IB INTERNATIONAL 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.

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 is the primary function of a quota in international trade?**
   A. A limit on the quantity of a product that can be imported
   B. To increase exports to other countries
   C. To set a minimum price for domestic goods
   D. To eliminate competition from foreign goods

2. **Which of the following is a cause of inflation?**
   A. The decrease in government spending
   B. Supply chain disruptions
   C. Demand-pull and cost-push factors
   D. Reduction in taxation

3. **Which of the following is NOT a type of trade protection?**
   A. Quotas
   B. Subsidies
   C. Trade agreements
   D. Tariffs

4. **Which of the following results from a tariff imposed on imports?**
   A. Higher international demand
   B. Decreased production costs
   C. Welfare loss
   D. Lower tariffs on exports

5. **What must a central bank do in a fixed exchange rate system to revalue a currency?**
   A. Increase the supply of currency
   B. Sell foreign exchange reserves
   C. Buy currency using foreign exchange reserves
   D. Decrease interest rates

6. **How does an Economic Union differ from a Common Market?**
   A. An economic union requires a single currency only
   B. It includes regulation harmonization alongside free movement
   C. It does not include free movement of goods
   D. It applies only to developing nations

7. Why are price elasticities of demand (PED) for exports and imports generally low in the short run?

A. Households have immediate reactions to price changes

B. Firms are always aware of new prices

C. People take time to access new information about prices

D. PED is always constant regardless of time

8. Which of the following describes an administrative or regulatory barrier in international trade?

A. Setting tariffs on imported goods

B. Imposing strict import quotas

C. Requiring goods to meet specific domestic standards

D. Offering subsidies to domestic producers

9. What does devaluation refer to in a fixed exchange rate system?

A. Official increase in currency value

B. Official decrease in currency value

C. Market-based devaluation

D. Adjustment based on inflation rates

10. In a fixed exchange rate, what effect does a trade deficit have on monetary policy?

A. Encourages inflationary policy

B. Requires expansion of foreign reserves

C. Leads to automatic correction of the deficit

D. Requires contractionary fiscal policy

Answers

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

Explanations

1. What is the primary function of a quota in international trade?

A. A limit on the quantity of a product that can be imported

B. To increase exports to other countries

C. To set a minimum price for domestic goods

D. To eliminate competition from foreign goods

A quota in international trade serves as a limit on the quantity of a particular product that can be imported into a country. This restriction is designed to control the amount of foreign goods entering the domestic market, thereby regulating supply and, often, protecting domestic industries. Quotas can help prevent market disruption from an influx of imported products, which might undermine local producers by offering lower prices or altering consumer preferences. This mechanism is used by governments to create a balance between fostering international trade and protecting domestic interests. In contrast, other options do not accurately describe the primary role of a quota. For example, while promoting exports can be a consequence of limiting imports, it is not the direct function of a quota. Similarly, setting minimum prices pertains to price controls rather than quantity restrictions, and eliminating competition goes beyond what a quota aims to achieve, as it still allows for some level of imports within the set limits.

2. Which of the following is a cause of inflation?

A. The decrease in government spending

B. Supply chain disruptions

C. Demand-pull and cost-push factors

D. Reduction in taxation

Inflation can occur due to a variety of factors, and the correct answer highlights the two primary types of inflation causes: demand-pull and cost-push factors. Demand-pull inflation happens when the overall demand for goods and services in an economy exceeds the available supply, leading to price increases. This situation could arise from increased consumer spending, government expenditure, or investment, which stimulates higher demand. On the other hand, cost-push inflation occurs when the costs of production for goods and services increase, leading producers to raise prices to maintain profit margins. This can happen due to rising costs of raw materials, wages, or supply constraints. The interplay of these two types—demand-pull from increased demand and cost-push from higher production costs—captures the complexity of inflation dynamics in an economy. Recognizing both factors as contributors to inflation provides a comprehensive understanding of its causes and allows for more nuanced discussions about potential economic policies to manage inflation. Other options provided do not adequately capture the multifaceted nature of inflation: a decrease in government spending and a reduction in taxation typically relate to a contraction in economic activity, which could lead to deflation rather than inflation, while supply chain disruptions could lead to cost increases and contribute to inflation under the

