

# IB Economics Higher Level (HL) Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

**This is a sample study guide. To access the full version with hundreds of 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.

# 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. Don't worry about getting everything right, 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, and take breaks to retain information better.**

## **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.**

## **7. Use Other Tools**

**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**

- 1. What type of tax is added to the selling price of a good or service?**
  - A. Flat rate tax**
  - B. Indirect tax**
  - C. Ad valorem tax**
  - D. Subsidy**
- 2. 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**
- 3. What type of demand is characterized by a proportionately smaller change in quantity demanded following a price change?**
  - A. Elastic demand**
  - B. Inelastic demand**
  - C. Unitary demand**
  - D. Perfectly elastic demand**
- 4. What effect does a decrease in the price of a good typically have on quantity demanded, according to economic principles?**
  - A. Increases quantity demanded**
  - B. Decreases quantity demanded**
  - C. No effect on quantity demanded**
  - D. Completely elastic demand**
- 5. What is a characteristic feature of a cartel?**
  - A. Price cutting**
  - B. Increased competition**
  - C. Price fixing**
  - D. Market deregulation**



- 6. Which term describes the amount of revenue needed to cover the total costs of production, including opportunity costs?**
- A. Normal profits**
  - B. Abnormal profits**
  - C. Marginal cost**
  - D. Variable costs**
- 7. What is trade diversion?**
- A. Production moving from a low-cost to a high-cost producer**
  - B. A reduction in trade barriers between nations**
  - C. Investments moving to developing countries**
  - D. Export subsidies on local products**
- 8. What situation occurs when there are sufficient economies of scale to support only one firm in the market?**
- A. Natural monopoly**
  - B. Artificial monopoly**
  - C. Perfect monopoly**
  - D. Oligopoly**
- 9. In economics, what is capital defined as?**
- A. Natural resources used for production**
  - B. The physical and mental contributions of the workforce**
  - C. Human-made tools used to produce goods and services**
  - D. Management of resources and risk**
- 10. What is a customs union?**
- A. An agreement to trade freely among member countries**
  - B. A union of countries with a single currency**
  - C. A treaty to share resources among nations**
  - D. An alliance for military cooperation between nations**

## **Answers**

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

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## **Explanations**

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**1. What type of tax is added to the selling price of a good or service?**

**A. Flat rate tax**

**B. Indirect tax**

**C. Ad valorem tax**

**D. Subsidy**

The correct answer is indicated as indirect tax. An indirect tax is a type of tax that is not directly paid by the consumer to the government but is included in the price of a good or service. This tax is typically levied on goods and services, which means that the producer or seller incorporates the tax into the final price that consumers pay. When consumers purchase a product that has an indirect tax applied, they may not even realize that part of their payment goes to this tax, as it is hidden in the total selling price. Common examples of indirect taxes include value-added tax (VAT) and sales tax. In contrast, other options such as flat rate tax and ad valorem tax refer to different tax structures. A flat rate tax is a simple income tax that remains constant regardless of income level, while ad valorem tax is a specific type of indirect tax that is assessed based on the value of the good or service. A subsidy, on the other hand, involves government financial support to reduce the cost of a product or service and is not a tax. Understanding the nature of indirect taxes is crucial in economics, as they affect market prices and can influence consumer behavior and spending.

**2. 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.

**3. What type of demand is characterized by a proportionately smaller change in quantity demanded following a price change?**

**A. Elastic demand**

**B. Inelastic demand**

**C. Unitary demand**

**D. Perfectly elastic demand**

Inelastic demand refers to a situation where the quantity demanded for a good or service changes by a smaller percentage than the percentage change in its price. This means that consumers are relatively insensitive to price changes for these goods, often because they are either necessities or have few substitutes available. For example, if the price of a medication rises, individuals may still purchase it to maintain their health despite the increase, thus demonstrating inelastic characteristics. In contrast, elastic demand would show a significant change in quantity demanded when prices change, while unitary demand signifies a proportional change. Perfectly elastic demand means that any increase in price would lead to zero quantity demanded, highlighting extreme sensitivity to price fluctuations. Understanding inelastic demand is crucial because it plays a vital role in pricing strategies and revenue generation for businesses, especially those dealing with essential goods.

