

Chapter 1: What is economics?

The lengthy conflict in Syria resulted in the destruction of infrastructure systems such as water, electricity, and transportation networks, along with extensive damage to social infrastructure such as schools and hospitals. One report estimated the cost of material destruction to be \$120 billion in 2018.

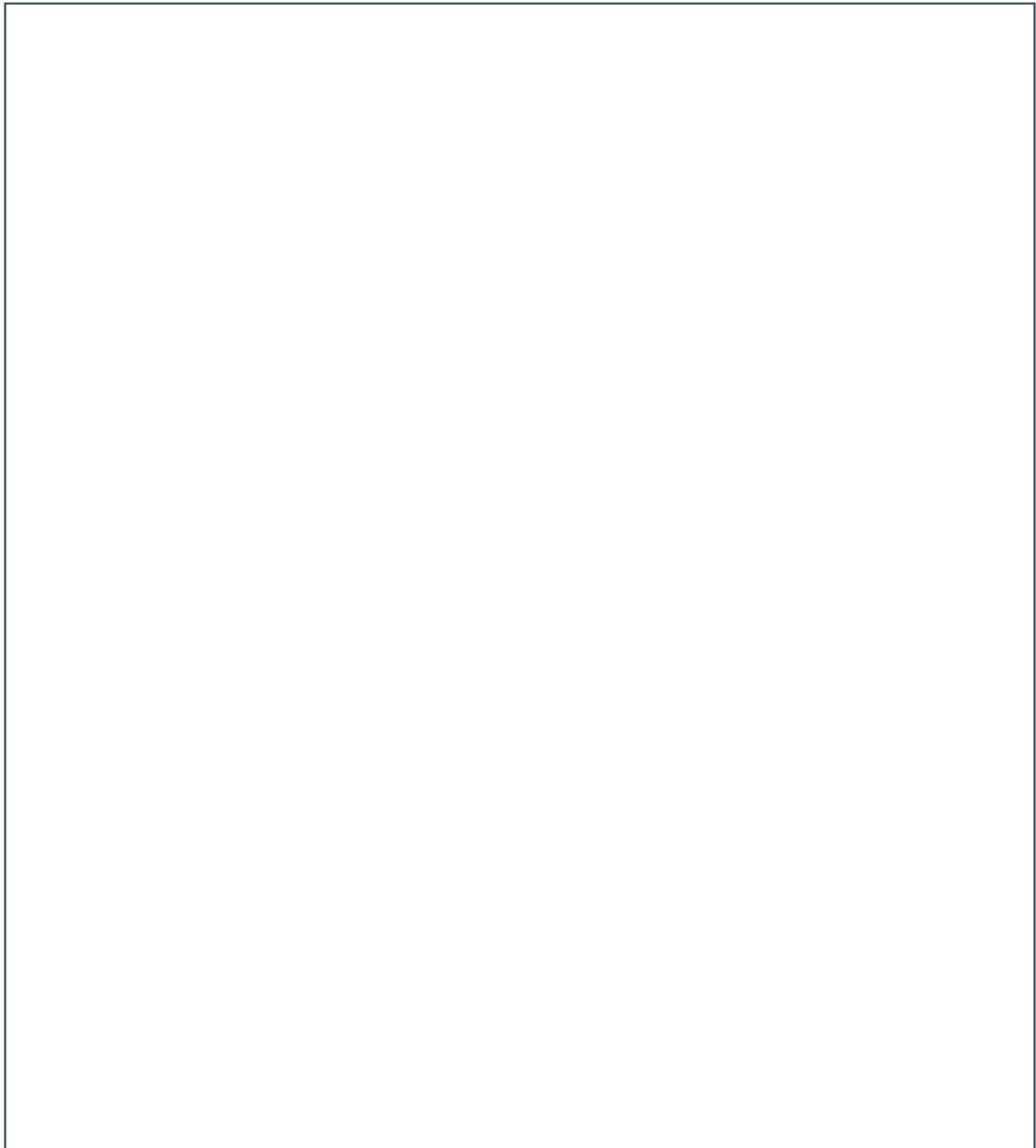
Using a production possibilities curve (PPC), explain the consequence of the Syrian conflict on its production possibilities.

[4 marks]

Chapter 3: Demand

Singapore imports approximately 90% of its food. The government would like to improve the nation's food security so that at least 30% of the food eaten by Singaporeans is grown locally. Social scientists have been examining the factors that influence consumers' decisions to buy locally grown food. Using the results of their research, they have designed nudges to encourage the consumption of local foods.

Using a demand diagram, explain what the Singapore government is trying to do. (Hint: Be sure to refer to a specific determinant of demand.)



[4 marks]

Chapter 5: Supply

Devastating flooding and heavy rains in July and August 2020 caused extensive damage to Bangladesh's lemon orchards.

Using a supply diagram, explain the consequences of the bad weather in the market for lemons in Bangladesh.

[4 marks]

HIGHER LEVEL

Chapter 6: A closer look at supply: Price elasticity of supply

The global economic crisis caused by the COVID-19 pandemic led to a collapse in demand for many internationally traded commodities, such as copper. In March 2020, the price of copper was around \$4,617 per tonne. By October, the price had rallied to around \$5,330 per tonne. This was largely due to fiscal and monetary stimulus from the Chinese government. China is the world's biggest consumer of copper.

Using a demand and supply diagram and referring to the concept of elasticity of supply, explain why the price of copper has seen such a large change in price.

[4 marks]

Chapter 7: Market equilibrium, the price mechanism and market efficiency

1. *Most supermarkets and department stores in the United Kingdom have announced that they will no longer use glitter in their own-brand Christmas products. This includes Christmas cards, decorations, crackers, gift bags and wreaths. The tiny pieces of plastic that are present in glitter take years to degrade, end up in rivers and oceans, and pose grave threats to wildlife.*

Using a supply and demand diagram, explain what a supermarket might hope to achieve by stopping its use of glitter in its own-brand Christmas products.



[4 marks]

2. *Many people would like to buy an electric car, but the high prices of electric cars discourage consumers from buying them. Fortunately, things may change soon. Improvements in battery technologies are making it cheaper to produce electric vehicles. Might we be approaching the age of affordable electric cars?*

Using a demand and supply diagram, explain how the market for electric cars might change in the near future.

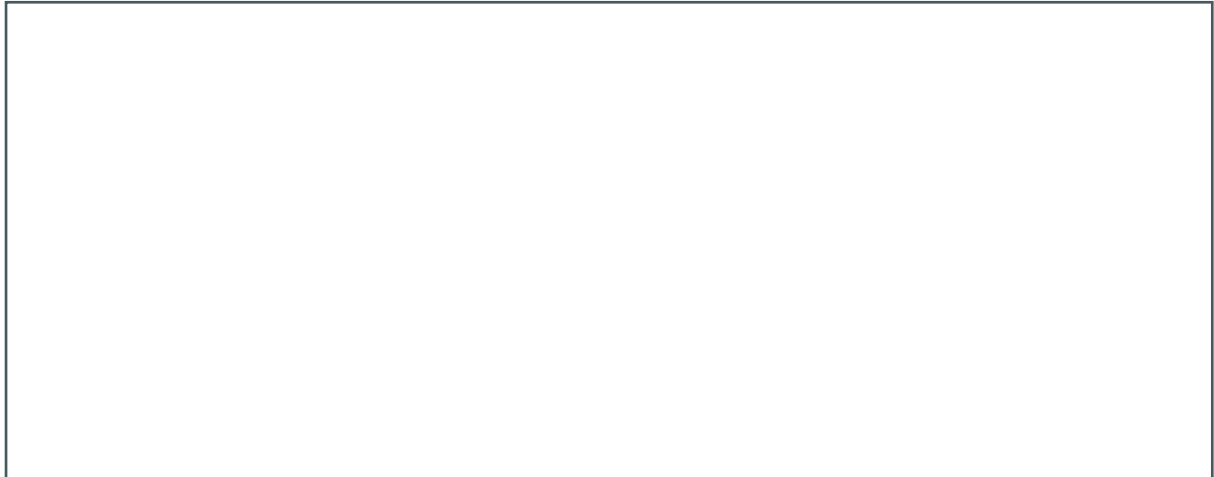


[4 marks]

Chapter 8: Methods of government intervention in markets

1. *When the Nigerian Petroleum Products Pricing Regulatory Agency (PPPRA) announced in 2020 that the **subsidy** on petrol was to be removed, some Nigerians were shocked at the news that the price of petrol was to be determined entirely by market forces. There were a number of protests.*

Using a demand and supply diagram, explain why some Nigerians might protest at the recent decision to remove petrol subsidies.



