Introduction to economics (1.1-1.2)

International Baccalaureate · IB Diploma · Economics · HL

What is economics? How do economists approach the world?

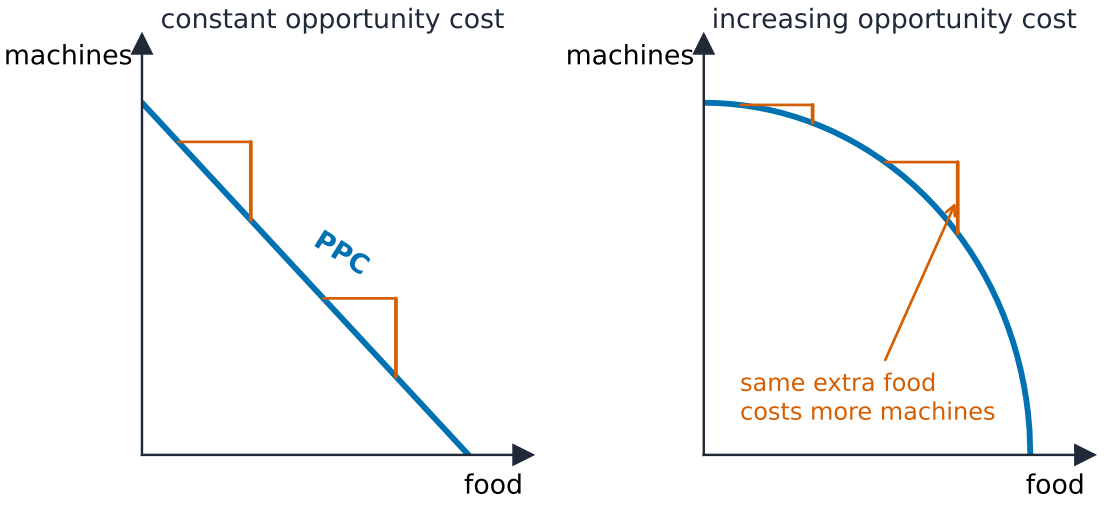
IB Diploma Programme Economics HL, Unit 1 *Introduction to economics* (first assessment 2022). This topic covers syllabus sections 1.1 and 1.2 in full: what economics is (scarcity, choice, the economic agents, positive and normative statements) and how economists approach the world (the scientific method, economic models, the ceteris paribus assumption, and the nine key concepts that frame the whole course). Worked numbers are original and re-derived below.

Must-know for Unit 1:

Family	Content
scarcity	unlimited wants, finite resources → choice and opportunity cost
agents	consumers, producers, government (and the "rest of the world" later)
method	hypothesis → model → test against data → revise (models are simplifications)
ceteris paribus	"all other things equal" – isolate one relationship at a time
statements	positive = testable; normative = value judgement
key concepts	scarcity, choice, efficiency, equity, well-being, sustainability, change, interdependence, intervention

What is economics?

Economics studies the choices made by economic agents – CONSUMERS, PRODUCERS and the GOVERNMENT (joined later by the rest of the world) – under **scarcity**: unlimited wants against finite resources. Because resources are scarce, every choice has an **opportunity cost** – the next-best alternative forgone – and the basic economic questions are what to produce, how to produce it, and for whom. A student's hour spent revising economics cannot also be spent at work; a government budget spent on hospitals cannot also build schools. Economic **resources** (the factors of production) are land, labour, capital and enterprise, and each earns a reward – rent, wages, interest and profit.



opportunity cost = goods forgone · bowed-out PPC ⇒ increasing opportunity cost

A straight PPC shows constant opportunity cost; a bowed-out PPC shows increasing opportunity cost

The distinction that runs through every IB data response: a POSITIVE statement is testable against evidence ("the inflation rate fell to 3%"), while a NORMATIVE statement carries a value judgement ("inflation should be lower"). Economists can disagree about values while agreeing about facts, and exam answers must keep the two apart.

> **Worked example.** A government has 10 billion to spend and can build one hospital (benefit valued at 10 bn) or two schools (benefit valued at 7 bn). Choosing the hospital has an opportunity cost of the two schools' 7 bn of benefit; the choice is rational if the hospital's benefit exceeds that of the best alternative forgone.