3. Which of the following is NOT a type of trade protection?

A. Quotas

B. Subsidies

C. Trade agreements

D. Tariffs

Trade agreements are not a form of trade protection. Instead, they are arrangements between countries that facilitate and promote international trade by reducing or eliminating barriers such as tariffs and quotas. These agreements aim to create a more favorable trading environment by encouraging cooperation and lowering trade restrictions between the participating countries. In contrast, quotas, subsidies, and tariffs are all mechanisms used to protect domestic industries from foreign competition. Quotas limit the quantity of a specific good that can be imported, thereby helping domestic producers maintain their market share. Subsidies provide financial support to domestic industries, allowing them to compete better against foreign imports. Tariffs impose taxes on imported goods, making them more expensive and thus encouraging consumers to buy domestically produced alternatives. Therefore, recognizing that trade agreements serve to enhance trade rather than restrict it clarifies why this choice is the correct answer.

4. Which of the following results from a tariff imposed on imports?

A. Higher international demand

B. Decreased production costs

C. Welfare loss

D. Lower tariffs on exports

A tariff imposed on imports leads to welfare loss in an economy. This occurs because tariffs create a distortion in the free market by making imported goods more expensive. Consumers in the importing country face higher prices, which means they buy less of the imported goods and may switch to more expensive domestic alternatives. The welfare loss arises from the fact that the overall economic efficiency is reduced. Resources are not allocated to their most productive uses, and there is a decrease in consumer surplus due to higher prices. Additionally, there is a deadweight loss from the reduction in trade, as both consumers and producers experience a decline in surplus that isn't fully offset by any gains made by local producers due to reduced competition. In contrast, imposing a tariff does not lead to higher international demand, as it typically restricts imports. It also does not decrease production costs; in fact, domestic producers might face higher input costs due to reduced competition. The notion of lower tariffs on exports is not a direct outcome of imposing tariffs on imports; instead, tariffs generally lead to a more protectionist environment, which can destabilize trade relationships. Thus, the most accurate and relevant outcome of a tariff is the associated welfare loss that arises from these market distortions.

5. What must a central bank do in a fixed exchange rate system to revalue a currency?

A. Increase the supply of currency

B. Sell foreign exchange reserves

C. Buy currency using foreign exchange reserves

D. Decrease interest rates

In a fixed exchange rate system, a central bank maintains the value of its currency at a fixed rate relative to another currency, usually by intervening in the foreign exchange market. To revalue a currency means that the central bank increases the value of the currency in terms of the foreign currency it is pegged to. Choosing to buy the domestic currency using foreign exchange reserves is the necessary action for revaluation. When the central bank purchases its own currency, it reduces the supply of that currency available in the market. This reduction in supply leads to an appreciation of the currency's value, effectively raising its exchange rate relative to the foreign currency. This action contrasts with simply selling foreign exchange reserves, which is typically done to devalue a currency by increasing its supply in the market. Reducing interest rates can also make a currency less attractive to foreign investors, leading to depreciation rather than revaluation. Thus, buying currency using foreign exchange reserves is the appropriate action to revalue a currency in a fixed exchange rate regime.

6. How does an Economic Union differ from a Common Market?

A. An economic union requires a single currency only

B. It includes regulation harmonization alongside free movement

C. It does not include free movement of goods

D. It applies only to developing nations

An economic union differentiates itself from a common market primarily by engaging not only in the free movement of goods, services, labor, and capital but also in harmonizing economic policies and regulations among member countries. This includes regulations on taxation, environmental standards, competition policies, and labor laws, ensuring that there is a cohesive economic framework within the union. The essence of an economic union is creating a more integrated economic area that allows free trade while also minimizing the discrepancies that can lead to trade barriers or competitive advantages based on differences in regulations. This unified approach helps to promote a more stabilized economic environment among the member states, thus enhancing economic efficiency and cooperation. In contrast, a common market primarily focuses on the unrestricted movement of goods and services and factors of production but does not necessarily require harmonization of policies. Consequently, options that suggest limitations or mischaracterizations of an economic union do not adequately capture this critical aspect of regulatory alignment and policy harmonization.

