b>47</b> <b>HL</b> <b>Only</b>			Total revenue, average revenue and marginal revenue	<ul style="list-style-type: none"> <li>Distinguish between total revenue, average revenue and marginal revenue.</li> <li><b>Draw diagrams illustrating</b> the relationship between total revenue, average revenue and marginal revenue.</li> <li>Calculate total revenue, average revenue and marginal revenue from a set of data and/or diagrams.</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>3</b>	252
<b>ITEM</b>	<b>S</b>	<b>H</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W</b>	<b>W</b>
	<b>L</b>	<b>L</b>						<b>e</b>	<b>e</b>
								<b>igh</b>	<b>note</b>
								<b>t</b>	<b>e</b>
<b>Profit</b>									
<b>48</b> <b>HL</b> <b>Only</b>			Economic profit (sometimes known as abnormal profit) and normal profit (zero	<ul style="list-style-type: none"> <li>Describe economic profit (<b>abnormal profit</b>) as the case where total revenue exceeds economic cost.</li> <li><b>Describe normal profit (zero economic profit) as the case where total revenue is equal to total economic costs or the</b></li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>3</b>	



			economic profit at the breakeven point	<p>situation in which the amount of revenue earned is just sufficient to keep the firm in its current line of business.</p> <ul style="list-style-type: none"> <li>• Explain that economic profit (<b>abnormal profit</b>) is profit over and above normal profit (<b>zero economic profit</b>), and that the firm earns normal profit when economic profit (<b>abnormal profit</b>) is zero.</li> <li>• Explain why a firm will continue to operate even when it earns zero economic profit (<b>abnormal profit</b>).</li> <li>• Explain the meaning of loss as negative economic profit arising when total revenue is less than total cost.</li> <li>• Calculate different profit levels from a set of data and/or diagrams.</li> </ul>					
<b>Goals of firms</b>									
<b>49</b> <b>HL</b> <b>Only</b>			Profit maximization	<ul style="list-style-type: none"> <li>• Explain the goal of profit maximization where the difference between total revenue and total cost is maximized or where marginal revenue equals marginal cost.</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>2</b>	
<b>50</b> <b>HL</b> <b>Only</b>			Alternative goals of firms	<ul style="list-style-type: none"> <li>• Describe alternative goals of firms, including revenue maximization, growth maximization, satisficing and corporate social responsibility.</li> </ul>	Blink c 6	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>Perfect competition</b>									
<b>51</b> <b>HL</b> <b>Only</b>			Assumptions of the model	<ul style="list-style-type: none"> <li>• Describe, using examples, the assumed characteristics of perfect competition: a large number of firms; a homogeneous product; freedom of entry and exit; perfect information; perfect resource mobility.</li> </ul>	Blink c 7	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>52</b> <b>HL</b> <b>Only</b>			Revenue curves	<ul style="list-style-type: none"> <li>• Explain, using a diagram, the shape of the perfectly competitive firm's average revenue and marginal revenue curves, indicating that the assumptions of perfect competition imply that each firm is a price taker.</li> <li>• Explain, using a diagram, that the perfectly competitive firm's average revenue and marginal revenue curves</li> </ul>	Blink c 7	<u>Example</u>	<u>U-tube</u>	<b>3</b>	

			are derived from market equilibrium for the industry.					
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item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	Example	U-tube	Weight	WEBSITE
<b>53</b> <b>HL</b> <b>Only</b>			Profit maximization in the short run	Explain, using diagrams, that it is possible for a perfectly competitive firm to make economic profit ( <b>abnormal</b> profit), normal profit ( <b>zero economic profit</b> ) or negative economic profit in the short run based on the marginal cost and marginal revenue profit maximization rule.	Blink c 7	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>54</b> <b>HL</b> <b>Only</b>			Profit maximization in the long run	Explain, using a diagram, why, in the long run, a perfectly competitive firm will make normal profit ( <b>zero economic profit</b> ). • Explain, using a diagram, how a perfectly competitive market will move from short-run equilibrium to long-run equilibrium.	Blink c 7	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>55</b> <b>HL</b> <b>Only</b>			Shut-down price and break-even price	<ul style="list-style-type: none"> <li>• Distinguish between the short run shut-down price and the break-even price.</li> <li>• Explain, using a diagram, when a loss-making firm would shut down in the short run.</li> <li>• Explain, using a diagram, when a loss-making firm would shut down and exit the market in the long run.</li> <li>• Calculate the short run shutdown price and the breakeven price from a set of data</li> </ul>	Blink c 7	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>56</b> <b>HL</b> <b>Only</b>			Efficiency	<ul style="list-style-type: none"> <li>• Explain the meaning of the term allocative efficiency.</li> <li>• Explain that the condition for allocative efficiency is <math>P = MC</math> (or, with externalities, <math>MSB = MSC</math>).</li> <li>• Explain, using a diagram, why a perfectly competitive market leads to allocative efficiency in both the short</li> </ul>	Blink c 7	<u>Example</u>	<u>U-tube</u>	<b>3</b>	

				<p>run and the long run.</p> <ul style="list-style-type: none"> <li>• Explain the meaning of the term productive/technical efficiency.</li> <li>• Explain that the condition for productive efficiency is that production takes place at minimum average total cost.</li> <li>• Explain, using a diagram, why a perfectly competitive firm will be productively efficient in the long run, though not necessarily in the short run.</li> </ul>					
<b>Monopoly</b>									
<b>57</b> <b>HL</b> <b>Only</b>			Assumptions of the model	<ul style="list-style-type: none"> <li>• Describe, using examples, the assumed characteristics of a monopoly: a single or dominant firm in the market; no close substitutes; significant barriers to entry.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>58</b> <b>HL</b> <b>Only</b>			Barriers to entry	<ul style="list-style-type: none"> <li>• Describe, using examples, barriers to entry, including economies of scale, branding and legal barriers.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W</b> <b>e</b> <b>I</b> <b>G</b> <b>h</b> <b>t</b>	<b>W</b> <b>E</b> <b>B</b> <b>N</b> <b>O</b> <b>T</b> <b>E</b>
<b>59</b> <b>HL</b> <b>Only</b>			Revenue curves	<ul style="list-style-type: none"> <li>• Explain that the average revenue curve for a monopolist is the market demand curve, which will be downward sloping.</li> <li>• Explain, using a diagram, the relationship between demand, average revenue and marginal revenue in a monopoly.</li> <li>• Explain why a monopolist</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>3</b>	

			will never choose to operate on the inelastic portion of its average revenue curve.					
<b>60 HL Only</b>		Profit maximization	<p>Explain, using a diagram, the short- and long-run equilibrium output and pricing decision of a profit maximizing (loss minimizing) monopolist, identifying the firm's economic profit (<b>abnormal profit</b>), or losses.</p> <ul style="list-style-type: none"> <li>• Explain the role of barriers to entry in permitting the firm to earn economic profit (<b>abnormal profit</b>).</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>61 HL Only</b>		Revenue maximization	<ul style="list-style-type: none"> <li>• Explain, using a diagram, the output and pricing decision of a revenue maximizing monopoly firm.</li> <li>• Compare and contrast, using a diagram, the equilibrium positions of a profit maximizing monopoly firm and a revenue maximizing monopoly firm.</li> <li>• Calculate from a set of data and/or diagrams the revenue maximizing level of output.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>62 HL Only</b>		Natural monopoly	<ul style="list-style-type: none"> <li>• With reference to economies of scale, and using examples, explain the meaning of the term "natural monopoly".</li> <li>• Draw a diagram illustrating a natural monopoly.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>63 HL Only</b>		Monopoly and efficiency	<p>Explain, using diagrams, why the profit maximizing choices of a monopoly firm lead to allocative inefficiency (welfare loss) and productive inefficiency.</p> <ul style="list-style-type: none"> <li>• Explain why, despite inefficiencies, a monopoly may be considered desirable for a variety of reasons, including the ability to finance research and development (R&amp;D) from economic profits, the need to innovate to maintain economic profit (<b>abnormal profit</b>), and the possibility of economies of scale.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>3</b>	

<b>64</b> <b>HL</b> <b>Only</b>			Policies to regulate monopoly power	<ul style="list-style-type: none"> <li>Evaluate the role of legislation and regulation in reducing monopoly power.</li> </ul>	Blink c 8	<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>65</b> <b>HL</b> <b>Only</b>			The advantages and disadvantages of monopoly compared with perfect competition	<ul style="list-style-type: none"> <li>Draw diagrams and use them to compare and contrast a monopoly market with a perfectly competitive market, with reference to factors including efficiency, price and output, research and development (R&amp;D) and economies of scale.</li> </ul>	Blink cc 6+ 8	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W</b> <b>e</b> <b>i</b> <b>g</b> <b>h</b> <b>t</b>	<b>W</b> <b>E</b> <b>B</b> <b>N</b> <b>O</b> <b>T</b> <b>E</b>
<b>Monopolistic competition</b>									
<b>66</b> <b>HL</b> <b>Only</b>			Assumptions of the model	<ul style="list-style-type: none"> <li>Describe, using examples, the assumed characteristics of a monopolistic competition: a large number of firms; differentiated products; absence of barriers to entry and exit.</li> </ul>	Blink c 9	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>67</b> <b>HL</b> <b>Only</b>			Revenue curves	<ul style="list-style-type: none"> <li>Explain that product differentiation leads to a small degree of monopoly power and therefore to a negatively sloping demand curve for the product.</li> </ul>	Blink c 9	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>68</b> <b>HL</b> <b>Only</b>			Profit maximization in the short run	<ul style="list-style-type: none"> <li>Explain, using a diagram, the short-run equilibrium output and pricing decisions of a profit maximizing (loss minimizing) firm in monopolistic competition, identifying the firm's economic profit (or loss).</li> </ul>	Blink c 9	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>69</b> <b>HL</b> <b>Only</b>			Profit maximization in the long run	<ul style="list-style-type: none"> <li>Explain, using diagrams, why in the long run a firm in monopolistic competition will make normal profit.</li> </ul>	Blink c 9	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>70</b> <b>HL</b>			Non-price competition	<ul style="list-style-type: none"> <li>Distinguish between price competition and non-price competition.</li> <li>Describe examples of</li> </ul>	Blink c 9	<u>Example</u>	<u>U-tube</u>	<b>4</b>	

<b>Only</b>				nonprice competition, including advertising, packaging, product development and quality of service.					
<b>71 HL Only</b>			Monopolistic competition and efficiency	<ul style="list-style-type: none"> <li>Explain, using a diagram, why neither allocative efficiency nor productive efficiency are achieved by monopolistically competitive firms.</li> </ul>	Blink c 9	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W e l g h t</b>	<b>W E B N O T E</b>
<b>72 HL Only</b>			Monopolistic competition compared with perfect competition and monopoly	<ul style="list-style-type: none"> <li>Compare and contrast, using diagrams, monopolistic competition with perfect competition, and monopolistic competition with monopoly, with reference to factors including short run, long run, market power, allocative and productive efficiency, number of producers, economies of scale, ease of entry and exit, size of firms and product differentiation.</li> </ul>	Blink cc 6+ 9	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>Oligopoly</b>									
<b>73 HL Only</b>			Assumptions of the model	<ul style="list-style-type: none"> <li>Describe, using examples, the assumed characteristics of an oligopoly: the dominance of the industry by a small number of firms; the importance of interdependence; differentiated or homogeneous products; high barriers to entry.</li> <li>Explain why interdependence is responsible for the dilemma faced by oligopolistic firms— whether to compete or to collude.</li> <li>Explain how a concentration ratio may be used to identify an</li> </ul>	Blink c 10	<u>Example</u>	<u>U-tube</u>	<b>3</b>	

				oligopoly.					
<b>74 HL Only</b>			Game theory	<ul style="list-style-type: none"> <li>Explain how game theory (the simple prisoner's dilemma) can illustrate strategic interdependence and the options available to oligopolies.</li> </ul>	Blink c 10	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>75 HL Only</b>			Open/formal collusion	<ul style="list-style-type: none"> <li>Explain the term "collusion", give examples, and state that it is usually (in most countries) illegal.</li> <li>Explain the term "cartel".</li> <li>Explain that the primary goal of a cartel is to limit competition between member firms and to maximize joint profits as if the firms were collectively a monopoly.</li> <li>Explain the incentive of cartel members to cheat.</li> <li>Analyse the conditions that make cartel structures difficult to maintain.</li> </ul>	Blink c 10	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>76 HL Only</b>			Tacit/informal collusion	<ul style="list-style-type: none"> <li>Describe the term "tacit collusion", including reference to price leadership by a dominant firm.</li> </ul>	Blink c 10	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
			Non-collusive oligopoly	<ul style="list-style-type: none"> <li>Explain that the behaviour of firms in a non-collusive oligopoly is strategic in order to take account of possible actions by rivals.</li> <li>Explain, using a diagram, the existence of price rigidities, with reference to the kinked demand curve.</li> <li>Explain why non-price competition is common in oligopolistic markets, with reference to the risk of price wars.</li> <li>Describe, using examples, types of non-price competition.</li> </ul>	Blink c 10	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G h t</b>	<b>W E B N O T E</b>

**Price discrimination**

<p><b>77 HL Only</b></p>		<p>Necessary conditions for the practice of price discrimination</p>	<ul style="list-style-type: none"> <li>• Describe price discrimination as the practice of charging different prices to different consumer groups for the same product, where the price difference is not justified by differences in cost.</li> <li>• Explain that price discrimination may only take place if all of the following conditions exist: the firm must possess some degree of market power; there must be groups of consumers with differing price elasticities of demand for the product; the firm must be able to separate groups to ensure that no resale of the product occurs.</li> <li>• Draw a diagram to illustrate how a firm maximizes profit in third degree price discrimination, explaining why the higher price is set in the market with the relatively more inelastic demand.</li> </ul>	<p>Blink c 11</p>	<p><u>Example</u></p>	<p><u>U-tube</u></p>	<p><b>4</b></p>
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**TOK**

Theory of knowledge: potential connections

Is it rational to take into account costs already incurred in deciding whether a business venture should be terminated or whether it should receive more funds?

