Introduction to economics

IB DP Economics SL Unit 1 full package (syllabus 1.1-1.2, common to SL and HL)

What is economics? How do economists approach the world?

- explain **scarcity**, choice and opportunity cost;
- identify the **factors of production** and the main economic agents;
- distinguish positive statements from normative ones;

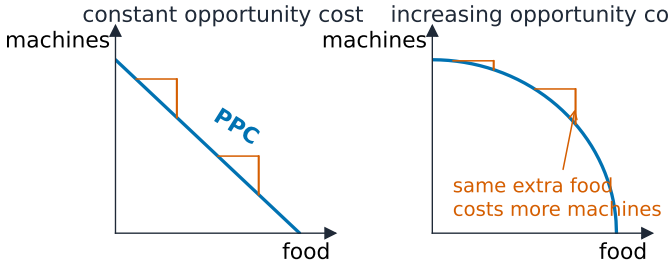
What is economics? How do economists approach the world? (2)

- explain how economists use models and the *ceteris paribus* assumption;
- use the production possibilities curve and plan a Paper 1 answer.

What is economics?

- **Economics** is the study of how individuals, firms and governments make choices about how to use scarce **resources**.
- The starting point is **scarcity**: human wants are unlimited, but the **resources** to satisfy them are limited.
- Because resources are scarce, every choice has an **opportunity cost**: the value of the next best alternative that is given up.
- An hour spent revising economics cannot also be spent working in a café; money spent on a hospital cannot also build schools.

Figure: What is economics?



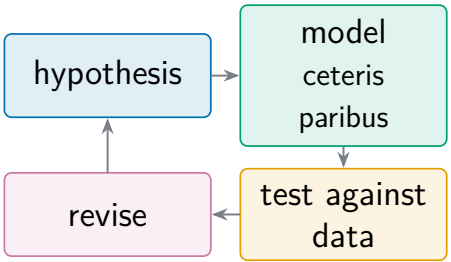
opportunity cost = goods forgone · bowed-out PPC ⇒ increasing opportunity cost

- A straight PPC shows constant opportunity cost; a bowed-out PPC shows increasing opportunity cost.
- Read the axes and units first.

How do economists approach the world?

- Economists use the **scientific method** :
- 1. observe something in the real world; 2. form a **hypothesis**: a statement that can be tested; 3. build a **model** : a simplified picture of how the economy works, such as a demand curve or a production possibilities curve; 4. make predictions and test them against data; 5. keep, change or reject the **model** depending on the results.
- Models simplify on purpose.
- A map of the underground railway does not show every street, but it is the most useful map for travelling by underground.

Figure: How do economists approach the world?



positive: testable
a 10% tax cuts sales by 4%

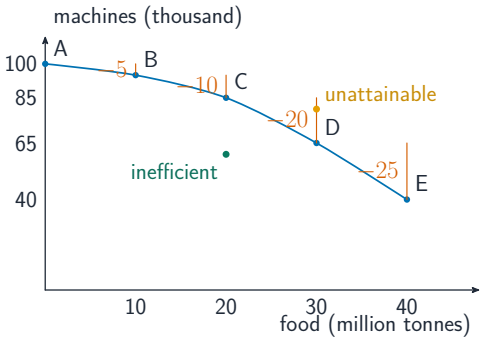
normative: a value judgement
the tax should be higher

- Models are tested simplifications.
- Read the axes and units first.

Worked practice: opportunity cost on a PPC

- **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.

Figure: Worked practice: opportunity cost on a PPC



each extra 10 food costs 5, then 10, 20, 25 machines: the PPC bows outwards

- Increasing opportunity cost bows the PPC
- Match each part of the diagram to the text.

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.

Writing a Paper 1 answer (2)

- 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.

Sources for this lesson

- International Baccalaureate, *Economics guide* (first assessment 2022).
- City of Cape Town, water dashboard and Level 6B restrictions (2018).
- Stockholm International Peace Research Institute (SIPRI), *Trends in World Military Expenditure, 2024* (2025).
- N. G. Mankiw, *Principles of Economics* (10th edition, 2024), chapters 1–2.

Common errors

- Defining opportunity cost as "the cost of something" or as all the alternatives; it is the value of the **next best** alternative only.
- Calling a statement normative just because it is about a controversial topic; if it can be tested, it is positive.
- Thinking a **model** is wrong because it is simple; models are judged by how well they explain and predict.

Common errors (2)

- Forgetting *ceteris paribus* when using a diagram to explain one change.
- Drawing a PPC with unlabelled axes, or a point outside the curve called "inefficient" (it is unattainable).

Key terms

- **Scarcity**: the gap between unlimited wants and limited **resources**.
- **Opportunity cost**: the value of the next best alternative given up when a choice is made.
- **Factors of production**: land, labour, capital and enterprise.

Key terms (2)

- **Positive statement**: a statement that can be tested against evidence.
- **Normative statement**: a statement that contains a value judgement.
- **Model**: a simplified representation of how part of the economy works.
- **Ceteris paribus**: the assumption that all other things stay the same.

Check yourself

- 1.
- Define opportunity cost and give an example from your own week. 2.
- Name the four **factors of production** and the reward each earns. 3.
- Is "the minimum wage should be raised" positive or normative?