How do economists approach the world?

Economics follows the **scientific method** : observe, form a hypothesis, build a **model** – a simplified representation of reality (demand curves, production possibility frontiers, circular flow) – make predictions, and test them against data, revising the model when it fails. Models deliberately simplify: their value is explanation and prediction, not photographic realism. The **ceteris paribus** assumption ("all other things equal") lets the economist isolate one relationship at a time – how quantity demanded responds to price, holding income and tastes fixed – the same discipline used in every later unit.

IB economics frames the whole course through nine **key concepts** : SCARCITY and CHOICE (the underlying problem), EFFICIENCY and EQUITY (how well and how fairly resources are used), ECONOMIC WELL-BEING and SUSTAINABILITY (outcomes now and for the future), CHANGE, INTERDEPEN-

DENCE (agents and nations linked through trade and markets) and INTERVENTION (when and how governments act). Every real-world issue the syllabus examines – and every HL commentary – is analysed through these lenses.

> **Worked example.** A tuition subsidy is a model question: the hypothesis is that lower fees raise enrolment; the model (demand) predicts enrolment rises when price falls, ceteris paribus; the test compares enrolment before and after, or across regions with and without the subsidy; a mismatch (say, enrolment flat because incomes also fell) sends the economist back to re-specify the model – the method in one loop.

Worked practice: opportunity cost on a PPC

An economy can produce these combinations of food and machines with all its resources, using today's technology:

Point	Food (million tonnes)	Machines (thousand)	Opportunity cost of the extra 10 food
A	0	100	–
B	10	95	5 machines
C	20	85	10 machines
D	30	65	20 machines
E	40	40	25 machines

- **Increasing opportunity cost.** Each extra 10 million tonnes of food costs more machines (5, then 10, 20 and 25), so the PPC is bowed outwards. Resources are not equally good at both jobs: the first workers and land moved to farming are the best farmers and the best soil; later ones are better suited to factories.
- **Inside and outside.** Producing 20 food and 60 machines is possible but inefficient: at point C the economy could have 85 machines with the same food. Producing 30 food and 80 machines is unattainable now (D gives only 65 machines).
- **Growth.** Better technology in farming shifts the PPC out along the food axis more than the machine axis: the curve pivots outwards.

A real case. World military spending reached a record of about US$2.7 trillion in 2024 (Stockholm International Peace Research Institute). For each government, the opportunity cost of that spending is the schools, hospitals or lower taxes it could have funded instead. Economists can measure the size of the trade-off (a positive question); whether the spending is worth it is a normative judgement.

Writing a Paper 1 answer

Paper 1 is an extended-response paper. Each question has a part (a), which asks you to **explain** with a diagram, and a part (b), which asks you to **evaluate** using real-world examples. The same skills apply in every unit:

1. **Define** the key terms in the question precisely.
2. **Draw** a fully labelled diagram (axes, curves, equilibrium, shifts) and **refer to it** in your writing.
3. **Explain** the chain of cause and effect step by step, using the diagram.
4. **Use a real-world example** with specific detail: the country, the year, the policy and, where you can, a number.
5. **Evaluate:** weigh short-run against long-run effects, consider different stakeholders, question the assumptions (for example *ceteris paribus*), and say which effect matters most and why.
6. **Conclude** with a judgement that answers the question as it is set, and say what it depends on.

The key concepts (scarcity, choice, efficiency, equity, well-being, sustainability, change, interdependence, intervention) are useful frames for evaluation: name the one that fits and use it, rather than listing them all.

Checklist

- Economics defined through scarcity and choice; the three (later four) economic agents (1.1).
- Opportunity cost applied to consumers, producers and government (1.1).
- Resources/factors of production and their rewards (1.1).
- Positive versus normative statements, with the disagreement insight (1.1).
- The scientific method loop: hypothesis → model → prediction → data test → revision (1.2).
- Models as deliberate simplifications; ceteris paribus and what it isolates (1.2).
- The nine key concepts and how they frame every unit; Paper 1 essays reward concept-linked analysis – name the concept, then the theory (1.2).