**Curriculum**

**IB Economics Y2**

**Course Overview**

IB Year 2 Economics has two components: international economics and development. The first part of the course focuses on trade, economic integration, protectionism, exchange rate regimes, balance of payments and international institutions like the WTO, IMF and World Bank. The second component of the course deals with classifying countries, common components of LEDC's, models of development and obstacles to development. The second year course allows students to apply many of the basic principles they learned in year 1.

**Department Standards**

Expected Outcomes:

1. Knowledge of and interest in history, the social and behavioral sciences and related subjects.
2. Constructive participation in a democratic society.
3. Understanding of various societies throughout history.
4. Development of critical analysis skills.
5. Development of research skills.
6. Development of communication and presentation skills.

**Benchmarks**:

• To review and reinforce the basic concepts learned in Section 1 (Introduction), Section 2 (Microeconomics) and Section 3 (Macroeconomics)  
• To apply the principles of Intro, Micro and Macro in the context of international economics and development  
• To develop a better understanding of globalisation, economic integration, free trade, protectionism, exchange rate regimes and international institutions like the IMF and World Bank  
• To foster an understanding of the basics of development economics like distinguishing between growth and development, indicators of development, classification schemes, characteristics of LEDC’s, obstacles to economic development and models of economic development

• To help students see the application of theoretical economics to real world scenarios  
• To improve exam technique specific to the IB exam  
• To cultivate basic economic skills like writing clear, persuasive essays, interpreting data critically and analyzing / evaluating economic issues

• To prepare students thoroughly for the IB exams.

**Performance Indicators**

Q1 - Students will:  
-Remember the basic principles of micro and macro learned the previous year  
-Classify the benefits of free trade  
-Recall the theory of comparative advantage and understand it as the economic theory underpinning the benefits of free trade  
-Differentiate between comparative advantage and absolute advantage  
-Analyze several trading scenarios with specific numerical examples  
-Critique the theory of comparative advantage  
-Compare the arguments for and against free trade  
-Evaluate the winners and losers from free trade  
-Compare the arguments for and against protectionism  
-Evaluate the winners and losers from protectionist devices  
-Produce scores of diagrams showing protectionist devices – tariffs, quotas and non-tariff barriers  
-Summarise the various protectionist devices available to governments  
-Infer how the benefits of free trade lead to integration  
-Differentiate between the five levels of economic integration  
-Critique the pros and cons of countries joining trading blocs

Q2 - Students will  
-Differentiate between the LR and SR effects of a customs union  
-Compare and contrast trade creation and trade diversion  
-Recall the basic of exchange rate principles in a free floating exchange rate regime learned the previous year  
-Classify and differentiate between exchange rate regimes  
-Organise and interpret the factors that influence exchange rates  
-Distinguish the difference between depreciation and devaluation and that between appreciation and revaluation  
-Evaluate the arguments for/against free floating, semi-fixed and fixed exchange rate regimes  
-Remember the basic principles of balance of payments learned the previous year  
-Compare the current account to the capital account  
-Explain the difference between the current account trade balance and the terms of trade  
-Infer the problems associated with chronic current account deficits  
-Explain the various methods governments have to correct current account disequilibria  
-Recall the relationship between PED and total revenue learned the previous year  
-Remember the determinants of PED covered the previous year  
-Attribute the relationship between PED and total revenue to the Marshall Lerner Condition  
-Infer the J-curve effect from the Marshall Lerner Condition  
-Understand the role that the international institutions (WTO, IMF, IBRD) play in the international political economy

Q3 - Students will  
-Define development  
-Differentiate between development, sustainable development and growth  
-Classify countries as LEDC's, MEDC's and NIC's  
-Interpret the economic and non-material indicators of development  
-Recognise macroeconomic indicators of the health of a national economy learned the previous year  
-Recall the costs and benefits of economic growth learned the previous year  
-Remember the consequences of economic growth  
-Recall and apply market failures like externalities and inequality learned the previous year