How can we know how to determine the balance of government policy between promoting competition in the interest of the consumer and allowing profitability in the interest of firms?

Section 2: Macroeconomics

					<p><u>Example</u></p>	<p><u>U-tube</u></p>	
			<p><b>2.1 The level of overall economic</b></p>		<p><u>Example</u></p>	<p><u>U-tube</u></p>	



				<b>activity</b>  <b>Big Questions:</b> <b>1. What are the key macroeconomic objectives of government?</b> <b>2. How do you draw the Macroeconomy ?</b>						
<b>Economic activity</b>										
item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	Example	U-tube	W E I G H T	W E B N O T E	
78			The circular flow of income model	<ul style="list-style-type: none"> <li>Describe, using a diagram, the circular flow of income between households and firms in a closed economy with no government.</li> <li>Identify the four factors of production and their respective payments (rent, wages, interest and profit) and explain that these constitute the income flow in the model.</li> <li>Outline that the income flow is numerically equivalent to the expenditure flow and the value of output flow.</li> <li>Describe, using a diagram, the circular flow of income in an open economy with government and financial markets, referring to leakages/ withdrawals (savings, taxes and import expenditure) and injections (investment, government expenditure and export revenue).</li> <li>Explain how the size of the circular flow will change depending on the relative size of injections and leakages.</li> </ul>		Example	<b>U-tube</b>  <b>Link:</b> <b>See AAA 2.1 notes section B item numbers</b>  <ul style="list-style-type: none"> <li>2</li> <li>3</li> <li>4</li> </ul>	3	20 1  20 2	

79		Measures of economic activity: gross domestic product (GDP), and gross national product (GNP) or gross national income (GNI)	<ul style="list-style-type: none"> <li>• Distinguish between GDP and GNP/GNI as measures of economic activity.</li> <li>• Distinguish between the nominal value of GDP and GNP/GNI and the real value of GDP and GNP/GNI.</li> <li>• Distinguish between total GDP and GNP/GNI and per capita GDP and GNP/GNI.</li> <li>• Examine the output approach, the income approach and the expenditure approach when measuring national income.</li> <li>• Evaluate the use of national income statistics, including their use for making comparisons over time, their use for making comparisons between countries and their use for making conclusions about standards of living.</li> <li>• Explain the meaning and significance of “green GDP”, a measure of GDP that accounts for environmental destruction.</li> </ul>		<u>Example</u>	<u>U-tube</u>  <b>Link: See AAA 2.1 notes section B item number 21</b>	<b>5</b>		
<b>80 HL Only</b>		Measures of economic activity: gross domestic product (GDP), and gross national product (GNP) or gross national income (GNI)	<ul style="list-style-type: none"> <li>• Calculate nominal GDP from sets of national income data, using the expenditure approach.</li> <li>• Calculate GNP/GNI from data</li> <li>• Calculate real GDP, using a price deflator.</li> </ul>		<u>Example</u>	<u>U-tube</u>  <b>Link: See AAA 2.1 notes section B item number 14</b>	<b>3</b>		
<b>The business cycle</b>									
<b>81</b>		Short-term fluctuations and long-term trend	<ul style="list-style-type: none"> <li>• Explain, using a business cycle diagram, that economies typically tend to go through a cyclical pattern characterized by the phases of the business cycle.</li> <li>• Explain the long-term growth trend in the business cycle diagram as the potential output of the economy.</li> <li>• Distinguish between a decrease in GDP and a decrease in GDP growth.</li> </ul>		<u>Example</u>	<u>U-tube</u>  <b>Link: See AAA 2.1 notes section B item number 23</b>	<b>4</b>		

# TOK

Theory of knowledge: potential connections

What is the empirical evidence for the existence of the business cycle? How do we decide whether this evidence is sufficient?

				<p><b>2.2 Aggregate demand and aggregate supply</b></p> <p><b>Big Questions:</b></p> <ol style="list-style-type: none"> <li><b>1. What can the AS/AD model show in the macro economy?</b></li> <li><b>2. Draw + explain the 2 schools of economics in relation to the AD/AS model?</b></li> <li><b>3. What is the multiplier? (HL only)</b></li> </ol>		<u>Example</u>	<u>U-tube</u>		
<b>Item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well!</b> Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>Aggregate demand (AD)</b>									
<b>82</b>			The AD curve	<ul style="list-style-type: none"> <li>• Distinguish between the microeconomic concept of demand for a product and the macroeconomic concept of aggregate demand.</li> <li>• Construct an aggregate demand curve.</li> <li>• Explain why the AD curve has a negative slope.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

<b>83</b>		The components of AD	<ul style="list-style-type: none"> <li>Describe consumption, investment, government spending and net exports as the components of aggregate demand.</li> </ul>	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>84</b>		The determinants of AD or causes of shifts in the AD curve	<ul style="list-style-type: none"> <li>Explain how the AD curve can be shifted by changes in consumption due to factors including changes in consumer confidence, interest rates, wealth, personal income taxes (and hence disposable income) and level of household indebtedness.</li> <li>Explain how the AD curve can be shifted by changes in investment due to factors including interest rates, business confidence, technology, business taxes and the level of corporate indebtedness.</li> <li>Explain how the AD curve can be shifted by changes in government spending due to factors including political and economic priorities.</li> <li>Explain how the AD curve can be shifted by changes in net exports due to factors including the income of trading partners, exchange rates and changes in the level of protectionism.</li> </ul>	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b><u>Aggregate supply (AS)</u></b>							
<b>85</b>		The meaning of aggregate supply	<ul style="list-style-type: none"> <li>Describe the term aggregate supply.</li> <li>Explain, using a diagram, why the short-run aggregate supply curve (SRAS curve) is upward sloping.</li> <li>Explain, using a diagram, how the AS curve in the short run (SRAS) can shift due to factors including changes in resource prices, changes in business taxes and subsidies and supply shocks.</li> </ul>	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>86</b>		Alternative views of aggregate supply	<ul style="list-style-type: none"> <li>Explain, using a diagram, that the monetarist/new classical model of the longrun aggregate supply curve (LRAS) is vertical at the level of potential output (full employment output) because aggregate supply in the long run is</li> </ul>	<u>Example</u>	<u>U-tube</u>	<b>4</b>	

				independent of the price level. • Explain, using a diagram, that the Keynesian model of the aggregate supply curve has three sections because of “wage/price” downward inflexibility and different levels of spare capacity in the economy.					
<b>87</b>			Shifting the aggregate supply curve over the long term	• Explain, using the two models above, how factors leading to changes in the quantity and/or quality of factors of production (including improvements in efficiency, new technology, reductions in unemployment, and institutional changes) can shift the aggregate supply curve over the long term.		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b><u>Equilibrium</u></b>									
<b>88</b>			Short-run equilibrium	• Explain, using a diagram, the determination of short-run equilibrium, using the SRAS curve. • Examine, using diagrams, the impacts of changes in shortrun equilibrium.		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>89</b>			Equilibrium in monetarist /new classical model	• Explain, using a diagram, the determination of long-run equilibrium, indicating that long-run equilibrium occurs at the full employment level of output. • Explain why, in the monetarist/new classical approach, while there may be short-term fluctuations in output, the economy will		<u>Example</u>	<u>U-tube</u>	<b>5</b>	

			<p>always return to the full employment level of output in the long run.</p> <ul style="list-style-type: none"> <li>• Examine, using diagrams, the impacts of changes in the long-run equilibrium.</li> </ul>					
<b>90</b>		Equilibrium in the Keynesian model	<ul style="list-style-type: none"> <li>• Explain, using the Keynesian AD/AS diagram, that the economy may be in equilibrium at any level of real output where AD intersects AS.</li> <li>• Explain, using a diagram, that if the economy is in equilibrium at a level of real output below the full employment level of output, then there is a deflationary (recessionary) gap.</li> <li>• Discuss why, in contrast to the monetarist/new classical model, the economy can remain stuck in a deflationary (recessionary) gap in the Keynesian model.</li> <li>• Explain, using a diagram, that if AD increases in the vertical section of the AS curve, then there is an inflationary gap.</li> <li>• Discuss why, in contrast to the monetarist/new classical model, increases in aggregate demand in the Keynesian AD/AS model need not be inflationary, unless the economy is operating close to, or at, the level of full employment.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>The Keynesian multiplier-see below</b>								
<b>91</b> <b>HL</b> <b>Only</b>		<b>The Keynesian multiplier</b>	<ul style="list-style-type: none"> <li>• Explain, with reference to the concepts of leakages (withdrawals) and injections, the nature and importance of the Keynesian multiplier.</li> <li>• Calculate the multiplier using either of the following formulae.</li> </ul> <p>1</p>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

			$\frac{1}{(1-MPC)}$ $\frac{1}{(MPS + MPT + MPM)}$ <ul style="list-style-type: none"> <li>• Use the multiplier to calculate the effect on GDP of a change in an injection in investment, government spending or exports.</li> <li>• Draw a Keynesian AD/AS diagram to show the impact of the multiplier.</li> </ul>						
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## TOK

### Theory of knowledge: potential connections

Business confidence is a contributing factor to the level of AD. What knowledge issues arise in attempting to measure business confidence?

The Keynesian and Monetarist positions differ on the shape of the AS curve. What is needed to settle this question: empirical evidence (if so, what should be measured?), strength of theoretical argument, or factors external to economics such as political conviction?

Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	Example	U-tube	WEIGHT	WEBNOTE
				<b>2.3 Macroeconomic objectives</b>		Example	U-tube		
<b>Low unemployment</b>									
<b>92</b>			The meaning of unemployment	<ul style="list-style-type: none"> <li>• Define the term unemployment.</li> <li>• Explain how the unemployment rate is calculated.</li> </ul>		Example	U-tube	<b>3</b>	

			<ul style="list-style-type: none"> <li>• Explain the difficulties in measuring unemployment, including the existence of hidden unemployment, the existence of underemployment, and the fact that it is an average and therefore ignores regional, ethnic, age and gender disparities.</li> </ul>					
<b>93</b> <b>HL</b> <b>Only</b>			<ul style="list-style-type: none"> <li>• Calculate the unemployment rate from a set of data.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>94</b>		Consequences of unemployment	<ul style="list-style-type: none"> <li>• Discuss possible economic consequences of unemployment, including a loss of GDP, loss of tax revenue, increased cost of unemployment benefits, loss of income for individuals, and greater disparities in the distribution of income.</li> <li>• Discuss possible personal and social consequences of unemployment, including increased crime rates, increased stress levels, increased indebtedness, homelessness and family breakdown.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>95</b>		Types and causes of unemployment	<ul style="list-style-type: none"> <li>• Describe, using examples, the meaning of frictional, structural, seasonal and cyclical (demand-deficient) unemployment.</li> <li>• Distinguish between the causes of frictional, structural, seasonal and cyclical (demand-deficient) unemployment.</li> <li>• Explain, using a diagram, that cyclical unemployment is caused by a fall in aggregate demand.</li> <li>• Explain, using a diagram, that structural unemployment is caused by changes in the demand for particular labour skills, changes in the geographical location of industries, and labour market rigidities.</li> <li>• Evaluate government policies to deal with the different types of unemployment.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	



