

| Sub-topic | SL/HL core | HL |
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| | | <ul style="list-style-type: none"> Explain that price discrimination may only take place if all of the following conditions exist: the firm must possess some degree of market power; there must be groups of consumers with differing price elasticities of demand for the product; the firm must be able to separate groups to ensure that no resale of the product occurs. Draw a diagram to illustrate how a firm maximizes profit in third degree price discrimination, explaining why the higher price is set in the market with the relatively more inelastic demand. |

Theory of knowledge: potential connections

Is it rational to take into account costs already incurred in deciding whether a business venture should be terminated or whether it should receive more funds?

How can we know how to determine the balance of government policy between promoting competition in the interest of the consumer and allowing profitability in the interest of firms?

Section 2: Macroeconomics

2.1 The level of overall economic activity

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| Economic activity | | |
| The circular flow of income model | <ul style="list-style-type: none"> Describe, using a diagram, the circular flow of income between households and firms in a closed economy with no government. Identify the four factors of production and their respective payments (rent, wages, interest and profit) and explain that these constitute the income flow in the model. | |

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| | <ul style="list-style-type: none"> • Outline that the income flow is numerically equivalent to the expenditure flow and the value of output flow. • Describe, using a diagram, the circular flow of income in an open economy with government and financial markets, referring to leakages/withdrawals (savings, taxes and import expenditure) and injections (investment, government expenditure and export revenue). • Explain how the size of the circular flow will change depending on the relative size of injections and leakages. | |
| Measures of economic activity: gross domestic product (GDP), and gross national product (GNP) or gross national income (GNI) | <ul style="list-style-type: none"> • Distinguish between GDP and GNP/GNI as measures of economic activity. • Distinguish between the nominal value of GDP and GNP/GNI and the real value of GDP and GNP/GNI. • Distinguish between total GDP and GNP/GNI and per capita GDP and GNP/GNI. • Examine the output approach, the income approach and the expenditure approach when measuring national income. • Evaluate the use of national income statistics, including their use for making comparisons over time, their use for making comparisons between countries and their use for making conclusions about standards of living. • Explain the meaning and significance of “green GDP”, a measure of GDP that accounts for environmental destruction. | <ul style="list-style-type: none"> • Calculate nominal GDP from sets of national income data, using the expenditure approach. • Calculate GNP/GNI from data • Calculate real GDP, using a price deflator. |

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| The business cycle | | |
| Short-term fluctuations and long-term trend | <ul style="list-style-type: none"> Explain, using a business cycle diagram, that economies typically tend to go through a cyclical pattern characterized by the phases of the business cycle. Explain the long-term growth trend in the business cycle diagram as the potential output of the economy. Distinguish between a decrease in GDP and a decrease in GDP growth. | |

Theory of knowledge: potential connections

What is the empirical evidence for the existence of the business cycle? How do we decide whether this evidence is sufficient?

2.2 Aggregate demand and aggregate supply

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| Aggregate demand (AD) | | |
| The AD curve | <ul style="list-style-type: none"> Distinguish between the microeconomic concept of demand for a product and the macroeconomic concept of aggregate demand. Construct an aggregate demand curve. Explain why the AD curve has a negative slope. | |
| The components of AD | <ul style="list-style-type: none"> Describe consumption, investment, government spending and net exports as the components of aggregate demand. | |