[4 marks]

2. *Given the **elasticity of demand** for petrol, the new indirect tax on petrol is unlikely to affect demand significantly, but it will generate valuable revenues for the government.*

Using a demand and supply diagram, explain how the **indirect tax** will ‘generate valuable revenues’ for the government.



[4 marks]

3. *The government wanted to encourage people to wear face masks to help prevent the spread of coronavirus. It set a **maximum price** of €0.96 per mask.*

Using a demand and supply diagram, explain how a maximum price will affect the market for face masks.



[4 marks]

Key terms

The words in bold in the questions are key terms. You should be able to define them. Write your own definition for each one.

subsidy

elasticity of demand

indirect tax

maximum price

Chapter 9: Market failure

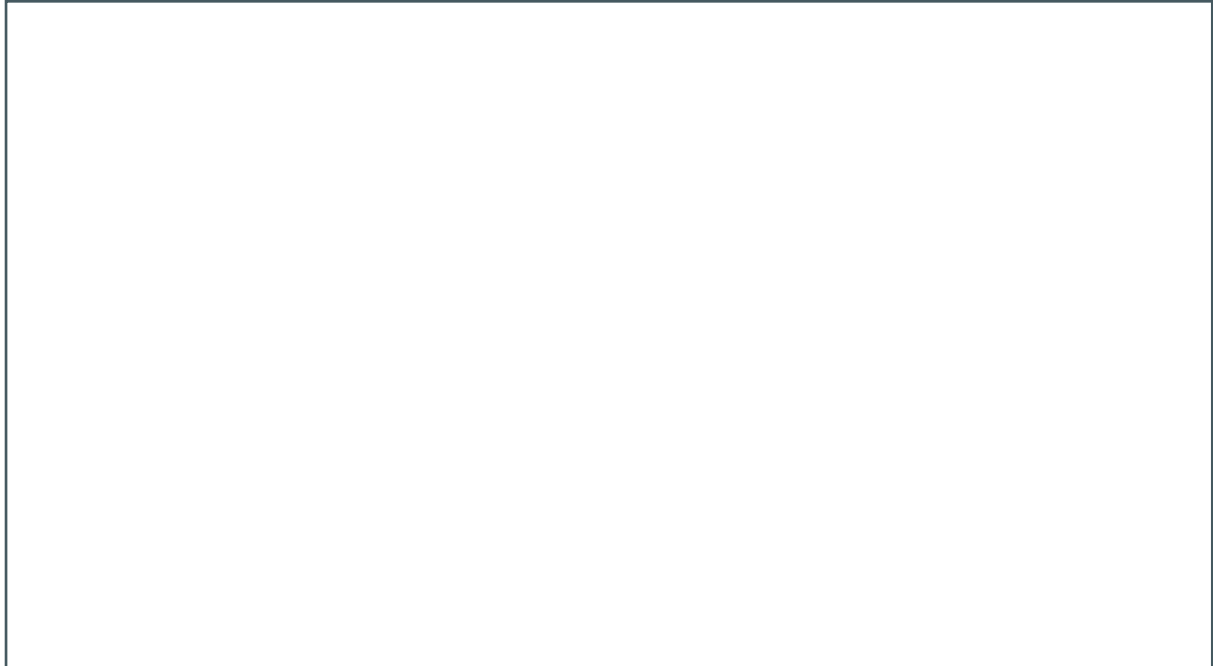
1. *A study has shown that putting warning labels on sugary drinks would help to discourage consumers from purchasing them. The researchers recommended that governments make it mandatory for companies to put warnings on sugary drinks. This would be similar to the labelling laws for cigarette manufacturers that have proven to be very successful in **nudging** consumers to stop smoking.*

Using a market failure diagram, explain how a government policy requiring warning labels on alcoholic drinks could reduce the market failure associated with the drinking of alcohol.

[4 marks]

2. *Canada's goal of cutting greenhouse gas emissions by 30% below 2005 levels requires a range of policies. The government expressed the need to increase the **carbon tax**. This will not be a popular policy choice, especially for energy-intensive producers. However, it is seen as a necessary step if Canada is to meet its Paris climate agreement commitments.*

Using a demand and supply diagram, explain how an increased carbon tax may affect the market for energy producers.



[4 marks]

Key terms

The words in bold in the questions are related to key terms. You should be able to define them. Write your own definition for each one.

nudge theory

carbon tax

HIGHER LEVEL

Chapter 10: Rational producer behaviour

*To increase sales, the producer of Product X has decided to maximize **revenue** instead of maximizing **profit**. This is likely to appeal to consumers of the product.*

Using the theory of the firm (costs and revenues diagram), explain why consumers of Product X are likely to be pleased with the decision of the producer.

[4 marks]

Key terms

The words in bold in the question are key terms. You should be able to define them. Write your own definition for each one.

revenue

profit

HIGHER LEVEL

Chapter 11: Market power: Perfect competition and monopolistic competition

The low level of demand for restaurants and bars has caused many small firms to shut down and leave the industry.

Using the theory of the firm for one restaurant (costs and revenues diagram), explain why it may have had to shut down and leave the industry.

[4 marks]

HIGHER LEVEL

Chapter 12: Market power: Monopoly and oligopoly

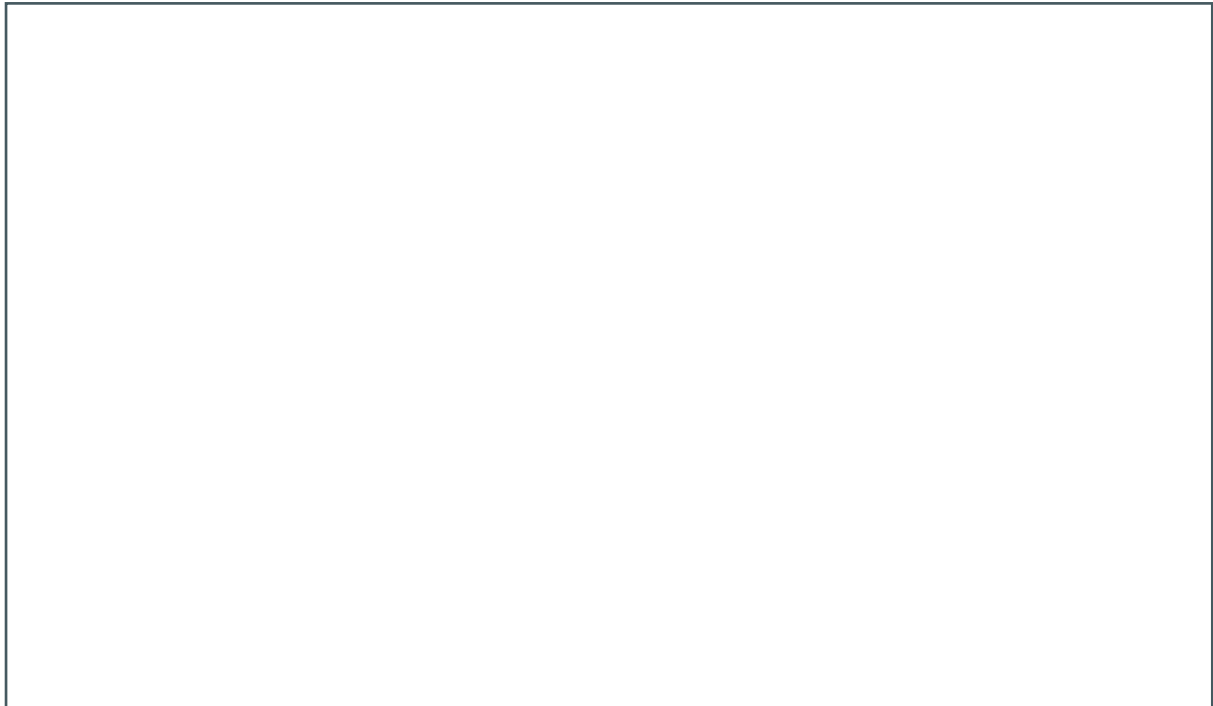
1. *With its commitment to renewable energy, a power company invested millions of dollars to achieve **economies of scale**. As a result, the cost of renewable power fell from \$200 per megawatt in 2012, to approximately \$47 per megawatt in 2020.*

Using a long-run cost curve cost diagram, explain why the cost of renewable energy has fallen.