<b>Low and stable rate of inflation</b>									
<b>96</b>			The meaning of inflation, disinflation and deflation	<ul style="list-style-type: none"> <li>• Distinguish between inflation, disinflation and deflation.</li> <li>• Explain that inflation and deflation are typically measured by calculating a consumer price index (CPI), which measures the change in prices of a basket of goods and services consumed by the average household.</li> <li>• Explain that different income earners may experience a different rate of inflation when their pattern of consumption is not accurately reflected by the CPI.</li> <li>• Explain that inflation figures may not accurately reflect changes in consumption patterns and the quality of the products purchased.</li> <li>• Explain that economists measure a core/underlying rate of inflation to eliminate the effect of sudden swings in the prices of food and oil, for example.</li> <li>• Explain that a producer price index measuring changes in the prices of factors of production may be useful in predicting future inflation.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>97</b> <b>HL</b> <b>Only</b>				<ul style="list-style-type: none"> <li>• Construct a weighted price index, using a set of data provided.</li> <li>• Calculate the inflation rate from a set of data.</li> </ul>			<b>Link:</b> <b>See</b> <b>AAA</b> <b>2.1 notes</b> <b>section</b> <b>B item</b> <b>number</b> <b>16</b>	<b>3</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well!</b> <b>Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W</b> <b>E</b> <b>I</b> <b>G</b> <b>H</b> <b>T</b>	<b>W</b> <b>E</b> <b>B</b> <b>N</b> <b>O</b> <b>T</b> <b>E</b>
<b>98</b>			Consequences of inflation	<ul style="list-style-type: none"> <li>• Discuss the possible consequences of a high inflation rate, including greater uncertainty,</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	

			redistributive effects, less saving, and the damage to export competitiveness.					
<b>99</b>		Consequences of deflation	<ul style="list-style-type: none"> <li>• Discuss the possible consequences of deflation, including high levels of cyclical unemployment and bankruptcies.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>100</b>		Types and causes of inflation	<ul style="list-style-type: none"> <li>• Explain, using a diagram, that demand-pull inflation is caused by changes in the determinants of AD, resulting in an increase in AD.</li> <li>• Explain, using a diagram, that cost-push inflation is caused by an increase in the costs of factors of production, resulting in a decrease in SRAS.</li> <li>• Evaluate government policies to deal with the different types of inflation.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>101 HL Only</b>		Possible relationships between unemployment and inflation	<ul style="list-style-type: none"> <li>• Discuss, using a short-run Phillips curve diagram, the view that there is a possible trade-off between the unemployment rate and the inflation rate in the short run.</li> <li>• Explain, using a diagram, that the short-run Phillips curve may shift outwards, resulting in stagflation (caused by a decrease in SRAS due to factors including supply shocks).</li> <li>• Discuss, using a diagram, the view that there is a longrun Phillips curve that is vertical at the natural rate of unemployment and therefore there is no trade-off between the unemployment rate and the inflation rate in the long run.</li> <li>• Explain that the natural rate of unemployment is the rate of unemployment that exists when the economy is producing at the full employment level of output.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>Economic growth</b>								
			<ul style="list-style-type: none"> <li>• Define economic growth as an increase in real GDP.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

<b>102</b>			The meaning of economic growth						
<b>103 HL Only</b>			The meaning of economic growth	<ul style="list-style-type: none"> <li>Calculate the rate of economic growth from a set of data.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>104</b>			Causes of economic growth	<ul style="list-style-type: none"> <li>Describe, using a production possibilities curve (PPC) diagram, economic growth as an increase in actual output caused by factors including a reduction in unemployment and increases in productive efficiency, leading to a movement of a point inside the PPC to a point closer to the PPC.</li> <li>Describe, using a PPC diagram, economic growth as an increase in production possibilities caused by factors including increases in the quantity and quality of resources, leading to outward PPC shifts.</li> <li>Describe, using an LRAS diagram, economic growth as an increase in potential output caused by factors including increases in the quantity and quality of resources, leading to a rightward shift of the LRAS curve.</li> <li>Explain the importance of investment for economic growth, referring to investment in physical capital, human capital and natural capital.</li> <li>Explain the importance of improved productivity for economic growth.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	<b>10 4</b>
<b>105</b>			Consequences of economic growth	<ul style="list-style-type: none"> <li>Discuss the possible consequences of economic growth, including the</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

				possible impacts on living standards, unemployment, inflation, the distribution of income, the current account of the balance of payments, and sustainability.					
<b>Equity in the distribution of income</b>									
<b>106</b>			The meaning of equity in the distribution of income	<ul style="list-style-type: none"> <li>• Explain the difference between equity in the distribution of income and equality in the distribution of income.</li> <li>• Explain that due to unequal ownership of factors of production, the market system may not result in an equitable distribution of income.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>107</b>			Indicators of income equality/inequality	<ul style="list-style-type: none"> <li>• Analyse data on relative income shares of given percentages of the population, including deciles and quintiles.</li> <li>• Draw a Lorenz curve and explain its significance.</li> <li>• Explain how the Gini coefficient is derived and interpreted.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>108</b>			Poverty	<ul style="list-style-type: none"> <li>• Distinguish between absolute poverty and relative poverty.</li> <li>• Explain possible causes of poverty, including low incomes, unemployment and lack of human capital.</li> <li>• Explain possible consequences of poverty, including low living standards, and lack of access to health care and education</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>109</b>			The role of taxation in promoting equity	<ul style="list-style-type: none"> <li>• Distinguish between direct and indirect taxes, providing examples of each, and explain that direct taxes may be used as a mechanism to redistribute income.</li> <li>• Distinguish between progressive, regressive and proportional taxation, providing examples of each.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H</b>	<b>W E B N O</b>

								T	T E
<b>110</b> <b>HL</b> <b>Only</b>		The role of taxation in promoting equity	<ul style="list-style-type: none"> <li>Calculate the marginal rate of tax and the average rate of tax from a set of data.</li> </ul>		<u>Example</u>	<u>U-tube</u>		<b>3</b>	
<b>111</b>		Other measures to promote equity	<ul style="list-style-type: none"> <li>Explain that governments undertake expenditures to provide directly, or to subsidize, a variety of socially desirable goods and services (including health care services, education, and infrastructure that includes sanitation and clean water supplies), thereby making them available to those on low incomes.</li> <li>Explain the term transfer payments, and provide examples, including old age pensions, unemployment benefits and child allowances.</li> </ul>		<u>Example</u>	<u>U-tube</u>		<b>4</b>	
<b>112</b>		The relationship between equity and efficiency	<ul style="list-style-type: none"> <li>Evaluate government policies to promote equity (taxation, government expenditure and transfer payments) in terms of their potential positive or negative effects on efficiency in the allocation of resources.</li> </ul>		<u>Example</u>	<u>U-tube</u>		<b>5</b>	

## TOK

### Theory of knowledge: potential connections

What criteria can be used to order macroeconomic objectives in terms of priority? Are such criteria external to economics (that is, normative)?

Is economic growth always beneficial? What could be meant by the word “beneficial”?

Is there always a cost to economic growth?

The notion of fairness can be approached from a number of perspectives—equality of opportunity, maximizing the income of the least well-off group, and absolute equality of income. Which of these notions seems to be most attractive? Why? Examine what each of these perspectives suggests is a fair distribution of income.

Equality of opportunity implies correcting for social advantage (for example, government might devote more resources to the education of a child brought up in less prosperous circumstances than one brought up in a comfortable home whose parents are university lecturers). How far should the state go in making such corrections? Should all parents be forced to read to their children so that no child should be at a disadvantage? Should the state attempt to correct for the uneven distribution of natural abilities such as IQ (intelligence quotient) by devoting proportionally more resources to children of less than average IQ.

						<u>Example</u>	<u>U-tube</u>		
<b>2.4 Fiscal policy</b>									
<b>The government budget</b>									
<b>113</b>			Sources of government revenue	<ul style="list-style-type: none"> <li>Explain that the government earns revenue primarily from taxes (direct and indirect), as well as from the sale of goods and services and the sale of state-owned (government owned) enterprises.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>114</b>			Types of government expenditures	<ul style="list-style-type: none"> <li>Explain that government spending can be classified into current expenditures, capital expenditures and transfer payments, providing examples of each.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>115</b>			The budget outcome	<ul style="list-style-type: none"> <li>Distinguish between a budget deficit, a budget surplus and a balanced budget.</li> <li>Explain the relationship between budget deficits/surpluses and the public (government) debt.</li> </ul>	Note: Blink does not appear to cover items 115-119 effectively so I will give you additional sources here.	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>The role of fiscal policy</b>									

116		Fiscal policy and short-term demand management	<ul style="list-style-type: none"> <li>• Explain how changes in the level of government expenditure and/or taxes can influence the level of aggregate demand in an economy.</li> <li>• Describe the mechanism through which expansionary fiscal policy can help an economy close a deflationary (recessionary) gap.</li> <li>• Construct a diagram to show the potential effects of expansionary fiscal policy, outlining the importance of the shape of the aggregate supply curve.</li> <li>• Describe the mechanism through which contractionary fiscal policy can help an economy close an inflationary gap.</li> <li>• Construct a diagram to show the potential effects of contractionary fiscal policy, outlining the importance of the shape of the aggregate supply curve.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
117		The impact of automatic stabilizers	<ul style="list-style-type: none"> <li>• Explain how factors including the progressive tax system and unemployment benefits, which are influenced by the level of economic activity and national income, automatically help stabilize short-term fluctuations.</li> </ul>		<u>Example</u>  Portugal uses bond market to increase government spending: Portugal held a sale of its 10-year bonds today for the first time since it needed a bailout in 2011. The sale represents a milestone in its efforts to regain investor confidence and prove its contested austerity policies	<u>U-tube</u>	<b>3</b>	

					<p>are paying off.</p> <p>Portugal had not sold long-term debt since it needed a €78 billion rescue two years ago.</p> <p>The three major international ratings agencies downgraded Portugal's credit worthiness to junk status as the debt-heavy country fell victim to the euro zone financial crisis that unnerved investors.</p> <p>Growing concerns that Portugal had too much debt and too little growth made markets uneasy about lending it money.</p> <p><b>Source: rte.ie</b></p>			
<b>118</b>		Fiscal policy and its impact on potential output	<ul style="list-style-type: none"> <li>• Explain that fiscal policy can be used to promote long-term economic growth (increases in potential output) indirectly by creating an economic environment that is favourable to private investment, and directly through government spending on physical capital goods and human capital formation, as well as provision of incentives for firms to invest.</li> </ul>		<b>Example</b>	<b><u>U-tube</u></b>	<b>4</b>	
<b>119</b>		Evaluation of fiscal policy	<ul style="list-style-type: none"> <li>• Evaluate the effectiveness of fiscal policy through consideration of factors including the ability to target sectors of the</li> </ul>		<b>Example</b>	<b><u>U-tube</u></b>	<b>5</b>	



				economy, the direct impact on aggregate demand, the effectiveness of promoting economic activity in a recession, time lags, political constraints, crowding out, and the inability to deal with supply-side causes of instability.					
<b>Item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<b>Example</b>	<b>U-tube</b>	<b>W E I G H T</b>	<b>W E B N O T E</b>

## TOK

### Theory of knowledge: potential connections

In one sense the imposition of taxes by government on individuals amounts to a restriction of individual freedom. How can we know when such government interference in individual freedom is justified?

