IB Economics

Higher Level

Long Essay Questions

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Microeconomics

1. What alternative solutions might an economist suggest to the problem of traffic congestion? What are the advantages and disadvantages of each of these solutions?  
   [M 90, 6]

2. Under what conditions can a firm sell the same product at different prices?  
   [N 90, 5]

3. European governments have a policy of supporting farm incomes with artificially higher prices for certain foodstuffs. What are the economic effects of this on Europe and the rest of the world?  
   [M 91, 4]

4. Pollution is sometimes said to be an example of market failure. What is meant by this? How might governments encourage markets to work towards helping solve environmental problems?  
   [M 93, 3]

5. In what circumstances might a government use price controls to influence a market?  
   [N 93, 3]

6. Is the existence of monopoly in an industry likely to improve or worsen resource allocation?  
   [N 93, 4]

7. Why are many industries, such as car manufacturing, becoming more oligopolistic? How are the price and output decisions of firms affected by this trend?  
   [M 94, 3]

8. Economic theory makes certain assumptions about market conditions, in order to study how firms decide on prices and output. Are these assumptions realistic, and do firms always behave in the real world as Economics textbooks predict?  
   [M 95, 5]

9. Briefly explain what economists mean by the word ‘market’. What kind of problems are markets good at solving, and what are they bad at solving?  
   [N 95, 3]

10. Why does there appear to be a movement towards oligopoly in certain markets? How does this movement affect the way in which producers make decisions, and how does it affect the welfare of consumers?  
    [N 95, 5]

11. Evaluate the roles of ‘markets’ and ‘planning’ in an economy today? How are these roles likely to change?  
    [M 96, 6]
12. What are the assumptions behind the model of a perfectly competitive industry in long-run equilibrium? Why do economists make assumptions of this sort? Are such assumptions realistic?  
[N 96, 3]

13. (a) Why are profits important in a market economy? (10)  
(b) What problems might a country experience if it tries to use the profit motive to produce everything? (15)  
[M 97, 3]

14. (a) What are economies of scale, and why have they become so important in modern economics? (12)  
(b) In view of this importance, why do so many small enterprises operate successfully in the world today? (13)  
[M 97, 5]

15. (a) Explain what externalities are and how they may arise. (10)  
(b) Discuss whether governments should always involve themselves in markets with substantial externalities. (15)  
[Spec, 3]

16. (a) What are the main features of an oligopolistic market? (12)  
(b) Do oligopolies work in favour of, or against the interest of consumers? (13)  
[Spec, 4]

17. (a) What do economists mean by ‘externalities’ or spillover effects? (10)  
(b) How does an understanding of externalities (spillover effects) assists economists in analysing environmental problems? (15)  
[M 98, 4]

18. (a) What are ‘natural monopolies’ and why are they considered a danger if left unregulated? (10)  
(b) Is nationalisation of natural monopolies the best method of improving their economic efficiency? (15)  
[N 98, 3]

19. (a) Distinguish between private costs and benefits and social costs and benefits. (8)  
(b) Explain how an increase in the number of cars on the roads of a country might lead to a misallocation of resources. (8)  
(c) Evaluate the ways in which a government might remedy this misallocation. (9)  
[M 99, 3]

20. (a) Carefully explain what is it that price, income and cross elasticities of demand are meant to measure. (10)  
(b) Discuss the practical importance of the concept of price elasticity of demand for  
   (i) business organisations  
   (ii) the government (15)  
[M 99, 4]

21. (a) Why do environmental issues cause problems to economists? (10)
(b) What solutions might an economist suggest to the problem of overfishing? (15) 

22. (a) State the law of demand and distinguish between movements along the demand curve and shifts of the demand curve. (10)
(b) Explain, with the help of diagrams, the effect of an increase in the price of petrol is likely to have on
   (i) the market for cars.
   (ii) The market for coal. (15)

23. “Monopoly price is higher and output smaller than is socially ideal. The public is a victim.” (J.K. Galbraith, 1974)
   (a) Explain to economic reasoning behind the statement that “monopoly price is higher and output smaller than is socially ideal.” (12)
   (b) Do you agree that the public is always the victim of monopoly? Justify your answer. (13)

24. (a) Why are environmental problems considered to be an example of market failure? (10)
   (b) To what extent can government intervention correct this failure? (15)

25. (a) Under what conditions is price discrimination possible and profitable? (12)
   (b) Who gains and who loses from price discrimination? Illustrate your answer with examples. (13)

26. (a) Using suitable diagrams, explain why there is likely to be an absence of long run economic profits in perfect competition. (12)
   (b) To what extent might consumers benefit from increased competition between firms? (13)

27. (a) How does a monopoly maintain supernormal (or abnormal) profit in the long run? (12)
   (b) Is monopoly always undesirable? (13)

28. Discuss and evaluate the proposition that perfect competition is a more efficient market structure than monopoly. (15)

