

# Checklist: Real-world issues and key concepts

Your coursebook is divided into four units. The first unit is an introduction to the subject of economics. Each of the remaining three units covers a broad area of this subject:

- Unit 2: Microeconomics
- Unit 3: Macroeconomics
- Unit 4: The Global Economy.

## Real-world issues

Each of these three units is divided into two sections, headed by a **real-world issue**. A real-world issue focuses on a very broad, general question that introduces the main topic that subsequent chapters address.

You can see below how the units and real-world issues are organised.\*

### Unit 1: Introduction to Economics

*This is covered in Chapter 1.*

### Unit 2: Microeconomics

**Real-world issue 1:** How are choices made by consumers and producers when they try to meet their economic objectives?

*This real-world issue is covered in Chapters 2–3.*

**Real-world issue 2:** When do markets fail to meet important economic objectives, and what can government intervention offer?

*This real-world issue is covered in Chapters 4–7.*

### Unit 3: Macroeconomics

**Real-world issue 1:** What accounts for variations in economic activity over time, and why is this important?

*This real-world issue is covered in Chapters 8–12.*

**Real-world Issue 2:** What can governments do to manage their economy and how effective are their policies?

*This real-world issue is covered in Chapter 13.*

### Unit 4: The Global Economy

**Real-world issue 1:** Who wins and who loses from the integration of the economies of our world?

*This real-world issue is covered in Chapters 14–17.*

**Real-world Issue 2:** Why is economic development uneven?

*This real-world issue is covered in Chapters 18–20.*

\* Note that the real-world issues have been paraphrased to avoid copyright issues.

## Key concepts

In addition, there are nine **key concepts** that run through your course in economics:

- scarcity
- choice
- efficiency
- equity
- economic well-being
- sustainability
- change
- interdependence
- intervention.

All these are defined and explained in Chapter 1.

Each of these key concepts appears throughout your course in a number of different contexts. Thinking about these key concepts as you study this course, as well as the controversies that surround some of them, will help you acquire a deeper understanding of the subject.

You may note, too, that your internal assessment essays will be based on a different key concept for each one of your three essays. Therefore it's a good idea to make sure you understand how the key concepts relate to the topics you are studying. (See *Introduction to IB Economics assessment: exam papers and internal assessment* in the digital coursebook.)

## Relating real-world issues to key concepts

In general, you are encouraged to try to understand each **real-world issue** by thinking about the **key concepts**. Note that while the real-world issues and key concepts are not linked together in any particular way, some real-world issues are more closely related to some key concepts than others.

The section below will guide you so that you can think about which key concepts are more relevant to understanding particular real-world issues.

### Scarcity

Scarcity refers to the idea that there are insufficient resources to satisfy unlimited human needs and wants. It forms the background to the study of economics, but it is more relevant in the context of microeconomics, which studies the optimal allocation of scarce resources. Scarcity is especially important in the following real-world issues.

- **Microeconomics real-world issue 1** deals with demand and supply in competitive markets, leading to an optimal allocation of resources, thus answering the basic questions of ‘what/how much to produce’ and ‘how to produce’ in the best possible way, in other words solving the fundamental problem of scarcity in the best possible way.
- **Microeconomics real-world issue 2**, dealing with market failure, shows how the market often does not solve the scarcity problem in the best possible way, but how government intervention can help correct this.

### Choice

Choice is central to economics, in fact it has even been said that economics is a study of choice. The reason is that scarcity forces choices to be made at every possible level. Choice is especially important in the following real-world issues.

- **Microeconomics real-world issue 1** is about choices made by consumers and firms who make economic decisions to satisfy their economic objectives.
- **Microeconomics real-world issue 2** deals with choices made by governments in order to solve economic problems at the micro level.
- **Macroeconomics real-world issue 2** is about choices made by governments in order to solve economic problems at the macro level.
- **The global economy real-world issues 1 and 2** both include choices regarding different policies pursued by governments in order to address problems arising in the context of the international economy and economic growth and development.

### