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

STUDY GUIDE

Prepare with structure. Pass with confidence

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

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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. 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!

Questions

1. **What term is used to define increasing prices that erodes purchasing power in an economy?**
   A. Deflation
   B. Inflation
   C. Stagnation
   D. Disinflation

2. **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

3. **What does a movement from a point within a PPC to a point closer to the curve indicate?**
   A. Potential growth
   B. Actual growth
   C. Decline in resources
   D. Reduction in productivity

4. **Why is the current account important?**
   A. It reflects the overall economic health of a nation
   B. It only tracks foreign investments
   C. It monitors government spending alone
   D. It focuses solely on local trade issues

5. **Which term describes the total cost of production, including opportunity cost?**
   A. Fixed cost
   B. Economic cost
   C. Marginal cost
   D. Total variable cost

6. **Which economic term signifies when the economy cannot sustain full employment?**
    A. Cyclical unemployment
    B. Structural unemployment
    C. Deflationary gap
    D. Frictional unemployment

7. **In terms of exchange rates, what does revaluation imply?**
    A. A decrease in currency value
    B. Increased currency value in fixed exchange systems
    C. Increased currency value in floating exchange systems
    D. Overall inflation in a country

8. **What role do Veblen goods play in consumer behavior?**
    A. They are necessities that consumers buy regardless of price
    B. They exhibit increased demand as status symbols
    C. They are perfect substitutes for other goods
    D. They lead to market inefficiencies

9. **Which of the following refers to a situation where a nation is spending more on foreign goods than it is earning from its own exports?**
    A. Trade surpluses
    B. Current account deficits
    C. Capital account surpluses
    D. Balance of trade equilibrium

10. **Which price is defined as the point where average revenue equals average total cost, indicating that the firm will shut down in the long run if not met?**
    A. Abnormal profit price
    B. Break even price
    C. Shut down price
    D. Market price

Answers

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

Explanations

1. What term is used to define increasing prices that erodes purchasing power in an economy?

A. Deflation

B. Inflation

C. Stagnation

D. Disinflation

The term that defines increasing prices that erodes purchasing power in an economy is inflation. When inflation occurs, the overall price levels rise, meaning that consumers have to spend more to purchase the same goods and services they previously could have bought at lower prices. This decrease in the value of money directly impacts individuals' purchasing power, making it less effective as a medium of exchange. In contexts like this, inflation is viewed as an economic phenomenon often measured by indices like the Consumer Price Index (CPI). Inflation can be caused by various factors, including demand-pull inflation, where demand exceeds supply, and cost-push inflation, where the costs of production increase leading to higher prices. Other terms, such as deflation, stagnation, and disinflation, refer to different economic scenarios. Deflation indicates a decrease in price levels, which increases purchasing power. Stagnation suggests a period of slow economic growth accompanied by high unemployment, while disinflation refers to a reduction in the rate of inflation, not an actual increase in prices or a significant erosion of purchasing power.

2. 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.

3. What does a movement from a point within a PPC to a point closer to the curve indicate?

A. Potential growth

B. Actual growth

C. Decline in resources

D. Reduction in productivity

A movement from a point within a production possibilities curve (PPC) to a point closer to the curve indicates actual growth. This movement reflects an increase in the efficiency and utilization of available resources. When an economy operates within its PPC, it signifies that resources are not used to their fullest potential; thus, moving closer to the curve demonstrates that the economy is optimizing its resource allocation, either increasing production of goods and services or improving overall productivity. In practical terms, achieving a point on the curve means that an economy is maximizing its output given its available resources and technology. This contrasts with being inside the curve, where there is underutilization of resources, such as labor or capital. The other possible answers relate to broader economic concepts. Potential growth is represented by an outward shift of the PPC, which indicates an increase in the economy's capacity to produce due to factors such as innovations or resource discoveries. A decline in resources would typically cause a shift of the PPC inward, not a movement within it, while a reduction in productivity could lead to operating along a lower level within the current PPC rather than moving towards it. Thus, the movement to a point closer to the curve specifically signifies actual growth in the context of utilizing existing resources more effectively.

4. Why is the current account important?

A. It reflects the overall economic health of a nation

B. It only tracks foreign investments

C. It monitors government spending alone

D. It focuses solely on local trade issues

The current account is an essential component of a country's balance of payments, as it reflects the overall economic health of a nation. It encompasses the trade balance (exports and imports of goods and services), net income from abroad, and net current transfers. A surplus in the current account indicates that a country is exporting more than it is importing, thereby generating income and potentially strengthening its currency. Conversely, a deficit can signal economic issues, such as increased reliance on foreign goods, which may affect domestic industries and employment. The current account provides insights into a nation's economic stability, productivity, and competitiveness on the global stage. Monitoring its trends helps policymakers assess the country's economic performance and craft suitable macroeconomic policies to address any imbalances. Through this lens, the current account plays a critical role in understanding how well a country's economy interacts with the rest of the world.

5. Which term describes the total cost of production, including opportunity cost?

A. Fixed cost

B. Economic cost

C. Marginal cost

D. Total variable cost

The term that encompasses the total cost of production, including opportunity costs, is economic cost. Economic cost represents the sum of explicit costs—those directly incurred in production, such as wages and materials—and implicit costs, which reflect the opportunity costs associated with choosing one option over another. These opportunity costs account for the income or benefits that are foregone by not pursuing the next best alternative. In the context of production decisions, recognizing economic costs is crucial for understanding profitability and efficiency. It helps firms assess not just the actual expenses incurred but also the potential benefits lost from alternative uses of resources. Using economic cost allows for a more comprehensive evaluation of potential projects or investments. Other terms like fixed cost, marginal cost, and total variable cost do not include the concept of opportunity costs. Fixed costs refer to expenses that do not change with the level of output, marginal cost pertains to the additional cost incurred by producing one more unit, and total variable cost is the sum of costs that vary with output. None of these captures the full spectrum of costs—both explicit and implicit—present in economic decision-making.

