IB ECONOMICS HIGHER LEVEL (HL) PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. What term is used for a policy that changes money supply or interest rates to reach economic goals?

A. Fiscal policy

B. Monetary policy

C. Tax policy

D. Regulatory policy

2. What is the name given to a group of firms that work together to control the market price of goods?

A. Trust

B. Cartel

C. Syndicate

D. Joint venture

3. What are diseconomies of scale?

A. Decrease in production costs as output increases

B. Increase in long run unit average costs from increased scale of production

C. Constant costs regardless of production scale

D. Fixed costs that remain unchanged

4. What type of costs do not change with the level of output?

A. Variable costs

B. Fixed costs

C. Average cost

D. Total costs

5. Which scheme involves government intervention to stabilize prices by managing surplus and shortages?

A. Price control scheme

B. Buffer stock scheme

C. Supply chain intervention

D. Regulatory price scheme

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6. Which type of unemployment exists when individuals have left their job and are actively looking for a new one?

A. Structural unemployment

B. Frictional unemployment

C. Real wage unemployment

D. Seasonal unemployment

7. What does the concept of economic cost include?

A. Only explicit costs

B. Explicit costs and implicit opportunity costs

C. Just marginal costs

D. Short-term production costs only

8. Which period of production has all factors being variable?

A. Short run

B. Long run

C. Fixed run

D. Unlimited run

9. What term refers to an amount paid by the government to a firm per unit of output?

A. Fixed costs

B. Average cost

C. Variable costs

D. Subsidy

10. Which term represents the total spending in an economy, including consumption, investment, government expenditure, and net exports?

A. Aggregate supply

B. Aggregate demand

C. Circular flow of income

D. Market equilibrium

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Answers

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1. B
2. B
3. B
4. B
5. B
6. B
7. B
8. B
9. D
10. B

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Explanations

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1. What term is used for a policy that changes money supply or interest rates to reach economic goals?

A. Fiscal policy

B. Monetary policy

C. Tax policy

D. Regulatory policy

The term that refers to a policy aimed at changing the money supply or interest rates to achieve specific economic goals is monetary policy. This type of policy is typically implemented by a country's central bank, such as the Federal Reserve in the United States or the European Central Bank in the Eurozone. Monetary policy can be classified into two main types: expansionary and contractionary. Expansionary monetary policy aims to increase the money supply and lower interest rates to stimulate economic activity, boost spending, and encourage investment, especially during periods of economic downturn. Conversely, contractionary monetary policy seeks to reduce the money supply and raise interest rates to combat inflationary pressures and stabilize the economy. In contrast, fiscal policy involves government spending and taxation decisions to influence the economy, while tax policy specifically addresses changes in tax regulations and rates. Regulatory policy pertains to the rules and standards set by governments or authorities to manage economic activity, often focused on specific sectors or industries. Thus, none of these alternatives specifically deal with adjustments to the money supply or interest rates.

2. What is the name given to a group of firms that work together to control the market price of goods?

A. Trust

B. Cartel

C. Syndicate

D. Joint venture

A group of firms that collaborate to control the market price of goods is known as a cartel. A cartel is formed when firms agree, either explicitly or implicitly, to limit competition among themselves in order to maximize their joint profits. This often involves setting production quotas, fixing prices, or dividing markets. The primary aim of a cartel is to establish higher prices than would be possible in a competitive market, thereby increasing the members' economic profits. In the context of economic theory, cartels are typically associated with oligopolistic markets where a few firms hold significant market power. By cooperating, these firms reduce the uncertainty of competition, leading to outcomes similar to those that would arise if there were a monopoly. The other terms do not accurately describe this structure. A trust usually refers to a legal arrangement or an organization that manages the assets and liabilities of companies, often in a way that can include monopolistic practices but is not specifically about price control. A syndicate generally refers to a group of individuals or firms coming together for a particular project or transaction, often in finance, and is not focused on ongoing market control. A joint venture involves two or more companies creating a new business entity, sharing resources and risks, rather than coordinating to manipulate market prices. Thus,

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3. What are diseconomies of scale?