29. (a) Why is pollution an example of market failure? (10)
   (b) To what extent can the market system protect the environment? (15)

30. (a) What does an economist mean by efficiency in the operation of a firm? (10)
   (b) Discuss whether the achievement of efficiency is possible and desirable. (15)
Macroeconomics

1. Can government macroeconomic demand management policies raise the real output of an
economy in the long-run? [M 89, 4]

2. Most nations tax personal income. What are the arguments for and against personal income
taxes? At what rates would you recommend setting income taxes? How would considera-
tions of equity and efficiency influence your decision? [M 90, 5]

3. Unemployment can either be structural or cyclical. How would government intervention
differ in each case? [N 90, 4]

4. Under what conditions are high interest rates likely to benefit or damage a country's
economy? [M 91, 5]

5. “A reduction in unemployment is desirable, but it is certain to lead to other problems, such
as inflation or balance of payments difficulties.” Discuss. [M 91, 6]

6. Discuss the view that unemployment is a more serious economic problem than inflation.
Why might Keynesian and Monetarist economists disagree on questions like this? [M 92, 5]

7. Distinguish between ‘supply side’ policies and ‘demand management’ policies. Why do
many governments now appear to wish to focus increasingly on the supply side? [M 93, 4]

8. Discuss whether there is a relationship between money supply and inflation. [N 93, 5]

9. Why might knowledge of the value of the multiplier be useful to government policy makers?
Should governments make more use of this and other Keynesian ideas, or should they adopt
non-Keynesian policies? [N 95, 6]

10. Why is investment important to a country? Why do some countries have lower rates of
investment than others and what is the role of the government in encouraging investment? [M 96, 3]

11. What are the social costs of unemployment? In view of these costs, why do some
countries give higher priority to tackling other problems such as inflation and balance
of payments difficulties? [M 96, 4]
12. A government introduces ‘supply side’ policies in order to have a flexible work force. Describe the policies, which might be introduced. Consider whether such policies would be worthwhile.

[N 96, 4]

13. (a) What is monetarism? (10)
(b) How would a monetarist’s view of economic problems (such as inflation and unemployment) and policies differ from that of a Keynesian? (15)

[M 97, 4]

14. Evaluate the costs and benefits for a country if its government adopts privatisation as a major policy.

[M 98, 3]

15. (a) Is full employment possible? (8)
(b) Is full employment desirable (8)
(c) Do international trading blocks such as NAFTA or the EU increase or reduce unemployment? (9)

[M 98, 5]

16. To what extent is it wise for governments to follow a policy of always balancing their national budgets?

[N 98, 4]

17. (a) Briefly explain the various objectives of macroeconomic policy. (10)
(b) Critically examine the view that the control of inflation should always be the most important objective of governments. (15)

[M 99, 5]

18. Is there a long-term trade-off between inflation and unemployment?

[N 99, 4]

19. (a) Explain how governments can use fiscal policy to redistribute income. (12)
(b) Evaluate the advantages and disadvantages of policies aimed at reducing income inequalities (13)

[M 01, 5]

20. “What is wanted is not inflation (a rise in the general price level) or deflation (a fall in the general price level) but price stability.” Discuss.

[N 01, 4]

21. (a) What are the consequences of unemployment in an economy? (10)
(b) Examine the strategies that may be used to reduce unemployment, referring to more developed countries and less developed countries in your answer. (15)

[M 02, 4]

22. (a) What are the main macroeconomic objectives of government? (10)
(b) Assume the government chooses to pursue one of these objectives. Evaluate the possible consequences for the other objectives (15)

[N 02, 5]
International Trade

1. Outline the methods used by governments to stabilise exchange rates, and discuss their advantages and disadvantages. [M 89, 6]

2. A country wishes to appreciate its currency (to raise its value) against other national currencies. What are the alternative policy tools at its disposal? What are the advantages and disadvantages of each? [M 90, 3]

3. Why are monopolies and mergers a cause of international concern? [M 91, 3]

4. “Balance of payments surpluses on current account are good; deficits are bad.” Critically discuss this statement. [M 92, 6]

5. It has been observed that the world might be splitting into large trading blocks. What is a trading block, and how might this trend affect world trade and living standards? [M 93, 5]

6. How might a depreciation of an exchange rate affect the Balance of Payments on current account? [N 93, 6]

7. What factors determine the exchange rate of one currency against another? In what ways can changes in the exchange rate affect the domestic economy of a country? [M 94, 6]

8. What would be the main difficulties involved in establishing a common currency for the whole world? If such a thing were attempted, what would be the advantages and disadvantages for an individual country, such as the one where you live or study? [M 95, 6]

9. Discuss why the idea of ‘comparative advantage’ is important to developing countries, and explain how comparative advantage can change over time. [N 95, 4]

10. Why are many international markets becoming dominated by a relatively small number of large companies? What are the economic consequences of this trend? [M 96, 5]


12. If protectionism is such a bad thing, why have so many countries joined trading blocks? [Spec, 5]
13. (a) What is a floating exchange rate system and what factors influence the level of a country’s exchange rate? (15)
   (b) Do floating exchange rates accurately reflect the relative values of a country’s goods and services? (10)

14. “Most modern mass production techniques can be performed in most countries and climates with almost equal efficiency.” Consider this statement with respect to the theories of comparative and absolute advantage.