				<b>2.5 Monetary policy</b>		<b>Example</b>	<b>U-tube</b>		
<b>120</b>			Interest rate determination and the role of a central bank	<ul style="list-style-type: none"> <li>Describe the role of central banks as regulators of commercial banks and bankers to governments.</li> <li>Explain that central banks are usually made responsible for interest rates and exchange rates in order to achieve macroeconomic objectives.</li> <li>Explain, using a demand and supply of money diagram, how equilibrium interest rates are determined, outlining the role of the central bank in influencing the supply of money.</li> </ul>		<b>Example</b>	<b>U-tube</b>	<b>4</b>	

### The role of monetary policy

<b>121</b>			Monetary policy and short-term demand management	<ul style="list-style-type: none"> <li>Explain how changes in interest rates can influence the level of aggregate demand in an economy.</li> <li>Describe the mechanism through which easy (expansionary) monetary policy can help an economy close a deflationary (recessionary) gap.</li> <li>Construct a diagram to show the potential effects of easy (expansionary) monetary policy, outlining</li> </ul>		<b>Example</b>	<b>U-tube</b>	<b>5</b>	
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			<p>the importance of the shape of the aggregate supply curve.</p> <ul style="list-style-type: none"> <li>• Describe the mechanism through which tight (contractionary) monetary policy can help an economy close an inflationary gap.</li> <li>• Construct a diagram to show the potential effects of tight (contractionary) monetary policy, outlining the importance of the shape of the aggregate supply curve.</li> </ul>					
<b>122</b>		Monetary policy and inflation targeting	<ul style="list-style-type: none"> <li>• Explain that central banks of certain countries, rather than focusing on the maintenance of both full employment and a low rate of inflation, are guided in their monetary policy by the objective to achieve an explicit or implicit inflation rate target.</li> </ul>		<p><b>Example</b> <b>May 2013</b></p> <p>The Japanese central bank said it will massively expand the country's money supply to spur inflation as it strives to get the world's third-largest economy out of its slump.</p> <p>The Bank of Japan ended a two-day policy today vowing to achieve a 2% inflation target at "the earliest possible time."</p> <p>To do so, the central bank has launched "a new phase of monetary easing both in terms of quantity and quality" that will double the money supply, it said in a statement.</p> <p><b>Source: rte.ie</b></p>	<u><b>U-tube</b></u>	<b>3</b>	
<b>123</b>		Evaluation of monetary policy	<ul style="list-style-type: none"> <li>• Evaluate the effectiveness of monetary policy through consideration of factors including the independence</li> </ul>		<b>Example</b>	<u><b>U-tube</b></u>	<b>5</b>	

				of the central bank, the ability to adjust interest rates incrementally, the ability to implement changes in interest rates relatively quickly, time lags, limited effectiveness in increasing aggregate demand if the economy is in deep recession and conflict among government economic objectives.					
<b>Item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
				<b>2.6 Supply-side policies</b>		<u>Example</u>	<u>U-tube</u>		

**The role of supply-side policies**

<b>124</b>			Supply-side policies and the economy	<ul style="list-style-type: none"> <li>• Explain that supply-side policies aim at positively affecting the production side of an economy by improving the institutional framework and the capacity to produce (that is, by changing the quantity and/or quality of factors of production).</li> <li>• State that supply-side policies may be market-based or interventionist, and that in either case they aim to shift the LRAS curve to the right, achieving growth in potential output.</li> </ul>	For 2.6 it is a good idea to revise the advantages + dis adv. of the market system in section 1: see webnotes 227, 231 and 232. See also items 181-184 in section 2.6 re aid or trade or the market vs intervention in terms of development.	<u>Example</u>	<u>U-tube</u>	<b>4</b>	
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**Interventionist supply-side policies**

<b>125</b>			Investment in human capital	<ul style="list-style-type: none"> <li>• Explain how investment in education and training will raise the levels of human capital and have a short-term impact on aggregate demand, but more importantly will increase LRAS.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>126</b>			Investment in	<ul style="list-style-type: none"> <li>• Explain how policies that encourage research and</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

			new technology	development will have a short-term impact on aggregate demand, but more importantly will result in new technologies and will increase LRAS.					
<b>127</b>			Investment in infrastructure	• Explain how increased and improved infrastructure will have a short-term impact on aggregate demand, but more importantly will increase LRAS.		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>128</b>			Industrial policies	• Explain that targeting specific industries through policies including tax cuts, tax allowances and subsidized lending promotes growth in key areas of the economy and will have a short-term impact on aggregate demand but, more importantly, will increase LRAS.		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Market-based supply-side policies</b>									
<b>129</b>			Policies to encourage competition	• Explain how factors including deregulation, privatization, trade liberalization and antimonopoly regulation are used to encourage competition.	See 1.5 Items 58-68	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>130</b>			Labour market reforms	• Explain how factors including reducing the power of labour unions, reducing unemployment benefits and abolishing minimum wages are used to make the labour market more flexible (more responsive to supply and demand).		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>131</b>			Incentive-related policies	• Explain how factors including personal income tax cuts are used to		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

				increase the incentive to work, and how cuts in business tax and capital gains tax are used to increase the incentive to invest.					
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**Evaluation of supply-side policies**

<b>132</b>			The strengths and weaknesses of supplyside policies	<ul style="list-style-type: none"> <li>Evaluate the effectiveness of supply-side policies through consideration of factors including time lags, the ability to create employment, the ability to reduce inflationary pressure, the impact on economic growth, the impact on the government budget, the effect on equity, and the effect on the environment.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
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<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
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**TOK**

**Theory of knowledge: potential connections**

How can we know whether government should support pure research, which might contribute to the sum total of human knowledge but which might never have an impact on technology? What other knowledge issues are relevant to investment in pure research? Investment in education and training is a common supply-side policy. What other reasons could there be for supporting the education of the population? What knowledge issues arise in answering the question as to whether government should shoulder this responsibility or whether it should be left to the market?

				<b>Section 3: International economics</b>		<u>Example</u>	<u>U-tube</u>		
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				<b>3.1 International trade</b> <b>Big Questions for webnote 99:</b> <ol style="list-style-type: none"> <li>Why do countries trade?</li> <li>Explain 3 types of protectionism.</li> <li>Using diagrams show how stakeholders are affected when trade protection / free</li> </ol>		<u>Example</u>	<u>U-tube</u>		
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			4. <b>trade is introduced. Show a welfare loss when protectionism is introduced or a welfare gain when free trade is introduced.</b>					
<b>Free trade</b>								
<b>133</b>		The benefits of trade	<ul style="list-style-type: none"> <li>• Explain that gains from trade include lower prices for consumers, greater choice for consumers, the ability of producers to benefit from economies of scale, the ability to acquire needed resources, a more efficient allocation of resources, increased competition, and a source of foreign exchange.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>134 HL Only</b>		Absolute and comparative advantage	<ul style="list-style-type: none"> <li>• Explain the theory of absolute advantage.</li> <li>• Explain, using a diagram, the gains from trade arising from a country's absolute advantage in the production of a good.</li> <li>• Explain the theory of comparative advantage.</li> <li>• Describe the sources of comparative advantage, including the differences between countries in factor endowments and the levels of technology.</li> <li>• Draw a diagram to show comparative advantage.</li> <li>• Calculate opportunity costs from a set of data in order to identify comparative advantage.</li> <li>• Draw a diagram to illustrate comparative advantage from a set of data.</li> <li>• Discuss the real-world relevance and limitations of the theory of comparative advantage, considering factors including the assumptions on which it rests, and the costs and benefits of specialization (a full discussion must take into account arguments in favour and against free trade and protection—see below).</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>135</b>		The World Trade Organization (WTO)	<ul style="list-style-type: none"> <li>• Describe the objectives and functions of the WTO.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	Example	U-tube	WEIGHT	WEBNOTE
				<b>Restrictions on free trade: Trade protection</b>		Example	U-tube		
<b>136</b>			Types of trade protection	<ul style="list-style-type: none"> <li>• Explain, using a tariff diagram, the effects of imposing a tariff on imported goods on different stakeholders, including domestic producers, foreign producers, consumers and the government.</li> <li>• Explain, using a diagram, the effects of setting a quota on foreign producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.</li> <li>• Explain, using a diagram, the effects of giving a subsidy to domestic producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.</li> <li>• Describe administrative barriers that may be used as a means of protection.</li> <li>• Evaluate the effect of different types of trade protection.</li> </ul>		Example	U-tube	<b>4</b>	
<b>137 HL Only</b>			Types of trade protection	<ul style="list-style-type: none"> <li>• Calculate from diagrams the effects of imposing a tariff on imported goods on different stakeholders, including domestic producers, foreign producers, consumers and the government.</li> <li>• Calculate from diagrams the effects of setting a quota on foreign producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.</li> <li>• Calculate from diagrams</li> </ul>		Example	U-tube	<b>3</b>	

				the effects of giving a subsidy to domestic producers on different stakeholders, including domestic producers, foreign producers, consumers and the government.					
<b>138</b>			Arguments for and against trade protection (arguments against and for free trade)	<ul style="list-style-type: none"> <li>• Discuss the arguments in favour of trade protection, including the protection of domestic jobs, national security, protection of infant industries, the maintenance of health, safety and environmental standards, anti-dumping and unfair competition, a means of overcoming a balance of payments deficit and a source of government revenue.</li> <li>• Discuss the arguments against trade protection, including a misallocation of resources, the danger of retaliation and “trade wars”, the potential for corruption, increased costs of production due to lack of competition, higher prices for domestic consumers, increased costs of imported factors of production and reduced export competitiveness.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	

## TOK

### Theory of knowledge: potential connections

Are there moral as well as economic arguments in favour of free trade?

Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E
				<p><b>3.2 Exchange rates</b></p> <p><b>Big Questions:</b></p> <p><b>1. What determines</b></p>		<u>Example</u>	<u>U-tube</u>		



				<b>exchange rates? 2. How do exchange rates affect the economy?</b>					
<b>Freely floating exchange rates</b>									
<b>139</b>			Determination of freely floating exchange rates	<ul style="list-style-type: none"> <li>Explain that the value of an exchange rate in a floating system is determined by the demand for, and supply of, a currency.</li> <li>Draw a diagram to show determination of exchange rates in a floating exchange rate system.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>140 HL Only</b>			Determination of freely floating exchange rates	<ul style="list-style-type: none"> <li>Calculate the value of one currency in terms of another currency.</li> <li>Calculate the exchange rate for linear demand and supply functions.</li> <li>Plot demand and supply curves for a currency from linear functions and identify the equilibrium exchange rate.</li> <li>Using exchange rates, calculate the price of a good in different currencies.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>141</b>			Causes of changes in the exchange rate	<ul style="list-style-type: none"> <li>Describe the factors that lead to changes in currency demand and supply, including foreign demand for a country's exports, domestic demand for imports, relative interest rates, relative inflation rates, investment from overseas in a country's firms (foreign direct investment and portfolio investment) and speculation.</li> <li>Distinguish between a depreciation of the currency and an appreciation of the currency.</li> <li>Draw diagrams to show changes in the demand for, and supply of, a currency.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>142</b>			Causes of changes in the	<ul style="list-style-type: none"> <li>Calculate the changes in the value of a currency</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

<b>HL Only</b>			exchange rate	from a setof data.					
<b>143</b>			The effects of exchange rate changes	<ul style="list-style-type: none"> <li>Evaluate the possible economic consequences of a change in the value of a currency, including the effects on a country's inflation rate, employment, economic growth and current account balance.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
				<b>Government intervention</b>		<u>Example</u>	<u>U-tube</u>		
<b>144</b>			Fixed exchange rates	<ul style="list-style-type: none"> <li>Describe a fixed exchange rate system involving commitment to a single fixed rate.</li> <li>Distinguish between a devaluation of a currency and a revaluation of a currency.</li> <li>Explain, using a diagram, how a fixed exchange rate is maintained.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
<b>145</b>			Managed exchange rates (managed float)	<ul style="list-style-type: none"> <li>Explain how a managed exchange rate operates, with reference to the fact that there is a periodic government intervention to influence the value of an exchange rate.</li> <li>Examine the possible consequences of overvalued and undervalued currencies.</li> </ul>	<p>No info in Blink. Use webnotes and resources in LRC</p> <p>See also PPP as this concept is relevant to PPP. See webnote 415 in Section 3</p>	<b>NOTE:</b> There is a link here with item 32 in section 1.3 Take a look at web 223 and buffer stock systems. Same diagram for both concepts. See item 168.		<b>4</b>	See also Web 223.
<b>146</b>			Evaluation of different exchange rate systems	<ul style="list-style-type: none"> <li>Compare and contrast a fixed exchange rate system with a floating exchange rate system, with reference to factors including the degree of certainty for stakeholders, ease of adjustment, the role of international reserves in</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	

				the form of foreign currencies and flexibility offered to policy makers.					
				<b>3.3The balance of payments</b> <b>Big Questions:</b> <ol style="list-style-type: none"> <li>1. What problems occur from a balance of payments deficit?</li> <li>2. How does the balance of payments affect the exchange rate of a country?</li> </ol>		<u>Example</u>	<u>U-tube</u>		
<b>The structure of the balance of payments</b>									
<b>147</b>			The meaning of the balance of payments	<ul style="list-style-type: none"> <li>• Outline the role of the balance of payments.</li> <li>• Distinguish between debit items and credit items in the balance of payments.</li> </ul>					
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>148</b>			The components of the balance of payments accounts	<ul style="list-style-type: none"> <li>• Explain the four components of the current account, specifically the balance of trade in goods, the balance of trade in services, income and current transfers.</li> <li>• Distinguish between a current account deficit and a current account surplus.</li> <li>• Explain the two components of the capital account, specifically capital transfers and transaction in non produced, non-financial assets.</li> <li>• Explain the three main</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

				components of the financial account, specifically, direct investment, portfolio investment and reserve assets.					
<b>149</b> <b>HL</b> <b>Only</b>			The components of the balance of payments accounts	<ul style="list-style-type: none"> <li>Calculate elements of the balance of payments from a set of data.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>150</b>			The relationships between the accounts	<ul style="list-style-type: none"> <li>Explain that the current account balance is equal to the sum of the capital account and financial account balances (see the appendix, "The balance of payments" at end of this document page 62).</li> <li>Examine how the current account and the financial account are interdependent.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Current account deficits</b>									
<b>151</b>			The relationship between the current account and the exchange rate	<ul style="list-style-type: none"> <li>Explain why a deficit in the current account of the balance of payments may result in downward pressure on the exchange rate of the currency.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>152</b> <b>HL</b> <b>Only</b>			Implications of a persistent current account deficit	<ul style="list-style-type: none"> <li>Discuss the implications of a persistent current account deficit, referring to factors including foreign ownership of domestic assets, exchange rates, interest rates, indebtedness, international credit ratings and demand management.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>153</b> <b>HL</b> <b>Only</b>			Methods to correct a persistent current account deficit	<ul style="list-style-type: none"> <li>Explain the methods that a government can use to correct a persistent current account deficit, including expenditure switching policies, expenditure reducing policies and supply-side policies, to increase competitiveness.</li> <li>Evaluate the effectiveness of the policies to correct a persistent current account deficit.</li> </ul>				<b>5</b>	
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well!</b> <b>Here are the details of</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W</b> <b>E</b>	<b>W</b> <b>E</b>