6. Which economic term signifies when the economy cannot sustain full employment?

A. Cyclical unemployment

B. Structural unemployment

C. Deflationary gap

D. Frictional unemployment

The term that signifies when the economy cannot sustain full employment is the deflationary gap. A deflationary gap occurs when the actual level of output in an economy is below its potential level, leading to higher unemployment and underutilization of resources. This situation indicates that the economy is not performing at its full capacity, and as a result, there are not enough jobs available for those seeking employment. This contrasts with the other types of unemployment. Cyclical unemployment is related to economic downturns when demand for goods and services decreases, leading to job losses. Structural unemployment arises from changes in the economy that make certain skills obsolete, while frictional unemployment refers to short-term transitions individuals face when moving between jobs. In the case of a deflationary gap, the key characteristic is the inability of the economy to attain or maintain full employment due to insufficient aggregate demand. Thus, this concept is critical for understanding economic performance and the need for policy interventions to stimulate demand in order to achieve full employment.

7. In terms of exchange rates, what does revaluation imply?

A. A decrease in currency value

B. Increased currency value in fixed exchange systems

C. Increased currency value in floating exchange systems

D. Overall inflation in a country

Revaluation refers to the official increase in the value of a country's currency in relation to other currencies, particularly within a fixed exchange rate system. This process is typically implemented by a country's government or central bank when they decide to strengthen their currency deliberately. In fixed exchange rate systems, where the currency's value is pegged to another major currency or a basket of currencies, revaluation means that the pegged value is adjusted upwards. This leads to an increase in the purchasing power of the currency relative to foreign currencies. It allows the country to import goods at a lower cost and can help manage inflation by reducing the prices of imported goods. In contrast, floating exchange systems allow currencies to fluctuate based on market demands, and while currency value can increase, these movements are not typically termed revaluation but rather appreciation. Thus, the implications of revaluation are distinctly related to fixed exchange rate systems and denote an increase in the nominal value of the currency, thereby confirming the correctness of the chosen answer.

8. What role do Veblen goods play in consumer behavior?

A. They are necessities that consumers buy regardless of price

B. They exhibit increased demand as status symbols

C. They are perfect substitutes for other goods

D. They lead to market inefficiencies

Veblen goods play a significant role in consumer behavior as they are associated with higher social status and are perceived as luxury items. The demand for these goods actually increases as their prices rise, contrary to the typical law of demand where higher prices usually lead to lower quantities demanded. This counterintuitive behavior occurs because consumers derive utility not just from the good itself, but also from the prestige and status it conveys to others. When individuals buy Veblen goods, they often do so to signal wealth and success, thus reinforcing their social standing. For example, designer handbags or luxury cars serve not only as products but also as symbols of affluence, attracting more consumers even at higher prices. This unique characteristic of Veblen goods illustrates how consumer motivations can extend beyond mere functionality and cost considerations to encompass social and psychological facets of consumption.

9. Which of the following refers to a situation where a nation is spending more on foreign goods than it is earning from its own exports?

A. Trade surpluses

B. Current account deficits

C. Capital account surpluses

D. Balance of trade equilibrium

When a nation is spending more on foreign goods than it is earning from its exports, it indicates that its total imports exceed its total exports. This situation is described as a current account deficit. The current account is a part of a country's balance of payments, which records transactions related to trade, income, and current transfers. A current account deficit reflects an import-heavy economy, meaning the country is consuming more foreign goods and services than it produces domestically. This deficit can arise from various factors, such as higher demand for foreign products, a competitive disadvantage in exports, or economic policies favoring imports over domestic production. Although temporary current account deficits can be sustainable or beneficial for growth, persistent deficits may raise concerns about a country's foreign exchange reserves, currency stability, and long-term economic sustainability. In contrast, trade surpluses indicate that a country sells more to the rest of the world than it buys, capital account surpluses relate to financial and investment transactions rather than trade, and balance of trade equilibrium refers to a situation where exports and imports are equal, none of which fit the described situation of exceeding imports over exports.

10. Which price is defined as the point where average revenue equals average total cost, indicating that the firm will shut down in the long run if not met?

A. Abnormal profit price

B. Break even price

C. Shut down price

D. Market price

The break-even price is the point at which a firm's average revenue precisely equals its average total cost. At this price level, the firm covers all its costs, including both fixed and variable costs, but does not make any economic profit or loss. This is significant in long-run decision-making for firms, as it indicates the minimum level of output and sales price that is sustainable for the business. If a firm consistently operates below this price, it would be unable to cover its costs and would eventually need to shut down in the long run. Economic theory posits that firms aim to maximize profits, and when prices fall below the break-even point, they face the prospect of losses. Hence, the break-even price is crucial for a firm's viability in the market. If a firm cannot achieve this price, it will need to either reduce costs, improve efficiency, or exit the market altogether. Understanding this concept is essential, as it helps delineate between scenarios where firms can remain operational versus those where they are forced to shut down if they cannot cover their costs.

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!