IB Diploma

ECONOMICS

SL

Paper 1

2017 — 2024

1 - (ECONO/11_SL_Summer_2017_Q1) - *Microeconomics*

(a) A fall in income leads to a fall in demand for a good. Explain this relationship between the demand for the good and consumer income. [10]

(b) Evaluate the consequences of rising incomes on service sector producers (such as hotels) **and** primary sector producers (such as rice farmers). [15]

2 - (ECONO/11_SL_Summer_2017_Q2) - *Microeconomics*

(a) Explain why the consumption of merit goods, such as healthy food, can lead to positive externalities of consumption. [10]

(b) Discuss whether advertising by the government is the most appropriate way of increasing consumption of a merit good. [15]

3 - (ECONO/12_SL_Summer_2017_Q1) - *Microeconomics*

(a) Explain why an increase in incomes over time may lead to an increase in demand for some goods but a decrease in demand for other goods. [10]

(b) The income elasticity of demand for primary commodities tends to be relatively low, while the income elasticity of demand for manufactured goods and services tends to be higher. Examine the likely effects of this for individual producers **and** for the economy as a whole. [15]

4 - (ECONO/12_SL_Summer_2017_Q2) - *Microeconomics*

(a) Explain why demerit goods are an example of market failure. [10]

(b) Evaluate the effectiveness of using indirect taxation to correct market failure. [15]

5 - (ECONO/10_SL_Winter_2017_Q1) - *Microeconomics*

(a) Explain why governments provide subsidies for some goods and services. [10]

(b) Discuss the consequences of providing a subsidy for goods such as agricultural products. [15]

6 - (ECONO/10_SL_Winter_2017_Q2) - *Microeconomics*

(a) Explain how an increase in the price of air travel might affect the demand for its complements **and** its substitutes. [10]

(b) Evaluate the view that the use of regulation is the most effective way to reduce negative externalities. [15]

7 - (ECONO/11_SL_Summer_2018_Q1) - *Microeconomics*

(a) Explain how the value of the cross price elasticity of demand (XED) for a particular good is determined by its relationship to other goods. [10]

(b) Examine the significance of both cross price elasticity of demand and income elasticity of demand for a firm. [15]

ANSWERS

1 - (ECONO/11_SL_Summer_2017_Q1) - *Microeconomics*

(a) A fall in income leads to a fall in demand for a good. Explain this relationship between the demand for the good and consumer income. **[10]**

*Answers **may** include:*
- definitions of demand, income, income elasticity of demand, normal good
- diagram to show how a fall in income leads to a fall in demand for a normal good
- explanation that the positive income elasticity of demand means the good is a normal good
- examples of normal goods, necessities.

Award a maximum of level 2 if there is no mention of normal goods and/or income elasticity.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–3*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*4–6*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*7–8*
	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.	
4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b) Evaluate the consequences of rising incomes on service sector producers (such as hotels) **and** primary sector producers (such as rice farmers). **[15]**

*Answers **may** include:*
- definitions of service sector, primary sector good
- diagrams to show changes in the demand for goods produced by the service sector and primary sector as income rises
- explanation that a rise in income leads to a rise in demand for normal goods produced by the service sector like hotels and how a rise in income leads to a less significant rise in demand for necessity goods produced in the primary sector like rice (other examples could be used as long as reference is made to the correct sector)
- examples of how demand for normal goods and necessity goods changes as incomes change
- synthesis or evaluation.

Award a maximum of level 2 if the focus is only on supply as this is a poor interpretation of the question.

Both the primary and the service sectors need to be covered accurately to go beyond the mid-point of level 2.

Evaluation **may** include: consideration that there are some types of service sector goods, such as budget hotels that might experience a fall in demand as incomes rise; that some low income consumers may increase their demand significantly for rice as their incomes rise.

Assessment Criteria

Part (b) 15 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	

2 - (ECONO/11_SL_Summer_2017_Q2) - *Microeconomics*

(a) Explain why the consumption of merit goods, such as healthy food, can lead to positive externalities of consumption. **[10]**

*Answers **may** include:*

- definitions of positive externalities, merit goods
- diagram(s) to show the positive externality of consumption
- explanation of how healthy food will be under-consumed in a competitive market because the MSB is greater than the MPB (can use any example of a merit good)
- examples of where the consumption of merit goods has led to positive externalities.

Award a maximum of level 2 if there is no illustration of the types of positive externalities that could occur with the merit good described, for example, less government spending on health care.

Assessment Criteria

Part (a) 10 marks

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4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b) Discuss whether advertising by the government is the most appropriate way of increasing consumption of a merit good. **[15]**

*Answers **may** include:*
- definitions of advertising and merit good
- diagram(s) to show the effect of advertising and other alternatives to advertising
- explanation of how advertising will shift the demand curve (MPB) towards the MSB curve
- examples of specific policies governments have used
- synthesis or evaluation (discuss).

Discussion **may** include: whether advertising will influence demand, other factors that influence the demand for merit goods, alternatives to advertising like subsidies, legislation and direct provision.

Assessment Criteria

Part (b) 15 marks

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3 - (ECONO/12_SL_Summer_2017_Q1) - *Microeconomics*

(a) Explain why an increase in incomes over time may lead to an increase in demand for some goods but a decrease in demand for other goods. **[10]**

*Answers **may** include:*

- definitions of demand, normal goods, inferior goods
- diagram(s) to show an increase in demand (rightward shift) for normal goods and a decrease in demand (leftward shift) for inferior goods
- explanation of these rightward and leftward shifts
- examples of normal and inferior goods.

Assessment Criteria

Part (a) 10 marks

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(b) The income elasticity of demand for primary commodities tends to be relatively low, while the income elasticity of demand for manufactured goods and services tends to be higher. Examine the likely effects of this for individual producers **and** for the economy as a whole. **[15]**

*Answers **may** include:*
- definitions of income elasticity of demand (YED), primary, manufacturing and service sectors
- diagram(s) to show the significance of YED for primary goods, manufactured goods, and services using demand and supply diagrams
- explanation of how different values of YED (high and low) may affect the three main sectors of the economy
- examples of YED affecting the allocation of resources
- synthesis or evaluation (examine) of the significance of YED for individual producers and the economy as a whole.

Examination **may** include: the differences in YED in developed and less developed economies, the importance of YED at different stages of development, the values of YED may change over time, the relative growth rates of different economies and the impact on YEDs.

Assessment Criteria

Part (b) 15 marks

Level		Marks
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