			<b>what you need to know.</b>				<b>I G H T</b>	<b>B N O T E</b>
<b>154</b> <b>HL</b> <b>Only</b>		The Marshall-Lerner condition and the J-curve effect	<ul style="list-style-type: none"> <li>State the Marshall-Lerner condition and apply it to explain the effects of depreciation/devaluation.</li> <li>Explain the J-curve effect, with reference to the Marshall-Lerner condition.</li> </ul>	See webnotes 414 and 417 in Section 3	<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>Current account surpluses</b>								
<b>155</b>		The relationship between the current account and the exchange rate	<ul style="list-style-type: none"> <li>Explain why a surplus in the current account of the balance of payments may result in upward pressure on the exchange rate of the currency.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>156</b> <b>HL</b> <b>Only</b>		Implications of a persistent current account surplus	<ul style="list-style-type: none"> <li>Discuss the possible consequences of a rising current account surplus, including lower domestic consumption and investment, as well as the appreciation of the domestic currency and reduced export competitiveness.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	
			<p><b>3.4 Economic integration</b></p> <p><b>Big Question:</b></p> <p>1. Is economic integration desirable?</p>		<u>Example</u>	<u>U-tube</u>		
<b>Forms of economic integration</b>								
<b>157</b>		Preferential trade agreements	<ul style="list-style-type: none"> <li>Distinguish between bilateral and multilateral (WTO) trade agreements.</li> <li>Explain that preferential trade agreements give preferential access to certain products from certain countries by</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

Item	hl	sl	Must Know		Reading	Example	U-tube	WEIGHT	WEBNOTE
				reducing or eliminating tariffs, or by other agreements relating to trade.					
<b>158</b>			Trading blocs	<ul style="list-style-type: none"> <li>• Distinguish between a free trade area, a customs union and a common market.</li> <li>• Explain that economic integration will increase competition among producers within the trading bloc.</li> <li>• Compare and contrast the different types of trading blocs.</li> </ul>		Example	U-tube	<b>3</b>	
<b>159</b> <b>HL</b> <b>Only</b>			Trading blocs	<ul style="list-style-type: none"> <li>• Explain the concepts of trade creation and trade diversion in a customs union.</li> <li>• Explain that different forms of economic integration allow member countries to gain from economies of scale.</li> </ul>		Example	U-tube	<b>3</b>	
<b>160</b>			Monetary union	<ul style="list-style-type: none"> <li>• Explain that a monetary union is a common market with a common currency and a common central bank.</li> <li>• Discuss the possible advantages and disadvantages of a monetary union for its members.</li> </ul>		Example	U-tube	<b>4</b>	
<b>TOK</b>									
Theory of knowledge: potential connections									
What criteria can be used to assess the benefits and the costs of increased economic integration?									
Might increased economic integration ever be considered undesirable?									
				<b>3.5 Terms of trade (HL only)</b>		Example	U-tube		
<b>The meaning of the terms of trade</b>									
<b>161</b> <b>HL</b> <b>Only</b>			Measurement	<ul style="list-style-type: none"> <li>• Explain the meaning of the terms of trade.</li> <li>• Explain how the terms of trade are measured.</li> <li>• Distinguish between an improvement and a</li> </ul>		Example	U-tube	<b>3</b>	

				deterioration in the terms of trade. • Calculate the terms of trade using the equation: Index of average export prices/index of average import prices x 100.					
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<b>Example</b>	<b>U-tube</b>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>162 HL Only</b>			Causes of changes in the terms of trade	<ul style="list-style-type: none"> <li>• Explain that the terms of trade may change in the short term due to changes in demand conditions for exports and imports, changes in global supply of key inputs (such as oil), changes in relative inflation rates and changes in relative exchange rates.</li> <li>• Explain that the terms of trade may change in the long term due to changes in world income levels, changes in productivity within the country and technological developments.</li> </ul>		<b>Example</b>	<b>U-tube</b>	<b>3</b>	
<b>163 HL Only</b>			Consequences of changes in the terms of trade	<ul style="list-style-type: none"> <li>• Explain how changes in the terms of trade in the long term may result in a global redistribution of income.</li> <li>• Examine the effects of changes in the terms of trade on a country's current account, using the concepts of price elasticity of demand for exports and imports.</li> <li>• Explain the impacts of short-term fluctuations and long-term deterioration in the terms of trade of economically less developed countries that specialize in primary commodities, using the concepts of price elasticity of demand and supply for primary products and income elasticity of demand.</li> </ul>	<b>Reading</b>	<b>Example</b>	<b>U-tube</b>	<b>3</b>	

			Section 4: Development economics		<u>Example</u>	<u>U-tube</u>		
			<b>4.1 Economic development</b>		<u>Example</u>	<u>U-tube</u>		
<b>The nature of economic growth and economic development</b>								
<b>164</b>	<b>x</b>	<b>x</b>	Economic growth and economic development	<ul style="list-style-type: none"> <li>• Distinguish between economic growth and economic development.</li> <li>• Explain the multidimensional nature of economic development in terms of reducing widespread poverty, raising living standards, reducing income inequalities and increasing employment opportunities.</li> <li>• Explain that the most important sources of economic growth in economically less developed countries include increases in quantities of physical capital and human capital, the development and use of new technologies that are appropriate to the conditions of the economically less developed countries, and institutional changes.</li> <li>• Explain the relationship between economic growth and economic development, noting that some limited economic development is possible in the absence of economic growth, but that over the long term economic growth is usually necessary for economic development (however, it should be understood that under certain circumstances economic growth may not lead to economic development).</li> </ul>	<u>Reading</u>  See Blink pp 330-334	<u>Example</u>	<u>U-tube</u>	<b>5</b>
<b>165</b>	<b>x</b>	<b>x</b>	Common characteristics of economically less	<ul style="list-style-type: none"> <li>• Explain, using examples, that economically less developed countries share certain common</li> </ul>	<u>Reading</u>  See poverty cycle in Blink p	<u>Example</u> <b>UNICEF estimates that 25% of children in the world are mal</b>	<u>U-tube</u>	<b>5</b>



			developed countries	characteristics (noting that it is dangerous to generalize as there are many exceptions in each case), including low levels of GDP per capita, high levels of poverty, relatively large agricultural sectors, large urban informal sectors and high birth rates. • Explain that in some countries there may be communities caught in a poverty trap (poverty cycle) where poor communities are unable to invest in physical, human and natural capital due to low or no savings; poverty is therefore transmitted from generation to generation, and there is a need for intervention to break out of the cycle.	344 or another version in webnote 411	nourished			
<b>Item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>166</b>	<b>x</b>	<b>x</b>	Diversity among economically less developed nations	• Explain, using examples, that economically less developed countries differ enormously from each other in terms of a variety of factors, including resource endowments, climate, history (colonial or otherwise), political systems and degree of political stability.		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>167</b>	<b>x</b>	<b>x</b>	International development goals	• Outline the current status of international development goals, including the Millennium Development Goals.		<u>Example</u>	<u>U-tube</u>	<b>5</b>	

## TOK

### Theory of knowledge: potential connections

What are the knowledge issues involved in compiling a list of development goals?

Does the term “economic development” mean different things in different cultures?

Are there two ways of thinking about economics: from the point of view of an economically more developed country or from that of an economically less developed country? If so, what is the

difference? Are there two different sets of values in which such a distinction is grounded?  
 How can we decide if the distinction between economically more developed countries and economically less developed countries is a meaningful one given that economic development itself might not be so clearly defined?

				<b>4.2 Measuring development</b>	<u>Example</u>	<u>U-tube</u>		
<b><u>Measurement methods</u></b>								
<b>168</b>		Single indicators	<ul style="list-style-type: none"> <li>• Distinguish between GDP per capita figures and GNI per capita figures.</li> <li>• Compare and contrast the GDP per capita figures and the GNI per capita figures for economically more developed countries and economically less developed countries.</li> <li>• Distinguish between GDP per capita figures and GDP per capita figures at purchasing power parity (PPP) exchange rates.</li> <li>• Compare and contrast GDP per capita figures and GDP per capita figures at purchasing power parity (PPP) exchange rates for economically more developed countries and economically less developed countries.</li> <li>• Compare and contrast two health indicators for economically more developed countries and economically less developed countries.</li> <li>• Compare and contrast two education indicators for economically more developed countries and economically less developed countries.</li> </ul>	PPP is covered in section 3.2 under exch. Rates. See item 145 in syllabusSee web <b>415</b> .	<u>Example</u>	<u>U-tube</u>	<b>3</b>	See web <b>415</b>
<b>169</b>		Composite indicators	<ul style="list-style-type: none"> <li>• Explain that composite indicators include more than one measure and so are considered to be better indicators of economic development.</li> <li>• Explain the measures that make up the Human Development Index (HDI).</li> <li>• Compare and contrast the HDI figures for economically more developed countries and economically less</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>4</b>	

				developed countries. • Explain why a country's GDP/GNI per capita global ranking may be lower, or higher, than its HDI global ranking.					
<b>Item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>

## TOK

### Theory of knowledge: potential connections

What criteria could we use to determine whether a particular method for measuring development is effective?

What knowledge issues might be encountered in constructing a composite indicator to measure development?

				<b>4.3 The role of domestic factors</b>		<u>Example</u>	<u>U-tube</u>		
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### Domestic factors and economic development

<b>170</b>			Domestic factors	• With reference to a specific developing economy, and using appropriate diagrams where relevant, examine how the following factors contribute to economic development. a. Education and health b. The use of appropriate technology c. Access to credit and micro-credit d. The empowerment of women e. Income distribution		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
				<b>4.4 The role of international trade</b>		<u>Example</u>	<u>U-tube</u>		

<b>International trade and economic development</b>									
<b>171</b>			Trade problems facing many economically less developed countries	<ul style="list-style-type: none"> <li>With reference to specific examples, explain how the following factors are barriers to development for economically less developed countries.               <ol style="list-style-type: none"> <li>Over-specialization on a narrow range of products</li> <li>Price volatility of primary products</li> <li>Inability to access international markets</li> </ol> </li> </ul>		Take a look at section 3.1 for item C making a clear connection with trade protectionism e.g use of tariffs by DC's see web 404		<b>3</b>	
<b>Item</b>	hl	sl	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	Reading	<u>Example</u>	<u>U-tube</u>	<b>WEIGHT</b>	<b>WEBNOTE</b>
<b>172</b> <b>HL only</b>			Trade problems facing many economically less developed countries	<ul style="list-style-type: none"> <li>With reference to specific examples, explain how the following factor is a barrier to development for economically less developed countries.               <ol style="list-style-type: none"> <li>Long-term changes in the terms of trade</li> </ol> </li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
<b>173</b>			Trade strategies for economic growth and economic development	<ul style="list-style-type: none"> <li>With reference to specific examples, evaluate each of the following as a means of achieving economic growth and economic development.               <ol style="list-style-type: none"> <li>Import substitution</li> <li>Export promotion</li> <li>Trade liberalization</li> <li>The role of the WTO</li> <li>Bilateral and regional preferential trade agreements</li> </ol> </li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

			f. Diversification						
			<p><b>4.5 The role of foreign direct investment (FDI)</b></p> <p><b>Big Questions:</b></p> <ol style="list-style-type: none"> <li>1. Explain FDI (use an example).</li> <li>2. Evaluate how FDI affects LDC's?</li> </ol>		<u>Example</u>	<u>U-tube</u>			
<b>Foreign direct investment and multinational corporations (MNCs)</b>									
<b>174</b>		The meaning of FDI and MNCs	<ul style="list-style-type: none"> <li>• Describe the nature of foreign direct investment (FDI) and multinational corporations (MNCs).</li> <li>• Explain the reasons why MNCs expand into economically less developed countries.</li> <li>• Describe the characteristics of economically less developed countries that attract FDI, including low cost factor inputs, a regulatory framework that favours profit repatriation and favourable tax rules.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>		
<b>175</b>		Advantages and disadvantages of FDI for economically less developed countries	<ul style="list-style-type: none"> <li>• Evaluate the impact of foreign direct investment (FDI) for economically less developed countries.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>		
			<p><b>4.6 The roles of foreign aid and multilateral development assistance</b></p>		<u>Example</u>	<u>U-tube</u>			

Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	Example	U-tube	WEIGHT	WEBNOTE
<b>Foreign aid</b>									
<b>176</b>			Classifications and types of aid	<ul style="list-style-type: none"> <li>• Explain that aid is extended to economically less developed countries either by governments of donor countries, in which case it is called official development assistance (ODA), or by nongovernmental organizations NGOs).</li> <li>• Explain that humanitarian aid consists of food aid, medical aid and emergency relief aid.</li> <li>• Explain that development aid consists of grants, concessional long-term loans, project aid that includes support for schools and hospitals, and programme aid that includes support for sectors such as the education sector and the financial sector.</li> <li>• Explain that, for the most part, the priority of NGOs is to provide aid on a small scale to achieve development objectives.</li> <li>• Explain that aid might also come in the form of tied aid.</li> <li>• Explain the motivations of economically more developed countries giving aid.</li> <li>• Compare and contrast the extent, nature and sources of ODA to two economically less developed countries.</li> </ul>		Example	U-tube	<b>3</b>	
<b>177</b>			Evaluation of foreign aid	<ul style="list-style-type: none"> <li>• Evaluate the effectiveness of foreign aid in contributing to economic development.</li> <li>• Compare and contrast the</li> </ul>		Example	U-tube	<b>5</b>	

				roles of aid and trade in economic development.					
<b>Multilateral development assistance</b>									
<b>178</b>			The roles of the International Monetary Fund (IMF) and the World Bank	<ul style="list-style-type: none"> <li>Examine the current roles of the IMF and the World Bank in promoting economic development.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	
				<b>4.7 The role of international debt</b>		<u>Example</u>	<u>U-tube</u>		
<b>Foreign debt</b>									
<b>Item</b>	<b>hl</b>	<b>sl</b>	<b>Must Know</b>	<b>Must know very well! Here are the details of what you need to know.</b>	<b>Reading</b>	<u>Example</u>	<u>U-tube</u>	<b>W E I G H T</b>	<b>W E B N O T E</b>
<b>179</b>			Foreign debt and its consequences	<ul style="list-style-type: none"> <li>Outline the meaning of foreign debt and explain why countries borrow from foreign creditors.</li> <li>Explain that in some cases countries have become heavily indebted, requiring rescheduling of the debt payments and/or conditional assistance from international organizations, including the IMF and the World Bank.</li> <li>Explain why the servicing of international debt causes balance of payments problems and has an opportunity cost in terms of foregone spending on development objectives.</li> <li>Explain that the burden of</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>3</b>	

			debt has led to pressure to cancel the debt of heavily indebted countries.					
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## TOK

### Theory of knowledge: potential connections

For each factor, what would you consider to be sufficient evidence that it plays a role in enhancing or inhibiting development?

			<b>4.8 The balance between markets and intervention</b>		<u>Example</u>	<u>U-tube</u>		
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### Strengths and weaknesses of market-oriented policies

<b>180</b>		Strengths	<ul style="list-style-type: none"> <li>Discuss the positive outcomes of market-oriented policies (such as liberalized trade and capital flows, privatization and deregulation), including a more efficient allocation of resources and economic growth.</li> </ul>	For 4.8 it is a good idea to revise the advantages + dis adv. of the market system in section 1: see webnotes 227, 231 and 232. See also items 125-133 in section 2.6 re Supply Side policies.	<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>181</b>		Weaknesses	<ul style="list-style-type: none"> <li>Discuss the negative outcomes of market-oriented strategies, including market failure, the development of a dual economy and income inequalities.</li> </ul>	See also items 124 to 132 in the syllabus as this concept is useful	<u>Example</u>	<u>U-tube</u>	<b>5</b>	

### Strengths and weaknesses of interventionist policies

Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E
<b>182</b>			Strengths	<ul style="list-style-type: none"> <li>Discuss the strengths of interventionist policies, including the provision of infrastructure, investment in human capital, the</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	



			provision of a stable macroeconomic economy and the provision of a social safety net.					
<b>183</b>		Weaknesses	<ul style="list-style-type: none"> <li>Discuss the limitations of interventionist policies, including excessive bureaucracy, poor planning and corruption.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
<b>184</b>		Market with government intervention	<ul style="list-style-type: none"> <li>Explain the importance of good governance in the development process.</li> <li>Discuss the view that economic development may best be achieved through a complementary approach, involving a balance of market oriented policies and government intervention.</li> </ul>		<u>Example</u>	<u>U-tube</u>	<b>5</b>	
			<p><b>TOK</b></p> <p><b>Theory of knowledge: potential connections</b></p> <p>What criteria can economists use to decide on the balance between markets and intervention? Is development economics dependent upon external normative notions such as what constitutes a good or fulfilled life?</p>		<u>Example</u>	<u>U-tube</u>		

**THE END.**

*.... Or maybe just the beginning!!!*

**Notes:**

**This note refers to syllabus item [150](#)**

## Structure of the balance of payments

While the structure of the balance of payments may vary from country to country, a working version of the structure (and components) of the balance of

payments is given below and must be used by DP economics students for the purposes of the curriculum and assessment.

## Current account

- Balance of trade in goods
- Balance of trade in services
- Income

## Capital account

- Current transfers
- Capital transfers

## Financial account

- Transactions in non-produced, non-financial assets
- Direct investment
- Portfolio investment

- Reserve assets
- Current account = capital account + financial account + errors and omissions**

## IB ASSESSMENT – OFFICIAL IB DOCUMENTATION

Note formatting is not the best but I will revise this. B

Assessment

## General

Assessment is an integral part of teaching and learning. The most important aims of assessment in the Diploma Programme are that it should support curricular goals and encourage appropriate student learning. Both external and internal assessment are used in the Diploma Programme. IB examiners mark work produced for external assessment, while work produced for internal assessment is marked by teachers and externally moderated by the IB.

There are two types of assessment identified by the IB.

- Formative assessment informs both teaching and learning. It is concerned with providing accurate and helpful feedback to students and teachers on the kind of learning taking place and the nature of students' strengths and weaknesses in order to help develop students' understanding and capabilities. Formative assessment can also help to improve teaching quality, as it can provide information to monitor progress towards meeting the course aims

and objectives.

- Summative assessment gives an overview of previous learning and is concerned with measuring student achievement.

The Diploma Programme primarily focuses on summative assessment designed to record student achievement at, or towards the end of, the course of study. However, many of the assessment instruments can also be used formatively during the course of teaching and learning, and teachers are encouraged to do this. A comprehensive assessment plan is viewed as being integral with teaching, learning and course organization. For further information, see the IB Programme standards and practices document.

The approach to assessment used by the IB is criterion-related, not norm-referenced. This approach to assessment judges students' work by their performance in relation to identified levels of attainment, and not in relation to the work of other students. For further information on assessment within the Diploma Programme please refer to the publication Diploma Programme assessment: Principles and practice.

To support teachers in the planning, delivery and assessment of the Diploma Programme courses, a variety of resources can be found on the OCC or purchased from the IB store (<http://store.ibo.org>). Teacher support materials, subject reports, internal assessment guidance, grade descriptors, as well as resources from other teachers, can be found on the OCC. Specimen and past examination papers, as well as markschemes, can be purchased from the IB store.

## Methods of assessment

The IB uses several methods to assess work produced by students.

### Assessment criteria

Assessment criteria are used when the assessment task is open-ended. Each criterion concentrates on a particular skill that students are expected to demonstrate. An assessment objective describes what students should be able to do and assessment criteria describe how well they should be able to do it. Using assessment criteria allows discrimination between different answers and encourages a variety of responses.

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Each criterion comprises a set of hierarchically ordered level descriptors. Each level descriptor is worth one or more marks. Each criterion is applied independently using a best-fit model. The maximum marks for each criterion may differ according to the criterion's importance. The marks awarded for each criterion are added together to give the total mark for the piece of work.

### Markbands

Markbands are a comprehensive statement of expected performance against which responses are judged. They represent a single holistic criterion divided into level descriptors. Each level descriptor corresponds to a range of marks to differentiate student performance. A best-fit approach is used to ascertain which particular mark to use from the possible range for each level descriptor.

### Markschemes

This generic term is used to describe analytic markschemes that are prepared for specific examination papers. Analytic markschemes are prepared for those examination questions that expect a particular kind of response and/or a given final answer from the students. They give detailed instructions to examiners on how to break down the total mark for each question for different parts of the response. A markscheme may include the content expected in the responses to questions or may be a series of marking notes giving guidance on how to apply criteria.

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Assessment in the Diploma Programme

External assessment (3 hours) Paper 1 (1 hour and 30 minutes)

An extended response paper (50 marks)

Assessment objectives 1, 2, 3, 4

Section A

Syllabus content: section 1—microeconomics

Students answer one question from a choice of two. (25 marks) Section B

Syllabus content: section 2—macroeconomics

Students answer one question from a choice of two. (25 marks)

Paper 2 (1 hour and 30 minutes)

A data response paper (40 marks)

Assessment objectives 1, 2, 3, 4

Section A

Syllabus content: section 3—international economics Students answer one question from a choice of two. (20 marks) Section B

Syllabus content: section 4—development economics Students answer one question from a choice of two. (20 marks)

80% 40%

40%

Internal assessment (20 teaching hours)

This component is internally assessed by the teacher and externally moderated by the IB at the end of the course.

Students produce a portfolio of three commentaries, based on different sections of the syllabus and on published extracts from the news media.

Maximum 750 words x 3 (45 marks)

20%

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First examinations 2013

Assessment component

Weighting

External assessment (4 hours) Paper 1 (1 hour and 30 minutes)

An extended response paper (50 marks)

Assessment objectives 1, 2, 3, 4

Section A

Syllabus content: section 1—microeconomics

Students answer one question from a choice of two. (25 marks) Section B

Syllabus content: section 2—macroeconomics

Students answer one question from a choice of two. (25 marks)

Paper 2 (1 hour and 30 minutes)

A data response paper (40 marks)

Assessment objectives 1, 2, 3, 4

Section A

Syllabus content: section 3—international economics Students answer one question from a choice of two. (20 marks) Section B

Syllabus content: section 4—development economics Students answer one question from a choice of two. (20 marks)

Paper 3 (1 hour)

HL extension paper (50 marks) Assessment objectives 1, 2 and 4

Syllabus content, including HL extension material: sections 1 to 4—microeconomics, macroeconomics, international economics, development economics

Students answer two questions from a choice of three. (25 marks per question)

80% 30%

30%

20%

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Assessment outline—HL

Assessment component

Weighting

Internal assessment (20 teaching hours)

This component is internally assessed by the teacher and externally moderated by the IB at the end of the course.

Students produce a portfolio of three commentaries, based on different sections of the syllabus and on published extracts from the news media.

Maximum 750 words x 3 (45 marks)

20%

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Two different methods are used to assess students.

- Detailed markschemes specific to each examination paper
- Markbands

For all three examination papers, there are markbands and markschemes. The markbands are related to the assessment objectives established for the economics course and the group 3 grade descriptors. The markschemes are specific to each examination paper.

## Written papers

The external assessment in economics consists of two examination papers at SL and three examination papers at HL that are externally set and externally moderated. They are designed to allow students to demonstrate their competencies in relation to the economics assessment objectives and specific parts of the economics syllabus, namely the common topics and the HL extension material. All questions on the examination papers will be based on the topics in this guide.

The external components contribute 80% to the final assessment at both SL and HL.

In common with all examination papers, students at SL and HL are given five minutes of reading time before they begin answering the papers.

## Command terms

Teachers must ensure that students are aware of the command terms used at each assessment objective level to understand the depth of treatment required in examination questions. There is a progression in demand from AO1 to AO3, while AO4 terms are specific to particular skills and techniques, and also to examination questions.

Questions may be from the same classification as specified in the learning outcomes, or a less demanding command term from a lower classification. For example, if the command term in the learning outcome is “explain”, which is classified as AO2, an examination question could contain the command term “explain” or another command term, such as “suggest”, which is also classified as AO2. Alternatively, the examination question could contain a command term from AO1, such as “describe”. However, a more demanding command term, such as “evaluate”, from a higher classification (AO3 in this case), cannot be used.