7. Why are price elasticities of demand (PED) for exports and imports generally low in the short run?

A. Households have immediate reactions to price changes

B. Firms are always aware of new prices

C. People take time to access new information about prices

D. PED is always constant regardless of time

Price elasticities of demand (PED) for exports and imports tend to be low in the short run due to the time it takes for consumers and businesses to respond to price changes. In the immediate aftermath of a change in price, whether due to exchange rate fluctuations, tariffs, or other factors, individuals and firms may not have the necessary information or the ability to adjust their behavior quickly. For example, consumers might need time to become aware of new prices and consider their implications when making purchasing decisions. Similarly, firms may have existing contracts or production routines that prevent them from altering their quantity supplied in response to changes in price immediately. This lag in response results in a lower elasticity, as the quantity demanded does not adjust significantly to price changes over a short period. In contrast, the other options do not accurately capture the main reason for the low price elasticity in the short run. Immediate reactions to price changes or constant awareness of prices do not account for the time needed for adjustments. Also, while PED can vary over time, it is not a fixed concept that remains constant regardless of timing; it is affected by the length of time under consideration.

8. Which of the following describes an administrative or regulatory barrier in international trade?

A. Setting tariffs on imported goods

B. Imposing strict import quotas

C. Requiring goods to meet specific domestic standards

D. Offering subsidies to domestic producers

The identification of requiring goods to meet specific domestic standards as an administrative or regulatory barrier in international trade is accurate because this practice directly involves government regulations that can affect the ability of foreign goods to enter the domestic market. When a country establishes specific standards that imported goods must meet, it creates a hurdle for foreign manufacturers, as they may need to change their production processes or incur additional costs to comply with these standards. This can lead to a reduction in the volume of imports, thereby protecting domestic industries from foreign competition. In contrast, setting tariffs on imported goods relates to trade barriers primarily focused on pricing rather than regulations. Imposing strict import quotas involves limiting the quantity of a specific good that can be imported, which also does not focus on the compliance with regulations. Offering subsidies to domestic producers, while impacting international trade dynamics, does not represent a regulatory barrier but rather a financial support mechanism for domestic industries. Thus, the requirement for compliance with domestic standards is the clearest example of a regulatory barrier among the choices provided.

9. What does devaluation refer to in a fixed exchange rate system?

A. Official increase in currency value

B. Official decrease in currency value

C. Market-based devaluation

D. Adjustment based on inflation rates

Devaluation in a fixed exchange rate system refers to the official decrease in the value of a country's currency relative to other currencies. This is a proactive measure taken by a government or monetary authority to adjust the currency's value, which is essential in a fixed exchange rate system where the value is maintained at a set rate in relation to another currency or a basket of currencies. When a currency is devalued, it becomes cheaper compared to foreign currencies, making exports less expensive and potentially boosting international competitiveness. This can help correct trade imbalances by promoting exports and discouraging imports. The key aspect of devaluation is that it is an intentional decision made by the authorities, rather than being driven by market forces. The other options do not correctly describe devaluation in this context. An official increase in currency value would be a revaluation rather than a devaluation. Market-based devaluation typically relates to floating exchange rates where currency values change based on supply and demand rather than official actions. Lastly, adjustments based on inflation rates could lead to various monetary adjustments but are not specifically tied to the concept of devaluation in a fixed exchange rate system.

10. In a fixed exchange rate, what effect does a trade deficit have on monetary policy?

A. Encourages inflationary policy

B. Requires expansion of foreign reserves

C. Leads to automatic correction of the deficit

D. Requires contractionary fiscal policy

In a fixed exchange rate system, a trade deficit occurs when a country's imports exceed its exports, leading to an outflow of domestic currency to foreign markets. This situation can put pressure on the country's foreign reserves because the central bank needs to maintain the fixed exchange rate by buying its own currency in exchange for foreign currencies to support it. A trade deficit does not automatically lead to a correction of the deficit, as suggested by one of the alternatives, but rather requires a careful management of monetary policy. While contractionary fiscal policy does not directly influence monetary policy, it works by reducing domestic demand, which can help to decrease imports and improve the trade balance. This adjustment can be necessary to alleviate the pressures on the exchange rate and reserves. Additionally, expansion of foreign reserves or inflationary policies would not address the trade deficit effectively in a fixed exchange rate setup. Instead, employing contractionary fiscal policy can help stabilize the economy and, indirectly, the trade balance by reducing overall demand in the economy. Therefore, contractionary measures can help manage the negative impacts of a trade deficit and its effects on monetary policy in a fixed exchange rate regime.

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://ibintleconomicshl.examzify.com

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