[4 marks]

2. *After a lengthy investigation, the US Justice Department (the country's competition watchdog) accused a number of executives of price-fixing in the poultry industry. The investigation revealed that the firms had been **colluding** to cheat consumers with high prices from 2012 to 2019. If convicted, the executives could go to prison.*

Using the theory of the firm (costs and revenues diagram), explain why the behaviour of the firms in the poultry industry 'cheats consumers'.



[4 marks]

Key terms

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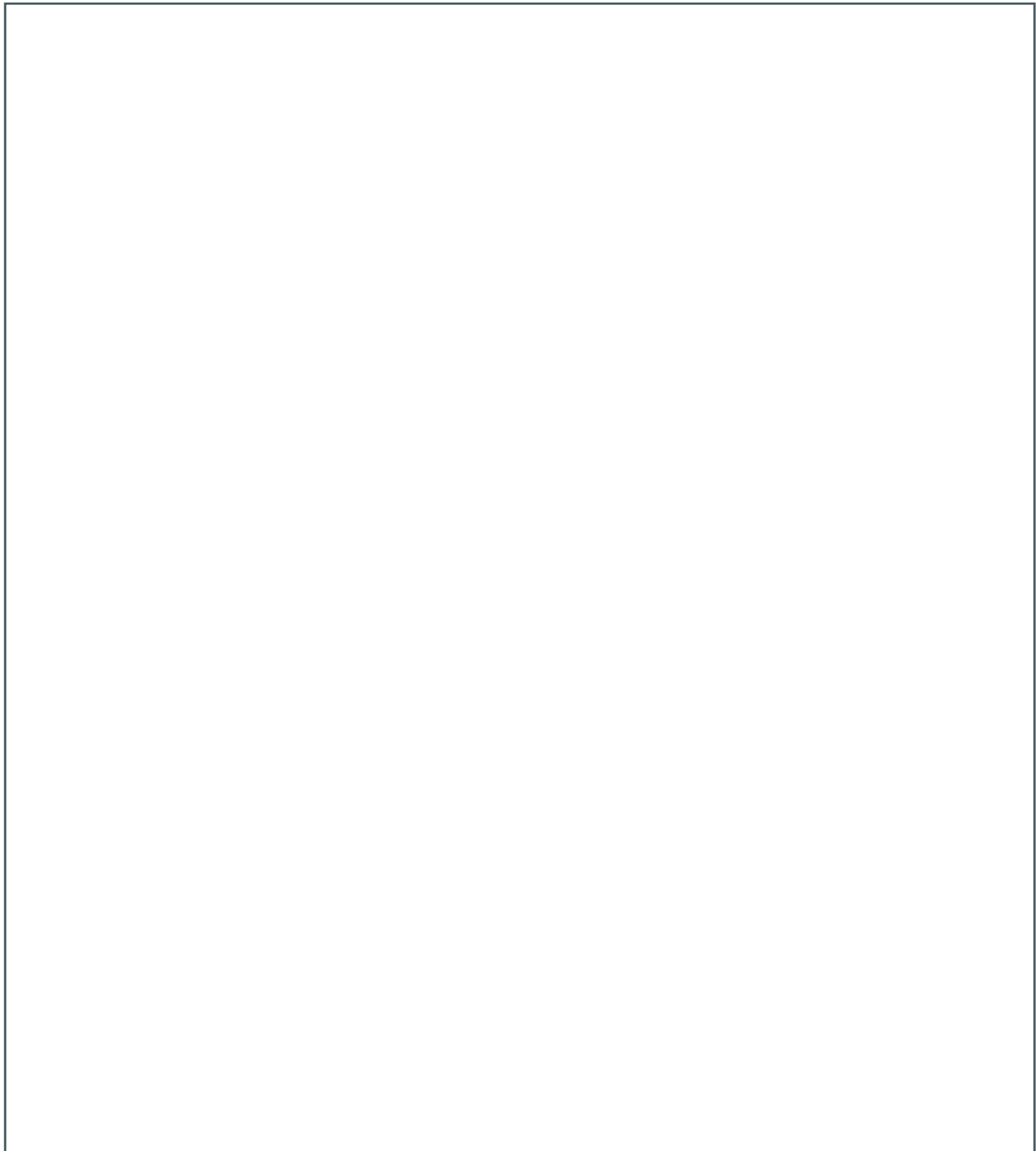
economies of scale

collusion

Chapter 13: The level of overall economic activity

When the global financial crisis hit in 2008, most of the world's major economies fell into recession. However, Australia managed to avoid a recession, largely due to sustained demand for its natural resources from China. With the COVID-2019 pandemic, Australia was not so fortunate. The country experienced its first recession in almost 30 years.

Using a business cycle diagram, explain where Australia is in the business cycle.



[4 marks]

HIGHER LEVEL

Chapter 16: Macroeconomic equilibrium

*Despite massive fiscal and monetary surplus, Australia entered its first **recession** in 30 years in 2020. With hundreds of businesses shutting down due to the COVID-19 pandemic, consumer spending collapsed. The Australian Bureau of Statistics reported that the economy contracted by 7% in the second quarter of the year.*

Using an AD/AS diagram, explain what has happened in the Australian economy.



[4 marks]

Key term

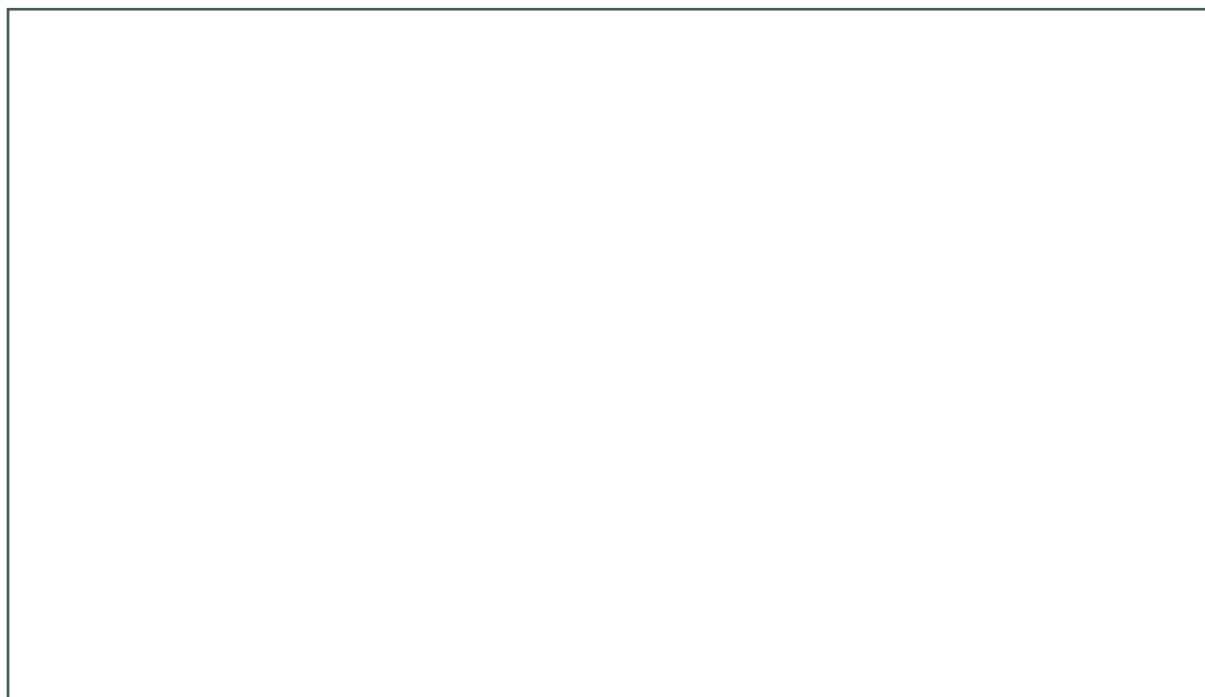
The word in bold in the question is a key term. You should be able to define it. Write your own definition.