A. Decrease in production costs as output increases

B. Increase in long run unit average costs from increased scale of production

C. Constant costs regardless of production scale

D. Fixed costs that remain unchanged

Diseconomies of scale refer to the situation where an increase in a firm's production scale leads to a rise in the long run average costs per unit. This phenomenon typically occurs when a company grows so large that it becomes inefficient. As firms expand, they might face challenges such as increased complexity in management, communication failures, or logistical issues, which can cause per-unit costs to rise instead of fall as expected. In this context, as production increases, the firm's management may become more difficult and less effective, potentially leading to inefficiencies. This understanding is crucial because it highlights the potential limitations and pitfalls of scaling up production without addressing the accompanying operational challenges. Having a clear grasp of this concept helps in recognizing when growth might not yield the anticipated economic benefits.

4. What type of costs do not change with the level of output?

A. Variable costs

B. Fixed costs

C. Average cost

D. Total costs

Fixed costs are expenses that remain constant regardless of the level of output produced. These costs are incurred even when production is zero and do not vary with the volume of goods or services produced. Examples include rent, salaries of permanent staff, and equipment leases. In contrast, variable costs fluctuate in direct relation to output levels. For instance, costs for raw materials or hourly labor will increase as production ramps up. Average cost, which represents the cost per unit produced, changes as the output level changes as well, incorporating both fixed and variable costs into the calculation. Total costs, which comprise both fixed and variable costs, also change with output since they include costs that vary with production. Therefore, fixed costs are the only type of costs that do not change with the level of output, making them the correct choice.

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5. Which scheme involves government intervention to stabilize prices by managing surplus and shortages?

A. Price control scheme

B. Buffer stock scheme

C. Supply chain intervention

D. Regulatory price scheme

The buffer stock scheme is a government intervention that involves the buying and selling of a commodity to stabilize its market price. This is particularly useful in markets where prices can be highly volatile due to fluctuating supply and demand conditions. In a buffer stock scheme, the government or a designated authority purchases and stores surplus goods when supply exceeds demand, preventing prices from falling too low. Conversely, when there is a shortage and prices start to rise, the government can release some of the stored goods into the market to increase supply and stabilize prices. This approach particularly benefits farmers and producers by ensuring that they receive stable income levels and do not suffer from drastic price fluctuations, which can occur in agricultural markets, for instance. The aim is to create a safety net that helps maintain price levels, making it a proactive measure to manage market responses to surplus and shortage scenarios effectively. Other choices, such as price control schemes, generally set maximum or minimum prices without necessarily involving management of surplus through physical stock; supply chain intervention focuses more on the logistics and processes in getting goods to market rather than directly managing prices; and regulatory price schemes may set guidelines but do not specifically involve the active buying and selling of surplus stock to stabilize prices.

6. Which type of unemployment exists when individuals have left their job and are actively looking for a new one?

A. Structural unemployment

B. Frictional unemployment

C. Real wage unemployment

D. Seasonal unemployment

Frictional unemployment refers to the temporary unemployment that occurs when individuals are in between jobs. This form of unemployment happens when workers leave one position voluntarily and are actively searching for a new job that better fits their skills, preferences, or circumstances. It reflects the time taken for individuals to find a suitable job match that aligns with their qualifications and aspirations. In an economy, frictional unemployment is often a natural aspect of the labor market, as people frequently transition between roles, pursue further education, or relocate for personal reasons. The existence of frictional unemployment indicates a dynamic labor market, where workers are moving to find more appropriate or satisfying employment. In contrast, other types of unemployment, such as structural unemployment, arise from shifts in the economy leading to a mismatch between the skills of workers and the needs of employers. Real wage unemployment occurs when wages are set above the market equilibrium, leading to a surplus of labor. Seasonal unemployment is related to fluctuations in demand for labor at certain times of the year, such as in agricultural or holiday-related industries. Therefore, the chosen answer accurately captures the nature of the unemployment described in the question.

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7. What does the concept of economic cost include?