15. (a) What problems might a country face if it experiences a persistent deficit in the current account of its balance of payments? (10)
   (b) Evaluate the alternative ways in which such a deficit might be reduced or eliminated. (15)

16. “Whether the exchange rate rises or falls there are always losers.” Evaluate this statement from a domestic and/or global perspective.

17. (a) Explain the various factors that could cause a change in the terms of trade for a country. (10)
   (b) Discuss, with reference to less developed countries, the possible consequences of a deterioration in the terms of trade. (15)
Economic Development

1. How could industrialised countries best assist less developed countries to achieve higher levels of real income? [M 89, 5]

2. What are the determinants of economic growth? [N 90, 3]

3. Do the activities of multinational companies help or hinder the progress of economic development? Justify your answer. [M 92, 4]

4. Some economists have begun to refer to some countries as Newly Industrialised Countries (NICs). Explain and discuss the strategies that a Less Developed Country (LDC) might adopt if it wishes to become a NIC. [M 93, 6]

5. A multinational enterprise decides to make a large investment in Gondomar, a less developed country. Examine the possible economic costs and benefits of this decision for the economy of Gondomar. [M 94, 4]

6. Some countries, such as India, have tended to use inward orientated development strategies, while others, such as South Korea, have used outward orientated strategies. Describe the main features of each type of strategy, and discuss and evaluate their advantages and disadvantages. [M 94, 5]

7. What government policies can encourage rapid and sustainable economic development? Is development possible without government intervention? [M 95, 3]

8. As an economist, how would you tackle the task of comparing the welfare of a citizen of a country like India with that of a citizen of a country like the United States? What would be the main problems involved? [M 95, 4]

9. What are the economic costs and benefits which a less developed country can expect when it receives aid from a more developed country? Explain whether aid or trade would be more effective. [N 96, 6]

10. Explain how and why economists are attempting to find ways of measuring economic ‘development’ as distinct from ‘growth’. [M 97, 6]

11. (a) What are the different forms that international aid might take? (10) 
(b) Discuss the view that giving aid simply creates the need for further aid. (15) 
[Spec, 6]
12. (a) What are the main forms of ‘aid’ provided for Less Developed Countries? (10)  
(b) What is more effective in promoting development, aid or trade? [M 98, 6]

13. (a) What is ‘foreign direct investment’ (FDI) and what role does it play in the economic development of less developed countries? (12)  
(b) Compare the effectiveness of FDI with other sources of investment. (13) [N 98, 6]

14. (a) What factors explain the growth in importance of multinational corporations over recent decades? Illustrate your answer where possible by making reference to your own or other countries. (12)  
(b) Do multinational corporations work in favour of, or against the interests of Less Developed Countries? (13) [M 99, 6]

15. A country decides to change from an inward oriented development strategy to an outward oriented development strategy.  
(a) What changes in economic policy would be made? (12)  
(b) Discuss the likely consequences of this change in policy. (13) [N 99, 6]

16. (a) Discuss the main problems involved in measuring the national income of a country. (12)  
(b) Why do many economists prefer to use composite indexes, such as the Human Development Index, as well as national income figures, to indicate living standards? (13) [M 00, 5]

17. Is economic growth compatible with the protection of the environment? Discuss with reference to sustainable development. [M 00, 6]

18. (a) Under what circumstances might a country achieve economic growth without economic development? (12)  
(b) Evaluate the effectiveness of outward-orientated strategies in achieving growth and development. (13) [N 00, 6]

19. (a) Why have multi-national corporations grown so rapidly in recent decades? (10)  
(b) Do multi-national corporations help or hinder the less developed countries? (15) [M 01, 6]

20. (a) What are the arguments in favour of unrestricted flows of financial capital between countries? (15)  
(b) How might unrestricted capital flows be damaging to less developed countries? (10) [N 01, 5]
21. “According to the World Bank, an extra 10 billion dollars in aid could lift 25 million people a year out of poverty - so long as it went to poor countries that manage their economies well. The same sum spent across the current distribution of aid recipients would lift only 7 million out of poverty.”

(a) What are the economic arguments in favour of using aid as part of a development policy for less developed countries? (12)

(b) How far would you agree with the World Bank view, that aid has failed as a development policy because of the poor economic management policies that less developed countries have adopted? (13)

[N 01, 6]

22. (a) Using examples, explain the difference between economic growth and economic development. (10)

(b) Is economic growth always a desirable policy objective for a government? (15)

[M 02, 6]

23. To what extent has the international trading system contributed to economic growth and development in less developed countries?

[N 02, 6]