**4. What effect does a decrease in the price of a good typically have on quantity demanded, according to economic principles?**

**A. Increases quantity demanded**

**B. Decreases quantity demanded**

**C. No effect on quantity demanded**

**D. Completely elastic demand**

A decrease in the price of a good typically leads to an increase in the quantity demanded due to the law of demand, which states that, all else being equal, when the price of a good falls, consumers are generally more willing and able to purchase more of that good. This occurs for a couple of reasons: First, the lower price makes the good more affordable for consumers, encouraging them to purchase larger quantities. This increased affordability can lead to consumers substituting the cheaper good for other alternatives, further boosting quantity demanded. Second, at a lower price, the good becomes more attractive to a wider range of consumers, including those who may have previously considered it too expensive, thereby increasing overall demand. In contrast, a decrease in the price would not lead to a decrease in quantity demanded or have no effect on it, as those scenarios would imply an inconsistency with the established relationship outlined by the law of demand. Furthermore, complete elasticity refers to situations where demand responds infinitely to changes in price, which is a different concept and does not apply to the general effects of a price decrease on quantity demanded.

## 5. What is a characteristic feature of a cartel?

- A. Price cutting
- B. Increased competition
- C. Price fixing**
- D. Market deregulation

A characteristic feature of a cartel is price fixing. A cartel is a group of independent market participants who work together to control prices, limit production, or restrict competition in order to maximize their collective profits. By agreeing to set prices at a certain level, members of a cartel can effectively eliminate the competition that would otherwise drive prices down. Price fixing restricts the competitiveness of the market and allows cartel members to benefit from higher profit margins than they would in a fully competitive environment. This behavior often leads to significant market distortions and can result in regulatory actions from governments that seek to maintain fair competition. In contrast, price cutting encourages competition and lower prices, which goes against the fundamental objective of a cartel. Increased competition undermines the very existence of a cartel, as it would introduce new players into the market that could destabilize agreed-upon price levels. Similarly, market deregulation typically allows for more competition and less control over pricing, making it antithetical to the purpose of a cartel.

## 6. Which term describes the amount of revenue needed to cover the total costs of production, including opportunity costs?

- A. Normal profits**
- B. Abnormal profits
- C. Marginal cost
- D. Variable costs

The term that describes the amount of revenue needed to cover the total costs of production, including opportunity costs, is known as normal profits. Normal profits occur when a firm's total revenue is equal to the total costs, including both explicit costs (direct costs associated with production) and implicit costs (the opportunity costs of foregone alternatives). This means that the firm is covering all its costs and earning a return that is equal to the next best alternative use of those resources. In economic terms, achieving normal profits is viewed as a state of equilibrium for a firm within a competitive market; it signifies that the firm is sustaining itself in the long run without experiencing economic gains or losses. When a firm earns exactly normal profits, it is essentially breaking even, which indicates that it has sufficient revenue to meet all its costs, including the opportunity costs of its resources. The other terms presented have different meanings. Abnormal profits refer to profits that exceed normal profits, which indicate that a firm is generating surplus revenue beyond what is required to cover its costs. Marginal cost relates to the additional cost incurred from producing one more unit of output and does not encompass total costs. Variable costs are costs that change with the level of output, but they do not include opportunity costs or fixed costs.

