IB Diploma

ECONOMICS

HL

Paper 1

2020 — 2025

1 - (ECONO/10_HL_Winter_2020_Q1) - *Microeconomics*

(a) Explain how knowledge of price elasticity of demand could be used by a firm that is considering changing the price of its product. [10]

(b) Discuss how the introduction of a subsidy in a market will affect consumers, producers and the government. [15]

2 - (ECONO/10_HL_Winter_2020_Q2) - *Microeconomics*

(a) Explain how a natural monopoly may arise. [10]

(b) Discuss how governments restrict monopoly power. [15]

3 - (ECONO/11_HL_Summer_2021_Q1) - *Microeconomics*

(a) Explain why governments impose price floors in the market for agricultural products. [10]

(b) Evaluate the effectiveness of government regulations in achieving a reduction in the consumption of demerit goods. [15]

4 - (ECONO/11_HL_Summer_2021_Q2) - *Microeconomics*

(a) Explain why a monopolistically competitive firm can make economic (abnormal) profit in the short run, but not in the long run. [10]

(b) Discuss the consequences of a perfectly competitive market becoming a monopoly market. [15]

5 - (ECONO/12_HL_Summer_2021_Q1) - *Microeconomics*

(a) Explain why governments provide subsidies. [10]

(b) Evaluate the effectiveness of price floors in achieving a reduction in the consumption of demerit goods. [15]

6 - (ECONO/12_HL_Summer_2021_Q2) - *Microeconomics*

(a) Explain the reasons for the shape of the long-run average total cost curve. [10]

(b) Discuss the view that governments should always try to prevent the creation of barriers to entry in a market. [15]

7 - (ECONO/10_HL_Winter_2021_Q1) - *Microeconomics*

(a) Explain why merit goods tend to be under-provided in a free market. [10]

(b) Evaluate the use of carbon taxes to reduce threats to sustainability. [15]

8 - (ECONO/10_HL_Winter_2021_Q2) - *Microeconomics*

(a) Explain why producers in an oligopolistic market might choose to engage in non-price competition. [10]

(b) Evaluate the view that the use of legislation and regulation by government is the most effective way to control monopoly power. [15]

9 - (ECONO/10_HL_Summer_2022_Q1) - *Microeconomics*

(a) Distinguish between perfect competition and monopolistic competition. [10]

(b) Using real-world examples, discuss the impact of large firms having significant market power. [15]

10 - (ECONO/10_HL_Winter_2022_Q1) - *Microeconomics*

(a) Explain why the existence of positive externalities of consumption would lead to allocative inefficiency and thus a welfare loss. [10]

(b) Using real-world examples, evaluate the policies a government might adopt to respond to a market situation in which significant asymmetric information exists. [15]

11 - (ECONO/11_HL_Winter_2024_Q1) - *Microeconomics*

(a) Explain why a monopoly is able to make abnormal profits in the long run while firms in monopolistic competition cannot. [10]

(b) Using real-world examples, evaluate the view that profit maximization is a firm's main objective. [15]

12 - (ECONO/12_HL_Winter_2024_Q1) - *Microeconomics*

(a) Explain why a firm does not take externalities into account when it is planning its level of production. [10]

(b) Using real-world examples, evaluate the view that the use of tradable permits is the best way to reduce threats to sustainability posed by carbon emissions. [15]

13 - (ECONO/11_HL_Summer_2025_Q1) - *Microeconomics*

(a) Explain why the price elasticity of demand (PED) for primary commodities is generally lower than the PED for manufactured products. [10]

(b) Using real-world examples, discuss the importance of PED for the decision-making of firms **and** government. [15]

ANSWERS

1 - (ECONO/10_HL_Winter_2020_Q1) - *Microeconomics*

(a) Explain how knowledge of price elasticity of demand could be used by a firm that is considering changing the price of its product. **[10]**

*Answers **may** include:*

- definition of price elasticity of demand
- diagram to show the revenue consequences of elasticity when the price is changed
- explanation of how total revenue changes following a change in price depending on whether the demand for the product is price elastic, price inelastic or unit elastic
- examples of "real-world" products with different elasticities to support the explanation (students do not need to provide actual total revenue figures, but should provide a consideration of why demand for the product might be more or less likely to be elastic or inelastic).

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 clear 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 how the introduction of a subsidy in a market will affect consumers, producers and the government. **[15]**

*Answers **may** include:*

- definition of subsidy
- diagram to show the imposition of a subsidy and the consequences for the three stakeholders
- explanation of how a subsidy lowers the price of the product and may lead to increased consumption/consumer surplus by consumers, increased production/revenue/producer surplus for producers and increased government expenditure
- examples of markets where subsidies have been introduced in practice
- synthesis or evaluation (discuss).

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

*Discussion **may** include*: judgments about which stakeholders are better off and which stakeholders are worse off due to the imposition of a subsidy, which are well supported by the explanation of the theory, the diagram and the example(s).