-Review PED/PES and apply it to agricultural markets common in LEDC’s  
-Understand the barriers to economic growth  
-Appreciate the intractable nature of the poverty cycle for some LEDC's  
-Learn models of economic development / growth  
-Evaluate growth and development strategies  
-Apply the PPF model to growth and development strategies  
-Recall the importance of FDI and portfolio investment in promoting growth learned from the previous year  
-Infer the intractable nature of the poverty cycle that marks many LEDC's

-Learn the source of 3rd World Debt

-Evaluate the pros and cons of foreign aid  
-Evaluate the pros and cons of TNC's in promoting development in LEDC's

Q4 - Students will:

- Organise their notes

- Actively revise for IB exams

- Master concepts

- Complete past papers in timed exam sessions

**Assessments**

Q1 - Summer Essays (Demand-side policies and comparative advantage)  
Commentary 2  
Exam: Micro Revision

Exam: Macro Revision  
Practical: Trading scenario  
Essay: Arguments for and against protectionism  
Past Papers (Data response questions, short answer questions, long essays)

Q2 - Commentary 3  
Essay on Theory of Customs Union  
Essay on Exchange Rates  
Essay on Marshall Lerner Condition / J Curve Effect  
Data Response Question on Methods to Correct Current Account Disequilibria  
Past Papers (Data response questions, short answer questions, long essays)  
Semester exam

Q3 - Commentary 4  
Profile of a specific LEDC  
Short essays -  
1. "Use a production possibility curve to explain the distinction between economic growth and economic development." (M04)  
2."Evaluate the view that economic growth will lead to economic development" (N07)  
3. "Explain how an overdependence on primary products may act as a barrier to economic development." (M05)  
Long essays -  
1a. "Explain how development might be measured"  
1b. "Evaluate the view that the most effective way a government could improve the welfare of its citizens is through the pursuit of faster economic growth."  
2a. "Explain three barriers to economic development for LEDC's"  
2b. Evaluate the view that trade is more effective than aid in achieving economic development." (N08)  
Past Papers (Data response questions, short answer questions)

Q4 - Portfolio of commentaries  
Short essays -  
"Using the Harrod-Domar growth model, explain how a country can increase its rate of economic growth." (N08)  
"Examine the possible consequences of a high real rate of economic growth for sustainable development." (M07)  
Data Response question -   
“Jakarta opens case against US mining company" (N07)  
Mock exams

**Core Topics**

**International Economics**

Comparative Advantage  
Absolute Advantage  
Reasons for Trade  
Benefits of Trade  
Free Trade  
Protectionism  
Economic Integration

Theory of Customs Union  
Obstacles to Integration  
Exchange Rate Regimes  
Balance of Payments  
Terms of Trade  
Balance of Payments Problems

Methods to address Balance of Payments Disequilibria  
International Institutions (WTO, IMF and World Bank)

**Development**

Introduction to development  
Development v Growth  
Sustainable development  
Classification of countries  
Measuring development  
Common characteristics of LEDC's  
Sources of economic growth / development  
Consequences of economic growth  
Barriers to economic growth / development

Models of development  
Growth and development strategies  
Evaluation of growth and development strategies  
International Problems (Balance of payments problems, Debt)

Foreign Aid  
Role of TNC's  
Role of International Institutions

**Specific Content**

I. Reasons for trade: Why do countries trade?  
o Opportunity costs  
o Absolute and comparative advantage  
o Trading scenario (numerical example)   
o Limits of the theory of comparative advantage  
o Differences in factor endowments  
o Gains from specialisation  
o Variety and quality of goods

II. Free trade and protectionism  
o Definition of free trade  
o Arguments for/against free trade  
o Definition of protectionism  
o Methods of protectionism (tariffs, quotas, non-tariff barriers)  
o Arguments for/against protectionism

III. Economic Integration  
o Globalisation  
o Trading blocs – Five Levels of Economic Integration  
-Preference Area  
- Free Trade Area  
- Customs Union  
- Common Markets  
- Economic and Monetary Union

IV. Theory of Customs Union  
o Short run / static effects - Trade Creation vs. Trade Diversion  
o Long run / dynamic effects