The command terms used in each question or part thereof indicate the depth required. Please refer in particular to the section “Command terms” in “Assessment objectives in practice”. See also the external assessment details below and “Glossary of command terms”.

## Use of diagrams

Students are expected, where appropriate, to include correctly labelled and clearly drawn diagrams. Sometimes individual questions specify that the use of diagrams is essential because more detailed information is required from the students in order to show specific knowledge and understanding.

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External assessment

## Use of examples

Students are expected, where appropriate, to illustrate their answers with examples in order to reach the highest markbands. Examples should be used to highlight economic concepts, theories and relationships in the real world. When examples are used, students should not just state the example (as this is too limited), but should also offer some explanation of the

example in relation to the question asked.

## Use of economic terms

Students are expected to demonstrate the ability to define the economic terms included in the syllabus details.

## Use of calculators Paper 1 and paper 2 (SL/HL)

Calculators are not permitted.

### Paper 3 (HL only)

While all questions requiring a calculator can be answered fully using a four function (plus, minus, multiply, divide) calculator, graphic display calculators (GDCs) are allowed during the examination. The graphing functions on these calculators may assist students and it is therefore recommended that all students are familiar with the use of GDCs.

Teachers and schools must adhere to the regulations regarding the use of electronic calculators in examinations, and students must be made aware of these. This information can be found in the relevant section of the Handbook of procedures for the Diploma Programme.

## Links to the specific details in the syllabus

Examination questions will be drawn from sections 1 to 4 of the syllabus, not from the foundations of economics or from any introductory section covered by the teacher (as outlined in “Approaches to the teaching of economics”). The questions will be drawn from the specific topic areas and will reflect the command terms used to describe the learning outcomes.

# External assessment details—SL

## Paper 1

Duration: 1 hour 30 minutes

Weighting: 40%

The structure of this paper is the same as HL paper 1 but the questions that require extended responses may be the same as, or different from, the HL paper 1 questions.

- Students answer two questions in total, one from section A and one from section B.
- In each section, students are required to answer one question from a choice of two.
- The questions are each subdivided into two parts, (a) and (b).

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Students are expected to demonstrate the following assessment objectives.

### External assessment

#### Assessment objective

Sections A and B: Part (a)

Sections A and B: Part (b)

AO1—knowledge and understanding

AO2—application and analysis

AO3—synthesis and evaluation

AO4—selection, use and application of a variety of appropriate skills and techniques

### Section A

- The principal focus is on section 1 of the syllabus—microeconomics.
- While the principal focus of the questions is on section 1, it is likely that students will be required to draw on other sections of the syllabus.
- The command terms used in each question, or part thereof, indicate the depth required.
- Part (a) of each question requires knowledge and understanding, application and analysis and the selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 10 marks.
- Part (b) of each question requires knowledge and understanding, application and analysis,

synthesis and evaluation, and the selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 15 marks.

- The section A question is worth a total of 25 marks.

### Section B

- The principal focus is on section 2 of the syllabus—macroeconomics.
- While the principal focus of the questions is on section 2, it is likely that students will be required to draw on other sections of the syllabus.
- The command terms used in each question, or part thereof, indicate the depth required.
- Part (a) of each question requires knowledge and understanding, application and analysis, and the selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 10 marks.
- Part (b) of each question requires knowledge and understanding, application and analysis, synthesis and evaluation, and the selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 15 marks.
- The section B question is worth a total of 25 marks.

Responses are assessed with an analytic markscheme specific to the question paper, which indicates the required responses, any particular breakdown of marks and the markbands used to allocate marks.

Overall, the maximum for paper 1 is 50 marks.

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External assessment

## Paper 2

Duration: 1 hour 30 minutes

Weighting: 40%

The structure of this paper is the same as HL paper 2. However, these data response questions may be the same as, or different from, those used for the HL paper.

The text/data used may not be the same at SL and at HL.

- Students answer two questions in total, one from section A and one from section B.
- In each section, students are required to answer one question from a choice of two.
- The questions are each subdivided into four parts, (a), (b), (c) and (d). Students are expected to demonstrate the following assessment objectives.

Assessment objective

Sections A and B: Part (a)

Sections A and B: Part (b)

Sections A and B: Part (c)

Sections A and B: Part (d)

AO1—knowledge and understanding

- 
- 
- 
- 

AO2—application and analysis

- 
- 
- 

AO3—synthesis and evaluation

- 

AO4—selection, use and application  
of a variety of appropriate skills and techniques

- 
- 

### Section A

- The principal focus is on section 3 of the syllabus—international economics.
- While the principal focus of the questions is on section 3, it is likely that students will be required to draw on other sections of the syllabus.
- The command terms used in each question, or part thereof, indicate the depth required.
- Part (a) of each question requires knowledge and understanding. It is subdivided into (i) and



- (ii). The maximum for each of these is 2 marks, with a combined maximum of 4 marks.
- Part (b) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 4 marks.
- Part (c) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 4 marks.
- Part (d) of each question requires knowledge and understanding, application and analysis, and synthesis and evaluation. The maximum for this part is 8 marks.
- The section A question is worth a total of 20 marks.

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### Section B

- The principal focus is on section 4 of the syllabus—development economics.
- While the principal focus of the questions is on section 4, it is likely that students will be required to draw on other sections of the syllabus.
- The command terms used in each question, or part thereof, indicate the depth required.
- Part (a) of each question requires knowledge and understanding. It is subdivided into (i) and (ii). The maximum for each of these is 2 marks, with a combined maximum of 4 marks.
- Part (b) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 4 marks.
- Part (c) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is 4 marks.
- Part (d) of each question requires knowledge and understanding, application and analysis, and synthesis and evaluation. The maximum for this part is 8 marks.
- The section B question is worth a total of 20 marks.

Responses are assessed with an analytic markscheme specific to the question paper, which indicates the required responses, any particular breakdown of marks and the markbands used to allocate marks.

Overall, the maximum for paper 2 is 40 marks.

## External assessment details—HL

### Paper 1

Duration: 1 hour 30 minutes

Weighting: 30%

The structure of this paper is the same as SL paper 1. However, the questions that require extended responses may be the same as, or different from, the SL paper 1 questions.

Please see the section “External assessment details—SL”, for further details.

### Paper 2

Duration: 1 hour 30 minutes

Weighting: 30%

The structure of this paper is the same as SL paper 2. However, these data response questions may be the same as, or different from, the SL paper.

The texts/data used may not be the same as at SL.

Please see the section “External assessment details—SL”, for further details.

### Paper 3

Duration: 1 hour

Weighting: 20%

- Students answer two questions in total, from a choice of three questions.
- The questions are each subdivided into a number of parts. The number of parts will vary.

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External assessment

External assessment

Students are expected to demonstrate the following assessment objectives.

Assessment objective



All questions

AO1—knowledge and understanding

□

AO2—application and analysis

□

AO3—synthesis and evaluation

AO4—selection, use and application of a variety of appropriate skills and techniques

□

Examination questions

- The focus of the questions is on the syllabus content from sections 1 to 4, including the HL extension material and topics studied at HL only.
- The command terms used indicate the depth of response required.
- Each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques.
- Many question parts require the use of a calculator. Graphic display calculators (GDCs) are allowed during the examination, and students should be familiar with their use. Full details are given in the section “Use of calculators”.
- Each question is worth 25 marks.
- A question and answer booklet will be provided, and additional answer sheets may be used if necessary.

Responses are assessed with an analytic markscheme specific to the question paper, which indicates the required responses and any particular breakdown of marks. A markband approach is used to allocate the marks for questions using AO2 command terms, such as “explain”. The markband descriptors will vary depending on the content of the examination. A typical example is given below.

Level

Level descriptor

Marks 0–4

0

The work does not reach a standard described by the descriptors below.

0

1

The written response is limited.

1–2

2

The written response is clear.

3–4

Overall, the maximum for this paper is 50 marks.

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External assessment

## External assessment markbands—SL and HL

### Paper 1 (SL/HL)

Section A and section B Part (a)

Level

Level descriptor

Marks 0–10

0

The work does not reach a standard described by the descriptors below.

0

1

There is little understanding of the specific demands of the question. Relevant economic terms are not defined.

There is very little knowledge of relevant economic theory.

There are significant errors.

1–3

2

There is some understanding of the specific demands of the question. Some relevant economic terms are defined.

There is some knowledge of relevant economic theory.

There are some errors.

4–6

3

There is understanding of the specific demands of the question. Relevant economic terms are defined.

Relevant economic theory is explained and applied.

Where appropriate, diagrams are included and applied.

Where appropriate, examples are used. There are few errors.

7–8

4

There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined.

Relevant economic theory is clearly explained and applied.

Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively.

There are no significant errors.

9–10

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External assessment

Section A and section B Part (b)

Level

Level descriptor

Marks 0–15

0

The work does not reach a standard described by the descriptors below.

0

1

There is little understanding of the specific demands of the question. Relevant economic terms are not defined.

There is very little knowledge of relevant economic theory.

There are significant errors.

1–5

2

There is some understanding of the specific demands of the question. Some relevant economic terms are defined.

There is some knowledge of relevant economic theory.

There are some errors.

6–9

3

There is understanding of the specific demands of the question. Relevant economic terms are defined.

Relevant economic theory is explained and applied.

Where appropriate, diagrams are included and applied.

Where appropriate, examples are used.

There is an attempt at synthesis or evaluation. There are few errors.

10–12

4

There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined.

Relevant economic theory is clearly explained and applied.

Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively.

There is evidence of appropriate synthesis or evaluation. There are no significant errors.

13–15

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External assessment

## Paper 2 (SL/HL)

Section A and section B Part (a): (i) and (ii)

Part (b) and part (c)

Or

Part (d)

Level

Level descriptor

Marks 0–2

0

The work does not reach a standard described by the descriptors below.

0

1

There is limited understanding or vague definition.

1

2

There is clear understanding or accurate definition.

2

Level

Level descriptor

Marks 0–4

0

The work does not reach a standard described by the descriptors below.

0

1

The written response is limited.

1–2

2

The written response is accurate.

3–4

Level

Level descriptor

Marks 0–4

0

The work does not reach a standard described by the descriptors below.

0

1

There is a correct diagram or an accurate written response.

1–2

2

There is a correct diagram and an accurate written response.

3–4

Level

Level descriptor

Marks 0–8

0

The work does not reach a standard described by the descriptors below.

0

1

Few relevant concepts are recognized. There is basic knowledge/understanding.

1–2

2

Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding.

There is some attempt at application/analysis.

3–5

3

Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding.

There is effective application/analysis.

There is synthesis/evaluation, supported by appropriate theory and evidence.

6–8

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## Purpose of internal assessment

Internal assessment is an integral part of the course and is compulsory for both SL and HL students. It enables students to demonstrate the application of their skills and knowledge, and to pursue their personal interests, without the time limitations and other constraints that are associated with written examinations. The internal assessment should, as far as possible, be woven into normal classroom teaching and not be a separate activity conducted after a course has been taught.

The internal assessment requirements at SL and at HL are the same.

## Guidance and authenticity

The portfolio submitted for internal assessment must be the student's own work. However, it is not the intention that students should decide on the appropriate articles and then be left to work on the internally assessed component without any further support from the teacher. The teacher should play an important role during both the planning stage and the period when the student is working on the internally assessed work. It is the responsibility of the teacher to ensure that students are familiar with:

- the requirements of the type of work to be internally assessed—the nature of the sources of the articles, and the formal requirements of the portfolio—and the IB's academic honesty policy
- internal deadlines
- the nature of teacher support
- the assessment criteria; students must understand that the work submitted for assessment must address these criteria effectively.

Teachers and students must discuss the internally assessed work. Students should be encouraged to initiate discussions with the teacher to obtain advice and information, and students must not be penalized for seeking guidance. However, if a student could not have completed the work without substantial support from the teacher, this should be recorded on the appropriate form from the Handbook of procedures for the Diploma Programme.

It is the responsibility of teachers to ensure that all students understand the basic meaning and significance of concepts that relate to academic honesty, especially authenticity and intellectual property. Teachers must ensure that all student work for assessment is prepared according to the requirements and must explain clearly to students that internally assessed work must be entirely their own.

As part of the learning process, teachers can give advice to students on a first draft of the internally assessed work. This advice should be in terms of the way the work could be improved, but this first draft must not be heavily annotated or edited by the teacher. The next version handed to the teacher after the first draft must be the final one.

All work submitted to the IB for moderation or assessment must be authenticated by a teacher, and must not include any known instances of suspected or confirmed malpractice. Each student must sign the coversheet for internal assessment to confirm that the work is his or her authentic work and constitutes the

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final version of the work. Once a student has officially submitted the final version of the work to a teacher (or the coordinator) for internal assessment, together with the signed coversheet, it cannot be retracted.