A. Only explicit costs

B. Explicit costs and implicit opportunity costs

C. Just marginal costs

D. Short-term production costs only

Economic cost encompasses both explicit costs and implicit opportunity costs, which makes the choice that includes both of these components the correct one. Explicit costs are the direct, out-of-pocket expenses incurred in the production of goods or services, such as wages, rent, and materials. These are easily identifiable and measurable in monetary terms. On the other hand, implicit costs represent the opportunity costs of using resources in a particular way. This includes the income that could have been earned if resources were employed in their next best alternative use. By considering both explicit and implicit costs, economic cost provides a more comprehensive view of the total costs associated with a decision or activity. This holistic approach helps in assessing the true profitability and viability of economic decisions, as it reflects not just the direct financial expenses, but also the potential benefits foregone from alternative uses of resources. In contrast, other options fail to capture this full scope of costs. For instance, limiting the definition to only explicit costs overlooks crucial factors that impact decision-making. Marginal costs represent the additional costs incurred when producing one more unit of a good or service but do not encompass the total cost consideration. Lastly, restricting the concept to short-term production costs ignores long-term implications and opportunities, missing the broader economic perspective

8. Which period of production has all factors being variable?

A. Short run

B. Long run

C. Fixed run

D. Unlimited run

In the context of production periods in economics, the long run is characterized by all factors of production being variable. This means that a firm can adjust all inputs, including capital and labor, to increase or decrease output. In this period, firms can invest in new technologies, alter the size of their facilities, and modify their labor force without any constraints. The long run contrasts with the short run, where at least one factor of production is fixed, usually capital. In the short run, firms cannot change the size of their production facilities or the amount of equipment they use, restricting their ability to respond to changes in market demand. Understanding that in the long run, all inputs can be varied allows firms the flexibility to optimize production processes and achieve economies of scale. This period is essential for planning future growth and adjusting to changes in industry conditions without being limited by current resources or capabilities.

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9. What term refers to an amount paid by the government to a firm per unit of output?

A. Fixed costs

B. Average cost

C. Variable costs

D. Subsidy

The term "subsidy" refers to a payment made by the government to a firm per unit of output. Subsidies are designed to encourage production and can help lower the costs for businesses, making them more competitive in the market. By providing this financial support, the government aims to influence supply levels, support industries deemed important for economic growth, and sometimes address market failures. In the context of government intervention, subsidies can lead to increased production and potentially lower prices for consumers. They can also create an incentive for firms to produce goods or services that might be underprovided in a free market scenario. This tool is widely used in various sectors, including agriculture and renewable energy, to support businesses and achieve specific policy goals. The other terms listed—fixed costs, average cost, and variable costs—do not accurately describe a government payment to a firm. Fixed costs refer to expenses that do not change regardless of the level of production, average cost is the total cost of production divided by the quantity produced, and variable costs change with the level of output. Thus, they are not related to government payments per unit of output, which distinctly characterizes a subsidy.

10. Which term represents the total spending in an economy, including consumption, investment, government expenditure, and net exports?

A. Aggregate supply

B. Aggregate demand

C. Circular flow of income

D. Market equilibrium

The correct answer is associated with the concept of aggregate demand, which encapsulates the total spending in an economy. Aggregate demand includes several components: consumption (spending by households), investment (spending by businesses on capital goods), government expenditure (public sector spending on goods and services), and net exports (the value of a country's exports minus its imports). This comprehensive view represents the overall demand for goods and services within an economy at a specific price level. Understanding this concept is crucial because aggregate demand is a fundamental aspect of macroeconomic analysis. It helps economists assess the health of an economy, formulate policies, and predict how changes in the components (like an increase in government spending or a rise in consumer confidence) can influence overall economic activity. The other terms listed serve different purposes in economic theory. Aggregate supply refers to the total output of goods and services that producers in the economy are willing and able to sell at a given price level. The circular flow of income illustrates how money moves throughout the economy between households and businesses but does not quantify total spending directly. Market equilibrium pertains to the point where the supply of goods matches demand, but it does not encompass the components of total spending explicitly.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://ibeconomicshl.examzify.com

We wish you the very best on your exam journey. You've got this!

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