recession

Chapter 17: Demand management (demand-side policies)

*The COVID-19 pandemic caused Germany's **unemployment rate** to rise, and the country went into what was expected to be its worst recession in 70 years. In response, the German government announced a €130 billion **fiscal stimulus** to give the economy a necessary jump start. This involved several measures including direct government expenditures, together with policies to encourage consumers and businesses to spend their money.*

Using an AD/AS diagram, explain what the German government's stimulus package aims to achieve.



[4 marks]

Key terms

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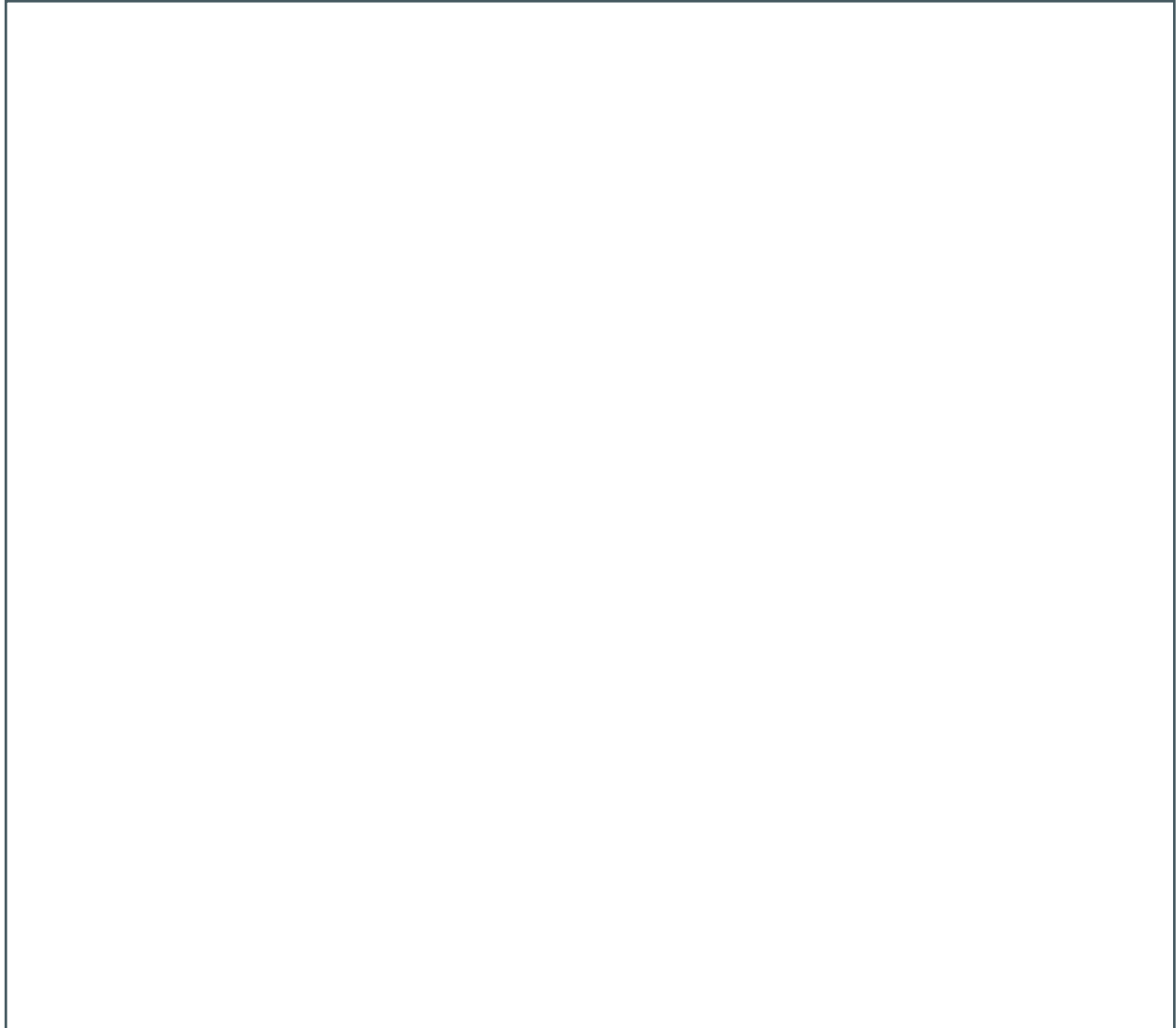
unemployment rate

fiscal stimulus

Chapter 18: Supply-side policies

*In its recent budget, the government announced a decrease in corporate taxes from 30% to 25% in order to stimulate long-run **economic growth**.*

Using an AD/AS diagram, explain how the reduction in corporate taxes might ‘stimulate long-run economic growth’.



[4 marks]

Key term

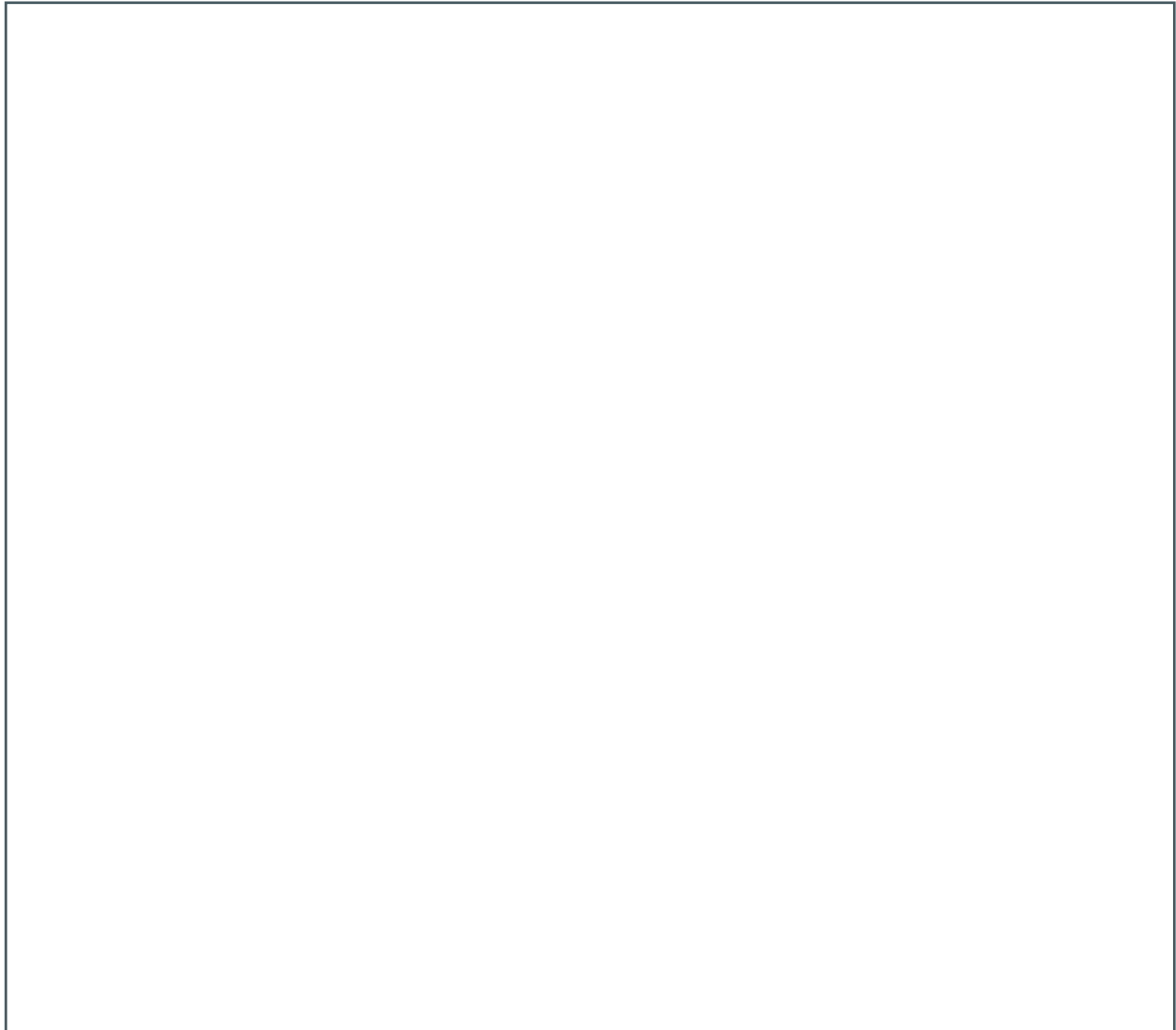
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economic growth