## 7. What is trade diversion?

- A. Production moving from a low-cost to a high-cost producer**
- B. A reduction in trade barriers between nations**
- C. Investments moving to developing countries**
- D. Export subsidies on local products**

Trade diversion refers to a situation where trade shifts from a more efficient producer to a less efficient producer as a result of preferential trade agreements or trade blocs. This happens when a country changes its trading partners due to the imposition of tariffs or trade barriers on external countries, which makes imports from those countries more expensive. In this context, the correct choice accurately captures the concept of trade diversion as it highlights the movement of production from a low-cost producer to a high-cost producer. This underscores the inefficiency created when tariffs or trade agreements favor certain trading partners, leading to a misallocation of resources and production efficiency. The other choices do not correctly describe trade diversion. A reduction in trade barriers would actually promote trade creation, not diversion, as it allows greater access to efficient producers. Investments moving to developing countries can be part of foreign direct investment strategies but does not specifically relate to trade diversion. Lastly, export subsidies on local products could influence domestic markets but do not describe the phenomenon of shifting trade patterns due to preferential treatment.

## 8. What situation occurs when there are sufficient economies of scale to support only one firm in the market?

- A. Natural monopoly**
- B. Artificial monopoly**
- C. Perfect monopoly**
- D. Oligopoly**

A natural monopoly exists when a single firm can provide a good or service to an entire market at a lower cost than any potential competitor due to economies of scale. This situation typically arises in industries that require substantial infrastructure or high fixed costs, such as utilities (water, electricity) or railways. In these cases, as the firm produces more, the average cost of production decreases, which allows one firm to meet the total demand in the market more efficiently than multiple firms could. This efficiency makes it impractical for new entrants to compete, because they would have higher average costs than the established firm. Thus, a natural monopoly is characterized by the fact that having just one firm is more beneficial for consumers and the economy than having multiple firms that would just duplicate infrastructure and lead to higher costs. This concept contrasts with artificial monopolies, which arise from specific legal protections or business practices that prevent competition, rather than through economic efficiency. The terms perfect monopoly and oligopoly describe different market structures that do not revolve around the conditions of economies of scale that characterize natural monopolies.



## 9. In economics, what is capital defined as?

- A. Natural resources used for production
- B. The physical and mental contributions of the workforce
- C. Human-made tools used to produce goods and services**
- D. Management of resources and risk

Capital in economics refers specifically to the human-made tools, machinery, buildings, and equipment used in the production of goods and services. This definition emphasizes that capital is not a naturally occurring resource but rather a product of human ingenuity and investment, enabling the production processes to be more efficient and productive. C clearly identifies capital as these physical assets, distinguishing it from other factors of production such as land (natural resources) and labor (the contributions of the workforce). In the context of production, capital can range from simple tools to complex machinery and infrastructure that enhance the ability to produce goods or services. Understanding capital as human-made tools also highlights its role in driving economic growth. Investment in capital allows businesses to improve efficiency, increase output, and create a higher level of economic activity. This aspect is crucial in discussions about productivity and economic development. In contrast, the definitions considering natural resources or workforce contributions do not capture the specific characteristics of capital in economic terms. Similarly, the notion of managing resources and risks is more aligned with principles of economics and managerial practices rather than the definition of capital itself.

## 10. What is a customs union?

- A. An agreement to trade freely among member countries**
- B. A union of countries with a single currency
- C. A treaty to share resources among nations
- D. An alliance for military cooperation between nations

A customs union is fundamentally an agreement among its member countries to eliminate tariffs and other trade barriers on goods traded among them. It allows for the free movement of goods, facilitating trade and economic cooperation without internal tariffs. Additionally, member countries adopt a common external tariff on imports from non-member countries. This means that while goods are traded freely within the union, imports from outside the union are subject to the same tariff rates, creating a unified trade policy. This arrangement encourages increased trade among member states, as it creates a larger market for producers within the union and lowers costs for consumers through reduced prices. While the other options suggest various forms of cooperation and integration among nations, they do not accurately define a customs union. A customs union focuses specifically on trade policies rather than on currencies, resource sharing, or military alliances.

## 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](mailto: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!**