V. Obstacles to achieving economic integration  
o Reluctance to surrender political sovereignty  
o Reluctance to surrender economic sovereignty

VI. Exchange rate regimes  
o Fixed  
o Semi-fixed / Managed  
o Free floating  
o Distinction between  
- Devaluation v. depreciation  
- Revaluation v. appreciation  
o Arguments for / against fixed v. floating exchange rate regimes  
o Effects on exchange rates of  
- Trade flow  
- Capital flows / interest rate changes  
- Inflation  
- Interest rates  
- Speculation  
- Use of foreign currency reserves  
o Single currency union and optimal currency areas - The EU as a case study

VII. Balance of Payments  
o Current Account  
-Balance of trade  
o Capital Account

VIII. Terms of Trade  
o Definition  
o Improving / Worsening  
o Consequences of a change in terms of trade for a country's balance of payments and domestic economy  
o Elasticity of demand for imports and exports  
o Significance of deteriorating terms of trade for LEDC's

IX. Balance of Payments Problems  
o Consequences of current account disequilibria  
o Methods of correction  
- Marshall-Lerner condition  
- J-curve effect  
- Managed exchange rate policy  
- Expenditure reducing policies / reductions in AD  
- Supply-side policies to increase international competitiveness  
- Expenditure switching policies / protectionism   
o Consequences of capital account disequilibria

X. International Institutions  
o World Trade Organisation  
o International Monetary Fund  
o World Bank

I. Introduction to development  
o Definitions of economic growth and economic development  
o Differences in the definitions of the two concepts  
o GDP v GNP as measures of growth  
o Limitations of using GDP as a measure to compare welfare between countries  
o Allowance for differences in purchasing power when comparing welfare between countries  
o Alternative methods of measurement (HDI, PPP, Lorenz Curve, Gini coefficient, non-material indicators like life expectancy and literacy rates)  
o Problems of measuring development   
o Classifications of countries

II. Sources of economic growth or development  
o Natural resource endowment  
o Human resources - Quantity/Quality  
o Physical capital and technology  
o Institutional factors that contribute to development  
- banking system  
- education system  
- health care  
- infrastructure  
- political stability

III. Consequences of economic growth  
o Externalities  
o Income distribution  
o Sustainable development

IV. Common characteristics of LEDC's  
o Low levels of living  
o Low levels of productivity  
o High rates of population growth  
o High dependency burden  
o High levels of unemployment/underemployment  
o Over-reliance on agriculture   
o Low domestic savings  
o Low levels of human capital  
o High levels of debt  
o Chronic current account deficits  
o High rates of inflation   
o Low taxation base  
o Sustainable development

V. Barriers to economic growth or development  
o Poor natural resource endowment  
o Inadequate human resources  
o Inadequate financial institutions  
o Unemployment and underemployment  
o Lack of savings  
o Structural problems  
o Inflation  
o Rapid population growth  
o Inappropriate technology  
o Capital flight

VI. Growth and development models/strategies  
o Harrod-Domar Growth Model  
o Rostow's Stages of Growth  
o Lewis Model - structural change  
o Balanced growth/Import substitution/Inward oriented strategies  
o Unbalanced growth/Export promotion/Outward oriented strategies  
o Foreign Aid  
- Tied  
- Bilateral v Multilateral  
- grant aid / soft loans  
- official aid  
o Trade vs aid  
o Fair trade v free trade  
o Micro-credit schemes

VII. International Problems  
o International debt  
o Foreign aid  
o Balance of payments disequilibria  
o Lack of foreign exchange

VIII. Role of International Institutions  
o IMF  
o World Bank  
o Private sector loans  
o NGO's  
o TNC's  
o Commodity agreements

**Resources**

Economics – Mankiw and Taylor  
Economics 4th ed – Anderton

Economics for IB: In Terms of the Good, the Bad and the Economist - McGee  
IB Economics Course Companion - Blink  
IB Study Guide: Economics for the IB Diploma - Ziogas

Economics Today - various articles  
Advanced Economics Through Diagrams - Gillespie  
A Level Exam Success Guide - Economics Essays