CAISL
Carlucci American International School of Lisbon

# GRADE 11 ADVANCED ECONOMICS LEVEL 1 - IB ECONOMICS Y1 FRAMEWORK

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## THEMES AND CONTENT

The Performance Indicators (shown at the end of this Framework) are developed through the study of the Themes and Content below.

**Microeconomics**

- **Competitive markets**
  - Law of demand and Law of Supply describe the relationship between price and quantity.
  - Understand the relationship between supply and demand, draw a graph and calculate.
  - TOK Connection: What assumptions underlie the law of demand? Are these assumptions likely to be true? Does it matter if these assumptions are actually false?
- **Elasticity**
  - Elasticities are used to measure the effect of a change in some factor (income, price of a good, price of another good etc.) has on supply and demand of a good.
  - Calculate and draw Price Elasticity of Demand (PED), Price Elasticity of Supply (PES), Cross Price Elasticity of Demand (XED), Income Elasticity of Demand (YED).
  - TOK Connection: Government interference always reduces efficiency in the free market. Therefor any attempt by government to help producers or consumers will make society worse off. What evidence would we need to support or refute this claim?
- **Government Intervention**
  - Understand that an indirect is a tax placed on the producer (his produced goods and/or services) which is then (partly) passed on to the consumer in a form of a higher price.
  - Understand concepts such as Deadweight Welfare Loss, Consumer and Producer Surplus and discuss relationship to PED and PES.
  - TOK Connection: To what extent is government morally obliged to provide healthcare and welfare benefits to the unemployed?
- **Market Failure**
  - Examine the concept of market failure as a failure of the market to achieve allocative efficiency, resulting in an over-allocation of resources (over-provision of a good) or an under-allocation of resources (under-provision of a good).

    - Evaluate, using diagrams, the use of policy responses, such as threats to sustainability, common access resources and the need for international cooperation.
    - TOK Connection: 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?

**Macroeconomics**

- **The level of overall economic activity**
    - Identify the four factors of production and their respective payments and explain, using a diagram, the circular flow of income in an open economy with government and financial markets.
    - Distinguish between GDP and GNP/GNI as measures of economic activity.
    - TOK Connection: What is the empirical evidence for the existence of the business cycle? How do we decide whether this evidence is sufficient?
- **Aggregate demand and aggregate supply**
    - Distinguish between the microeconomic concept of demand/supply for a product and the macroeconomic concept of aggregate demand/supply. Describe consumption, investment, government spending and net exports as the components of aggregate demand, and consumption and saving as components of aggregate supply.
    - Distinguish between Keynesian and Neo-classical view of Long-run aggregate supply
    - TOK Connection: What is needed to settle the question of Keynesian and Neo-classical view of Aggregate supply: empirical evidence, strength of theoretical argument, or factors external to economics such as political conviction?
- **Macroeconomic objectives**
    - Explain and determine different types of unemployment, inflation, economic growth and equity in the distribution of income.
    - Explain, using a diagram, demand-pull inflation, cost-push inflation, Phillips curve, Production Possibilities Curve, Lorenz curve and evaluate government policies to deal with different types economic challenges such as poverty and inequality.
    - TOK Connection: Is there always a cost to economic growth?
- **Fiscal Policy**
    - 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.
    - Evaluate the view that fiscal policy can be used to promote long-term economic growth.
    - TOK Connection: 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?
- **Monetary Policy**
    - Define monetary policy as the use of the interest rates (via manipulating the money supply) to influence aggregate demand.
    - Explain, using a demand and supply of money diagram, how equilibrium interest rates are determined, outlining the role of the central bank as achieving an explicit or implicit inflation rate target.
    - TOK Connection: A model is a simplified representation of some aspect of the world. In what ways may models help or hinder the search for knowledge?
- **Supply-side policies**
    - Explain that supply-side policies aim at positively affecting the production side of an economy (productivity) by improving the institutional framework and the capacity to produce.

    - Distinguish between market-based and interventionist policies.
    - TOK Connection: 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?

**ADVANCED STUDY/HIGHER LEVEL**

Students wishing to pursue advanced study (including IBHL) will also study the following:

**Microeconomics**

- **Competitive markets**
    - Explain a demand function, a supply function, and plot both from a linear function.
- **Government Intervention**
    - 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, and plot demand and supply curves for a product from linear functions.
- **Theory of the firm and market structures**
    - Describe and analyze the constraints faced by firms in the short-run and long-run, and distinguish between economies of scale and diseconomies of scale.
    - Draw graphs for total, average and marginal product curves.

**Macroeconomics**

- **The level of overall economic activity**
    - Calculate nominal and real GDP and GNP/GNI from data.
- **Aggregate demand and aggregate supply**
    - Calculate the Keynesian multiplier and use the multiplier to calculate the effect on GDP of a change in an injection in investment, government spending or exports.
- **Macroeconomic objectives**
    - Calculate the unemployment rate and the inflation rate from a set of data, and explain stagflation using the Phillips curve.

**TEXTBOOK**

Maley, Sean, and Jason Welker. *Economics*. Pearson Education, 2011.

**PERFORMANCE INDICATORS**

By the end of this course students are expected to reach the following objectives:

- Demonstrate knowledge and understanding of current economic issues and data.
- Apply economic concepts and theories to real-world situations.
- Identify and interpret economic data.
- Demonstrate the extent to which economic information is used effectively in particular contexts.
- Examine economic concepts and theories.
- Use economic concepts and examples to construct and present an argument.
- Discuss and evaluate economic information and theories.
- Use correctly labelled diagrams to help explain economic concepts and theories.

- Select, interpret and analyze appropriate extracts from the news media.
- Interpret appropriate data sets.
- Use quantitative techniques to identify, explain and analyze economic relationships

**ASSESSMENT**

For students to receive a credit towards their High School Diploma, they must demonstrate proficiency on:

- Summative assessments set by the class teacher which may take the form of
    - in-class or out-of-class essays
    - tests and quizzes which assess both knowledge and skill acquisition
    - oral presentations
    - other types of projects connected to works studied set by the teacher
- A final exam at the end of the year.

Students who are pursuing the IB Diploma in addition to the High School Diploma must complete both years of the program. In the first year of the program (11th grade), students are expected to complete an Internal Assessment.