Authenticity may be checked by discussion with the student on the content of the work and scrutiny of one or more of the following:

- the student's initial choice of articles

- the first draft of the written work
- the references cited
- the style of writing compared with work known to be that of the student.

The requirement for teachers and students to sign the coversheet for internal assessment applies to the work of all students, not just the sample work that will be submitted to an examiner for the purpose of moderation. If the teacher and student sign a coversheet, but there is a comment to the effect that the work may not be authentic, the student will not be eligible for a mark in that component and no grade will be awarded. For further details refer to the IB publication Academic honesty and the relevant articles in the General regulations: Diploma Programme.

The same piece of work cannot be submitted to meet the requirements of both the internal assessment and the extended essay.

## Time allocation

Internal assessment is an integral part of the economics course, contributing 20% to the final assessment in the SL and the HL courses. This weighting should be reflected in the time that is allocated to teaching the knowledge, skills and understanding required to undertake the work, as well as the total time allocated to carry out the work.

It is recommended that a total of approximately 20 hours should be allocated to the portfolio at both SL and HL. This should include:

- time for the teacher to explain to students the requirements of the internal assessment
- class time for students to work on the internal assessment component
- time for consultation between the teacher and each student
- time to review and monitor progress and to check authenticity.

## Requirements and recommendations

It is important for the integrity of the moderation process that the internal assessment by the teacher is based on the same evidence as that available to the moderator.

When there is more than one teacher teaching students in this component, internal standardization must take place.

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Internal assessment

Internal assessment

## Using assessment criteria for internal assessment

For internal assessment, a number of assessment criteria have been identified. Each assessment criterion has level descriptors describing specific levels of achievement together with an appropriate range of marks. The level descriptors concentrate on positive achievement although, for the lower levels, failure to achieve may be included in the description.

Teachers must judge the internally assessed work at SL and at HL against the criteria using the level descriptors.

- The same assessment criteria are provided for SL and HL.
- The aim is to find, for each criterion, the descriptor that conveys most accurately the level attained by the student, using the best-fit model. A best-fit approach means that compensation should be made when a piece of work matches different aspects of a criterion at different levels. The mark awarded should be one that most fairly reflects the balance of achievement against the criterion. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.
- When assessing a student's work, teachers should read the level descriptors for each criterion until they reach a descriptor that most appropriately describes the level of the work being assessed. If a piece of work seems to fall between two descriptors, both descriptors should be read again and the one that more appropriately describes the student's work should be chosen.
- Where there are two or more marks available within a level, teachers should award the upper marks if the student's work demonstrates the qualities described to a great extent.

Teachers should award the lower marks if the student's work demonstrates the qualities described to a lesser extent.

- Only whole numbers should be recorded; partial marks, that is, fractions and decimals, are not acceptable.
- Teachers should not think in terms of a pass or fail boundary, but should concentrate on identifying the appropriate descriptor for each assessment criterion.
- The highest level descriptors do not imply faultless performance but should be achievable by a student. Teachers should not hesitate to use the extremes if they are appropriate descriptions of the work being assessed.
- A student who attains a high level of achievement in relation to one criterion will not necessarily attain high levels of achievement in relation to the other criteria. Similarly, a student who attains a low level of achievement for one criterion will not necessarily attain low achievement levels for the other criteria. Teachers should not assume that the overall assessment of the students will produce any particular distribution of marks.
- It is recommended that the assessment criteria be made available to students.

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## Internal assessment details—SL and HL

### Portfolio

Duration: 20 hours Weighting: 20%

### Rationale

Internal assessment in economics enables students to demonstrate the application of their knowledge and understanding of economic theory to real-world situations.

### Requirements

Both SL and HL economics students produce a portfolio of three commentaries based on articles from published news media. Each article must be based on a different section of the syllabus (microeconomics, macroeconomics, international economics and development economics).

### Articles

The articles may be from a newspaper, a journal or the internet, but must not be from television or radio broadcasts. If a student includes a relatively lengthy article, which is very much discouraged, the student must highlight the section(s) of the article upon which the commentary is based.

The article on which the commentary is based should, where possible, be in the same language as the commentary. If an extract in another language is used, the student must provide an accurate translation of the whole article. Students must also include the original article in their portfolio.

### Individual work

Students must select their own articles to discuss. It may happen that more than one student bases his or her commentary on the same article, but the article must not be given to the class by the teacher, and the production of the commentary must be each student's individual work. A commentary must not be prepared collaboratively.

### Focus

Each commentary must:

- explain the linkages between the article and economic theory taken from the section of the syllabus on which the article is based
- demonstrate economic insights into the implications of the article (that is, it should provide evidence of the student's ability to discuss current events from the point of view of an economist).

On each commentary students must record:

- the title of the article
- the source of the article (including date of access to the site if from the internet)
- the date the article was published
- the date the commentary was written
- the word count of the commentary
- the section of the syllabus to which the article relates.

Each commentary in the portfolio is assessed individually against the internal assessment criteria. The teacher will initially assess each student's work. Please note that internal standardization must take place when more than one teacher is assessing. A sample of the work will then be moderated by the IB.

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Internal assessment

Internal assessment

Please refer to the Handbook of procedures for the Diploma Programme for details on how to present the work for moderation.

Rubric requirements

If students do not adhere to the following requirements, they can lose marks under criterion F: Rubric requirements.

1. Word limit

Students must produce a portfolio of three commentaries. Each commentary must not exceed 750 words.

The following are not included in the word count.

- Acknowledgments
- Contents page
- Diagrams
- Labels—of five words or fewer
- Headings on diagrams—of 10 words or fewer
- Tables of statistical data
- Equations, formulae and calculations
- Citations (which, if used, must be in the body of the commentary)
- References (which, if used, must be in the footnotes/endnotes)

Please note that footnotes/endnotes may be used for references only. Definitions of economic terms and quotations, if used, must be in the body of the work and are included in the word count. Please note that a citation is a shorthand method of making a reference in the body of the commentary, which is then linked to the full reference in the footnotes/endnotes.

2. Articles

Each article must be based on a different section of the syllabus.

3. Sources

Students must use a different source for each commentary.

4. Contemporary articles

Students need to look for articles relating to current events and these must be published no earlier than one year before the writing of the commentary.

5. Contents

Each portfolio must contain:

- a summary portfolio coversheet
- a commentary coversheet for each commentary
- three commentaries, accompanied in each case by the relevant article.

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Note: Moderators will not read beyond 750 words for each commentary.

## Internal assessment criteria—SL and HL

### Overview

There are five internal assessment criteria for each commentary.

Internal assessment

Criterion A

Diagrams

3 marks

Criterion B

Terminology

2 marks

Criterion C

Application

2 marks

Criterion D

Analysis

3 marks

Criterion E

Evaluation

4 marks

Total

14 marks

There is one internal assessment criterion for the whole portfolio.

Each commentary is assessed individually for the first five assessment criteria (criteria A–E) and then criterion F is applied to the whole portfolio.

The maximum for the portfolio is 45 marks: (14 marks x 3 commentaries) + 3 marks = 42 + 3 marks. The assessment criteria are related to the assessment objectives.

- Criterion A: AO2 and AO4

- Criterion B: AO1

- Criterion C: AO2

- Criterion D: AO2

- Criterion E: AO3

- Criterion F: AO4

### Portfolio (SL/HL) Criterion A: Diagrams

- This criterion assesses the extent to which the student is able to construct and use diagrams.

Criterion F

Rubric requirements

3 marks

Level

Descriptor

0

The work does not reach a standard described by the descriptors below.

1

Relevant diagram(s) are included but not explained, or the explanations are incorrect.

2

Relevant, accurate and correctly labelled diagram(s) are included, with a limited explanation.

3

Relevant, accurate and correctly labelled diagram(s) are included, with a full explanation.

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Internal assessment

Criterion B: Terminology

- This criterion assesses the extent to which the student uses appropriate economic terminology.

Criterion C: Application

- This criterion assesses the extent to which the student recognizes, understands and applies economic information in the context of the article.

Criterion D: Analysis

- This criterion assesses the extent to which the student can explain and develop appropriate economic theories and/or concepts in the context of the article.

Level

Descriptor

0

The work does not reach a standard described by the descriptors below.

1

Terminology relevant to the article is included in the commentary.

2

Terminology relevant to the article is used appropriately throughout the commentary.

Level

Descriptor

0



The work does not reach a standard described by the descriptors below.

1

Relevant economic concepts and/or theories are applied to the article.

2

Relevant economic concepts and/or theories are applied to the article appropriately throughout the commentary.

Level

Descriptor

0

The work does not reach a standard described by the descriptors below.

1

There is limited economic analysis relating to the article.

2

There is appropriate economic analysis relating to the article.

3

There is effective economic analysis relating to the article.

Criterion E: Evaluation

• This criterion assesses the extent to which the student synthesizes his or her analysis in order to make judgments that are supported by reasoned arguments.

Level

Descriptor

0

The work does not reach a standard described by the descriptors below.

1

Judgments are made that are unsupported, or supported, by incorrect reasoning.

2

Judgments are made that are supported by limited reasoning.

3

Judgments are made that are supported by appropriate reasoning.

4

Judgments are made that are supported by effective and balanced reasoning.

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Internal assessment

Criterion F: Rubric requirements

• This criterion assesses the extent to which the student meets the five rubric requirements for the complete portfolio.

– Each commentary does not exceed 750 words.

– Each article is based on a different section of the syllabus.

– Each article is taken from a different and appropriate source.

– Each article was published no earlier than one year before the writing of the commentary.

– The summary portfolio coversheet, three commentary coversheets and the article for each commentary are included.

Level

Descriptor

0

The work does not reach a standard described by the descriptors below.

1

Three rubric requirements are met.

2

Four rubric requirements are met.

3

All five rubric requirements are met.

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## Command terms with definitions

Students should be familiar with the following key terms and phrases used in examination questions, which are to be understood as described below. Although these terms will be used frequently in examination questions, other terms may be used to direct students to present an argument in a specific way.

The assessment objectives (AOs) listed in the table are those referred to in the economics syllabus.

Command term: Analyse

Apply

Calculate

Comment

Compare

Compare and contrast

Construct Contrast

Define Derive

Describe Determine Discuss

AO2 AO2 AO4 AO2 AO3 AO3

AO4 AO3

AO1 AO4

AO1 AO4 AO3

Definition asks students to:

Break down in order to bring out the essential elements or structure.

Use an idea, equation, principle, theory or law in relation to a given problem or issue.

Obtain a numerical answer showing the relevant stages in the working.

Give a judgment based on a given statement or result of a calculation.

Give an account of the similarities between two (or more) items or situations, referring to both (all) of them throughout.

Give an account of similarities and differences between two (or more) items or situations, referring to both (all) of them throughout.

Display information in a diagrammatic or logical form.

Give an account of the differences between two (or more) items or situations, referring to both (all) of them throughout.

Give the precise meaning of a word, phrase, concept or physical quantity.

Manipulate a mathematical relationship to give a new equation or relationship.

Give a detailed account.

Obtain the only possible answer.

Offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

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Distinguish Draw

Evaluate Examine

Explain Identify Justify

Label

List Measure Outline Plot

Show Show that

Sketch

Solve State

Suggest

To what extent

AO2 Make clear the differences between two or more concepts or items.

AO4 Represent by means of a labelled, accurate diagram or graph, using a pencil. A ruler (straight edge) should be used for straight lines. Diagrams should be drawn to scale. Graphs should have points correctly plotted (if appropriate) and joined in a straight line or smooth curve.

AO3 Make an appraisal by weighing up the strengths and limitations.

AO3 Consider an argument or concept in a way that uncovers the assumptions and interrelationships of the issue.

AO2 Give a detailed account including reasons or causes.

AO4 Provide an answer from a number of possibilities.

AO3 Give valid reasons or evidence to support an answer or conclusion.

AO4 Add labels to a diagram.

AO1 Give a sequence of brief answers with no explanation. AO4 Obtain a value for a quantity.

AO1 Give a brief account or summary.

AO4 Mark the position of points on a diagram.

AO4 Give the steps in a calculation or derivation.

AO4 Obtain the required result (possibly using information given) without the formality of proof. "Show that" questions do not generally require the use of a calculator.

AO4 Represent by means of a diagram or graph (labelled as appropriate). The sketch should give a general idea of the required shape or relationship, and should include relevant features.

AO4 Obtain the answer(s) using algebraic and/or numerical and/or graphical methods.

AO1 Give a specific name, value or other brief answer without explanation or calculation.

AO2 Propose a solution, hypothesis or other possible answer.

AO3 Consider the merits or otherwise of an argument or concept. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.