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 clear 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/10_HL_Winter_2020_Q2) - *Microeconomics*

(a) Explain how a natural monopoly may arise. **[10]**

*Answers **may** include:*
- definition of natural monopoly
- diagram to show falling long-run average costs at least up to the point where the LRAC curve intersects the market demand curve
- explanation that a natural monopoly is a firm that experiences such significant economies of scale (*eg* due to investment in fixed capital) that it is able to satisfy the demand for the entire market at a level of output where it still experiences falling average total cost and/or that natural monopoly arises due to a natural barrier to entry such as ownership of vital input for production
- examples of natural monopoly.

Assessment Criteria

Part (a) 10 marks

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(b) Discuss how governments restrict monopoly power. **[15]**

*Answers **may** include:*

- definition of monopoly power
- a monopoly diagram to show a monopoly which is not producing at the profit-maximizing level of output because the price of its product is regulated by the government
- explanation of why governments might choose to restrict monopoly power and how it might be done through government regulation of prices, legislation to prevent cartels and mergers, nationalization or the break-up of firms with monopoly power
- examples of industries that were monopolized where a government has sought to exercise control
- synthesis or evaluation (discuss).

*Discussion **may** include*: consideration of the relative merits of alternative means by which monopolies might be restricted. "Real-life" examples would be very suitable as a means to support the discussion.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

NB It should be noted that definitions, diagrams, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Assessment Criteria

Part (b) 15 marks

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3 - (ECONO/11_HL_Summer_2021_Q1) - *Microeconomics*

(a) Explain why governments impose price floors in the market for agricultural products. **[10]**

*Answers **may** include:*

- definition of price floor
- diagram showing the imposition of a price floor leading to higher prices and higher producer revenues
- explanation that governments impose price floors in the market for agricultural products to support producers by increasing producers' revenues and/or improving producers' ability to plan and invest for the future
- examples of specific agricultural markets where price floors have been imposed.

Assessment Criteria

Part (a) 10 marks

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(b) Evaluate the effectiveness of government regulations in achieving a reduction in the consumption of demerit goods. **[15]**

*Answers **may** include:*

- definition of demerit goods
- negative externalities diagram showing reduced consumption of demerit goods
- explanation that government regulations may restrict the demand for, or the supply of, demerit goods, resulting in lower equilibrium quantity
- examples of demerit goods and/or cases where government regulations on demerit goods have been imposed (*eg* ban on smoking and drinking in public places, age limits, warnings on packaging, ban on the consumption of certain drugs)
- synthesis or evaluation.

*Evaluation **may** include:* consideration of the strengths of government regulations: do not increase tax burden; relatively simple to implement (compared to market-based policies), addressing directly the consumption of demerit goods, complete bans may be very effective in preventing the use of highly addictive demerit goods; consideration of the limitations of government regulations: difficulties/cost of enforcement and lack of government revenue, may be politically unpopular; decrease the revenues of producers of demerit goods and the income of workers in these industries; complete bans may lead to underground parallel markets; consideration of the strengths and limitations of alternative (market-based) policies.

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Part (b) 15 marks

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4 - (ECONO/11_HL_Summer_2021_Q2) - *Microeconomics*

(a) Explain why a monopolistically competitive firm can make economic (abnormal) profit in the short run, but not in the long run. **[10]**

*Answers **may** include:*

- definitions of monopolistic competition, economic (abnormal) profit, short run, long run
- diagram of a monopolistically competitive firm that makes economic profit in the short run by producing the quantity of output where MR=MC and price is lower than ATC; diagram of a monopolistically competitive firm that makes normal profit in the long run by producing the quantity of output where MR=MC and price is equal to ATC
- explanation that in the long run the economic profit will disappear, because the lack of barriers to entry in the industry will allow the entrance of new firms, which will attract customers away from existing firms (decreasing the demand)
- examples of monopolistically competitive markets in practice (*eg* restaurants, legal and tax services, dental care).

Assessment Criteria

Part (a) 10 marks

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(b) Discuss the consequences of a perfectly competitive market becoming a monopoly market. **[15]**

*Answers **may** include:*

- definitions of perfect competition, monopoly
- diagrams of a perfectly competitive firm with only normal profit (producing at a level of output that is productively and allocatively efficient) and a monopoly with abnormal profit (producing at a level of output that is productively and allocatively inefficient)
- explanation that the firm that will dominate the industry will be able to charge a higher profit-maximizing price, make economic (abnormal) profit in the long run and produce at a level of output that is neither allocatively nor productively efficient
- examples of cases where a perfectly competitive market may be monopolized are not required, but candidates may use real-world examples of markets that have the characteristics of perfect competition or monopoly in their answers
- synthesis or evaluation (discuss).

*Discussion **may** include:* the positive and negative effects on different stakeholders; short-run and long-run effects on prices and economic (abnormal) profit; the consequences for productive and allocative efficiency, innovation, research and development; the possible positive effects of economies of scale.

***NB** It should be noted that definitions, diagrams, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.*

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Part (b) 15 marks

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