Chapter 19: Macroeconomic objectives: Low unemployment

*Despite calls for a **minimum wage** to support low-wage workers, government economists have decided that the main disadvantage of a minimum wage outweighs any possible advantages. As a result, there will be no minimum wage introduced by this government.*

Using a demand and supply for labour diagram, explain what the government might argue is the main disadvantage of a minimum wage.



[4 marks]

Key term

The word in bold in the question is a key term. You should be able to define it. Write your own definition.

minimum wage

Chapter 20: Macroeconomic objectives: Low and stable rate of inflation

*In 2020, Pakistan faced the dangerous economic situation whereby rising unemployment is combined with rising **inflation**. This made it very difficult for people to cope. Analysts pointed to rising commodity prices as a key factor.*

Using an AD/AS diagram, explain the type of inflation Pakistan faced.



[4 marks]

Key term

The word in bold in the question is a key term. You should be able to define it. Write your own definition.

inflation

Chapter 21: Macroeconomic objectives: Economic growth

*Sustainable Development Goal 4 calls for 'Quality Education'. In particular, Target 4.4 calls for a substantial increase in the 'number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and **entrepreneurship**'.*

Using a long-run aggregate supply curve, explain how a focus on Target 4.4 of the Sustainable Development Goals may result in economic growth.

[4 marks]

Key term

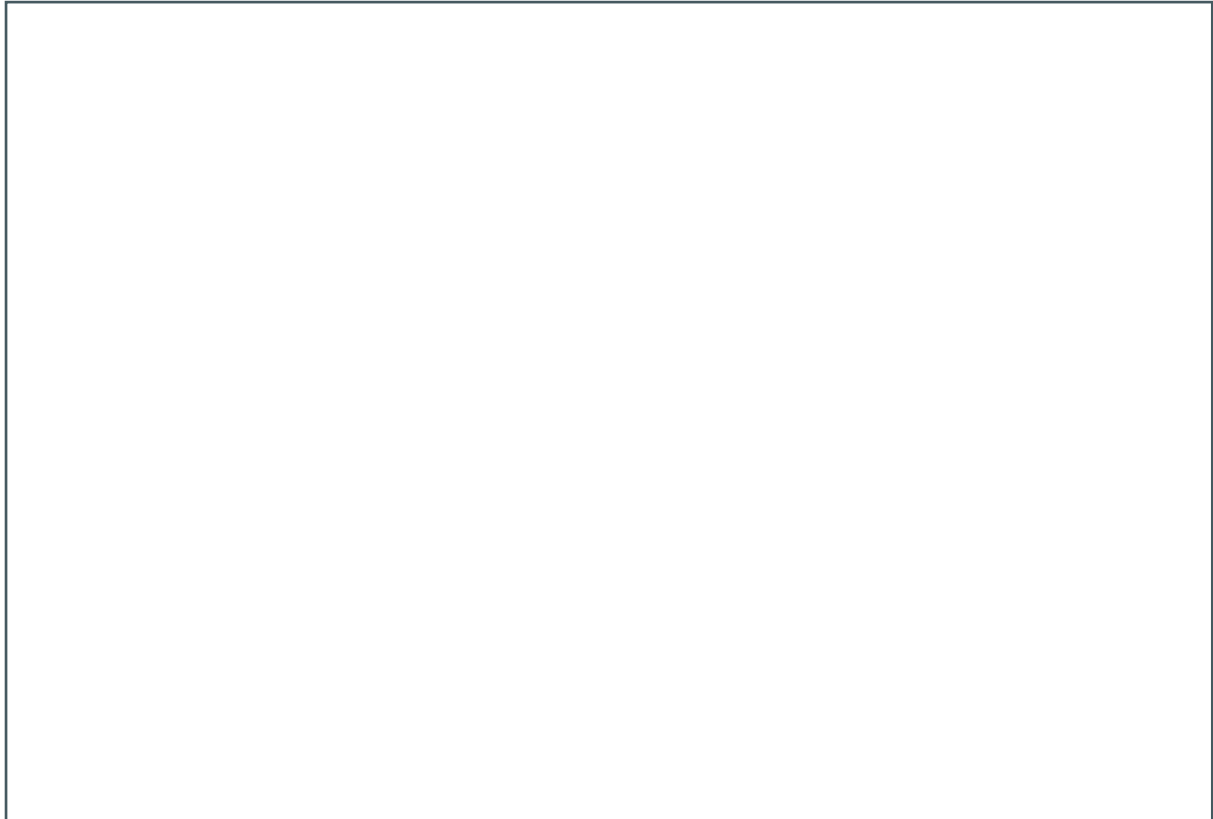
The word in bold in the question is a key term. You should be able to define it. Write your own definition.

entrepreneurship

Chapter 22: Economics of inequality and poverty

*According to models developed for the Australian government, the implementation of a **Universal Basic Income** could reduce the **Gini coefficient** from 0.34 to 0.25.*

Using a Lorenz curve diagram, explain the possible effect of a Universal Basic Income on income inequality in Australia.



[4 marks]

Key terms

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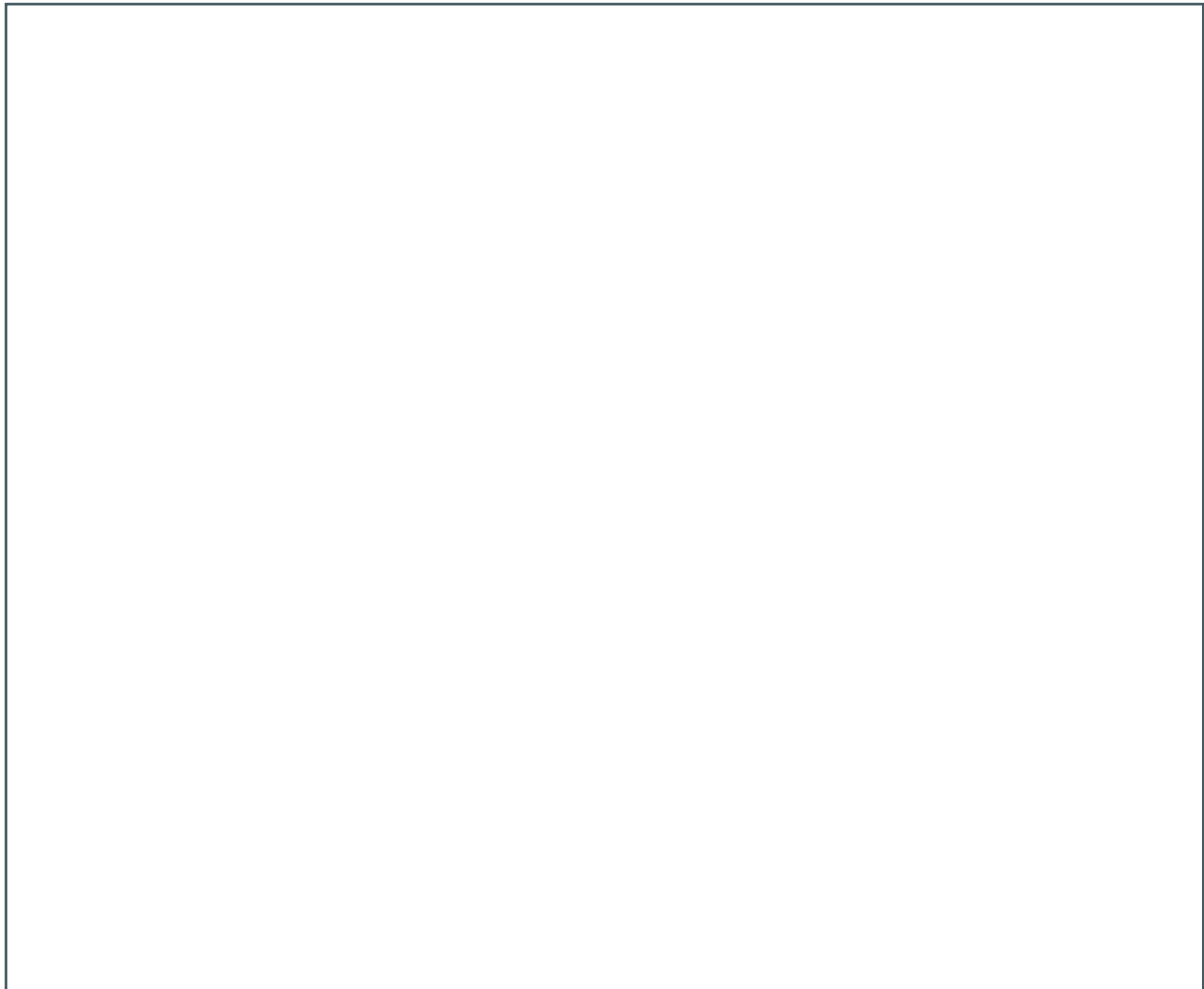
Universal Basic Income

Gini coefficient

Chapter 23: Why do countries trade?

*Trade between Germany and Bangladesh has been increasing at a rapid pace. Germany is Bangladesh's largest European trading partner. Overall, Germany has greater manufacturing efficiency, but Bangladesh has a **comparative advantage** in the production of clothing due to the abundance of women in the workforce. Equally, Germany's comparative advantage in machinery ensures that Bangladesh can import the machinery that is essential for its economic growth.*

Using a PPC diagram, explain Bangladesh's comparative advantage with respect to Germany.



[4 marks]

Key term

The word in bold in the question is a key term. You should be able to define it. Write your own definition.

comparative advantage

Chapter 24: Free trade and protectionism

*As part of his 'America First' trade policy to try to increase employment, US President Donald Trump imposed a 20% **tariff** on imported washing machines. One year later, research showed that US households were paying around \$90 more on all new washing machines.*

Using a tariff diagram, explain how the tariff on washing machines could be expected to increase employment.



[4 marks]

Key term

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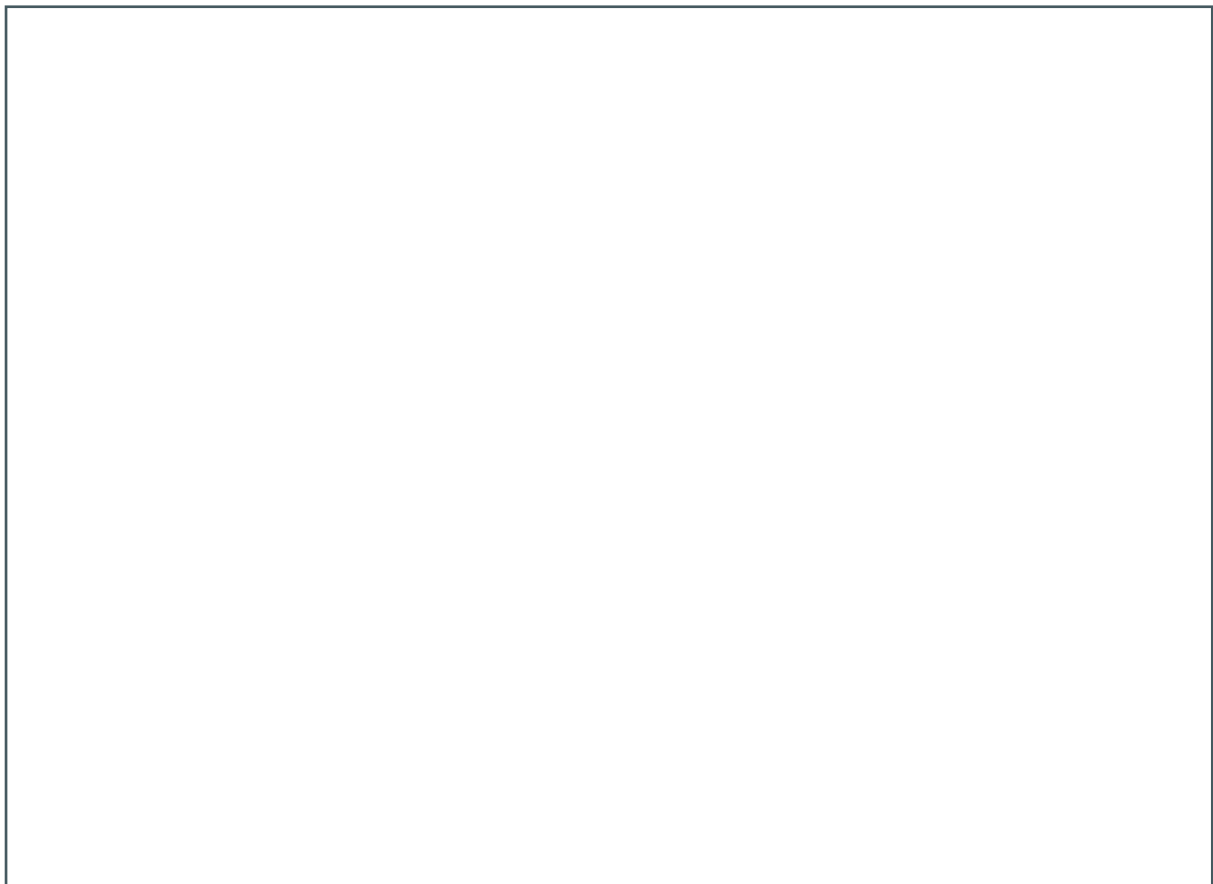
tariff

HIGHER LEVEL

Chapter 25: Economic integration

*Five countries in East Africa are in the process of establishing the African Continental Free Trade Area. In 2021, Kenya, Ethiopia, Rwanda, Uganda and Djibouti began to remove tariffs on imports. The greatest boost to the region was expected to come from the **trade creation** between the two largest economies in East Africa – Kenya and Ethiopia.*

Using a trade diagram, explain how the regional free trade agreement might result in trade creation for Ethiopia.



[4 marks]

Key term

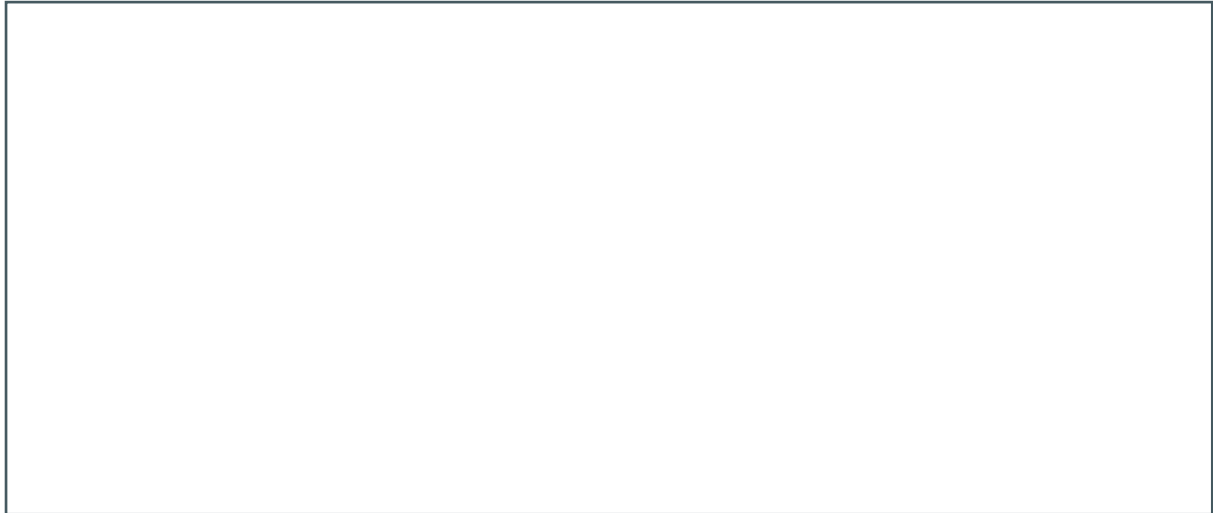
The word in bold in the question is a key term. You should be able to define it. Write your own definition.

trade creation

Chapter 26: Exchange rates

1. The New Zealand dollar **appreciated** against the US dollar following the general election of 2020 when the Labour Party won a decisive victory. This created a sense of stability in the government and confidence in the currency.

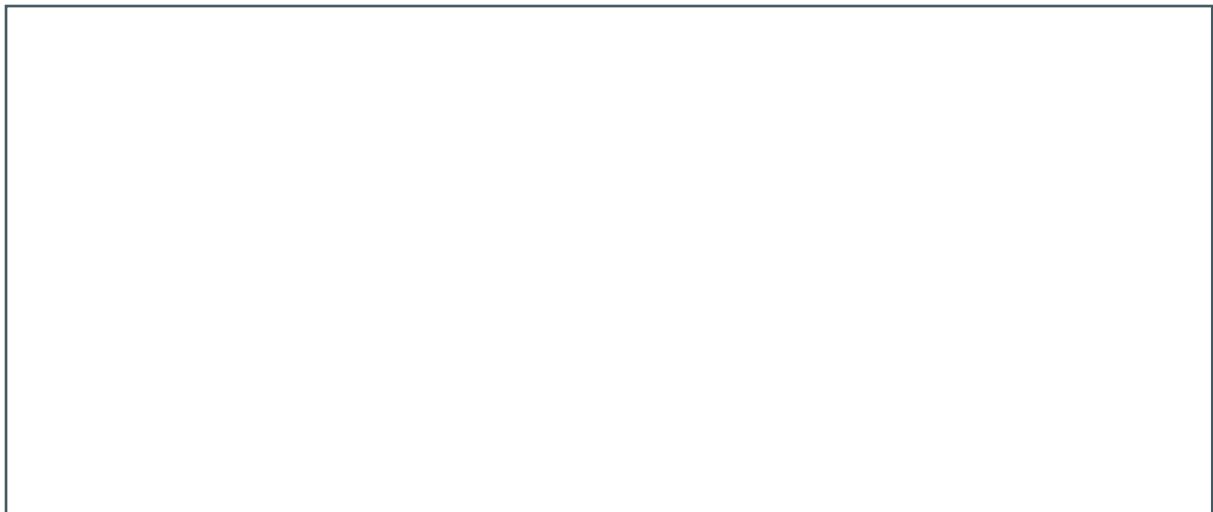
Using a currency diagram, explain what happened to the value of the New Zealand dollar.



[4 marks]

2. India's economic recovery following the relaxation of COVID-19 restrictions resulted in strong demand for imported consumer and producer goods.

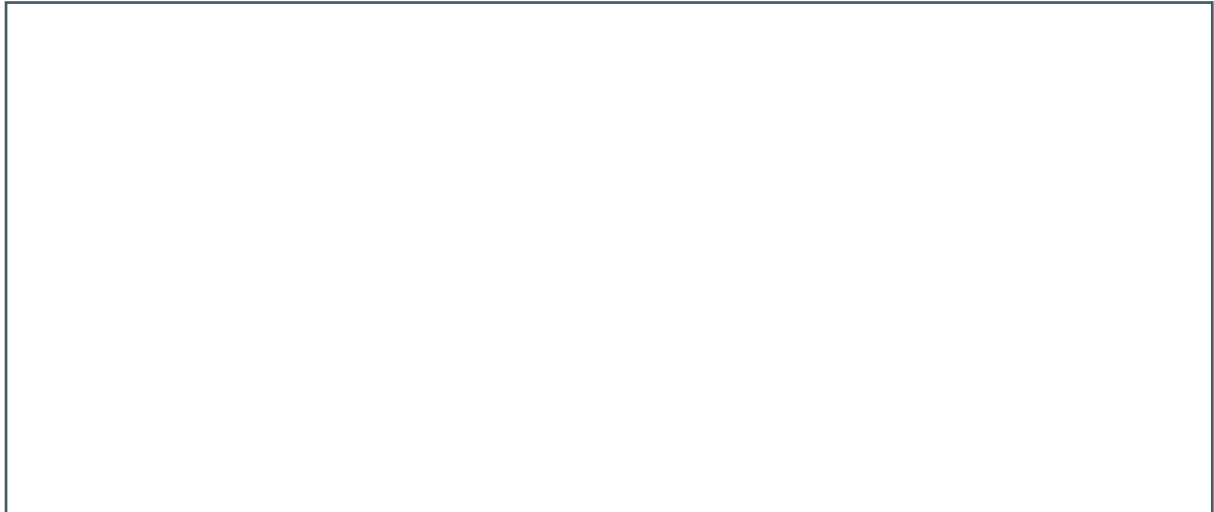
Using a currency diagram, explain how increased demand for imported consumer and producer goods might affect the value of the Indian rupee.



[4 marks]

3. *In 2019, the Israeli shekel became one of the world's strongest currencies. An analyst at a major investment firm warned that the strength of the shekel threatened the growth of Israel's economy.*

Using an AD/AS diagram, explain why the analyst warned that the strong value of the shekel may threaten the country's economic growth. [4 marks]



[4 marks]

Key term

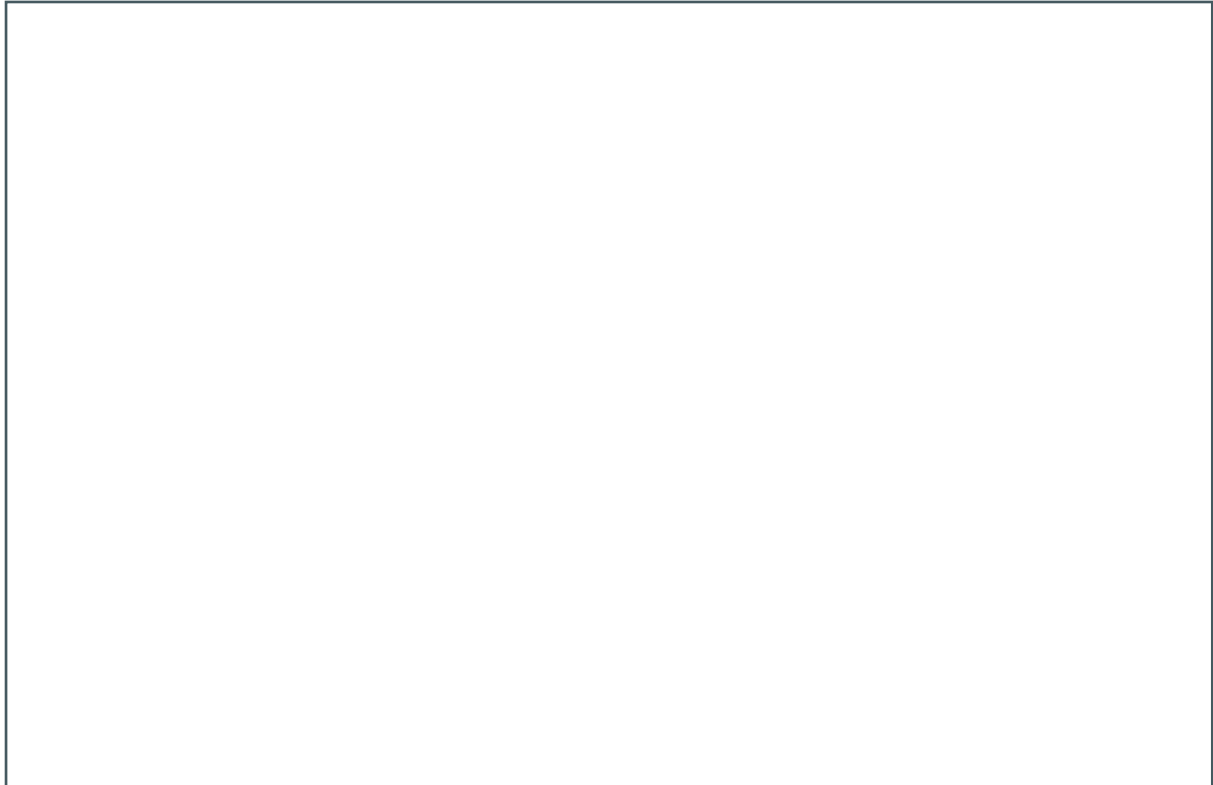
The word in bold in question 1 relates to a key term. You should be able to define it. Write your own definition.

appreciation

Chapter 27: The balance of payments

The **depreciation** of the Turkish lira in 2020 was expected to result in an improvement in the Turkish **current account**, but this was unlikely to occur in the short run.

Using an appropriate diagram, explain why it may take some time for the current account to improve.



[4 marks]

Key terms

The words in bold in the question are key terms. You should be able to define them. Write your own definition for each one.

depreciation

current account

Chapter 28: Economic development and sustainable development

The objective of Sustainable Development Goal 12 is to 'Ensure sustainable consumption and production patterns'. To work towards this objective, the government is proposing strict regulations on the disposal of household plastic products, making it much more inconvenient to use single-use plastics such as plastic takeaway containers.

Using a market failure diagram, explain how increased regulations might reduce the market failure associated with the use of single-use plastics such as plastic takeaway containers.

[4 marks]

Chapter 30: Barriers to development

Thanks to M-Pesa and other providers of mobile banking services, millions of people have been lifted out of poverty in Kenya. Telecommunications companies explain that mobile banking services allow people to save and transfer money. In areas where people have no access to banks, this is an essential service.

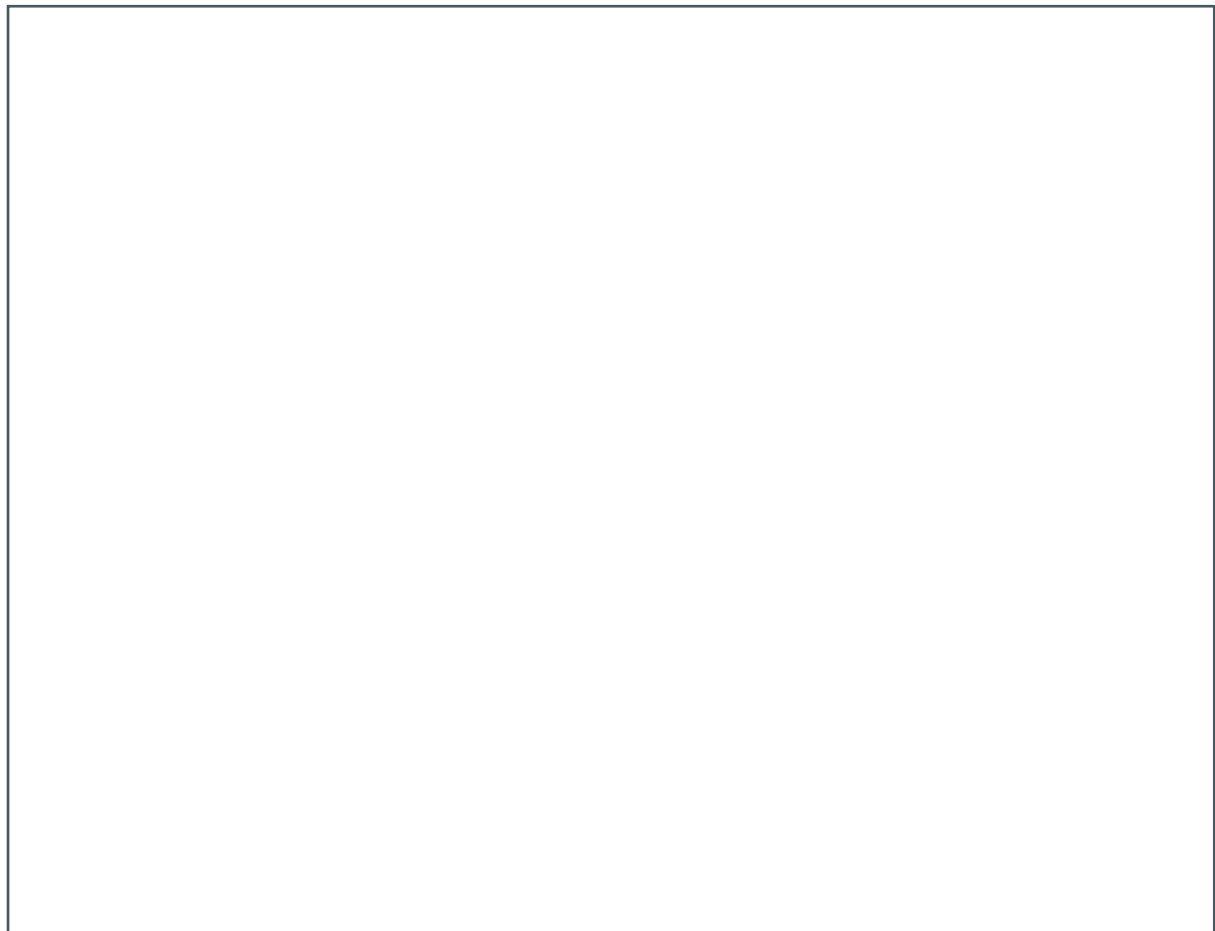
Using a poverty cycle diagram, explain one way that mobile banking can lift people out of poverty.

[4 marks]

Chapter 31: Strategies to promote economic growth and economic development

*In its 2020 report, the United Nations Conference on Trade and Development (UNCTAD) noted that China had been the largest source of **foreign direct investment** (FDI) in Ethiopia in 2019. Among other things, investment from China greatly improved Ethiopia's infrastructure to help it secure long-run economic growth.*

Using an AD/AS diagram, explain how FDI from China helped Ethiopia secure long-run economic growth.



[4 marks]

Key term

The word in bold in the question is a key term. You should be able to define it. Write your own definition.

foreign direct investment (FDI)
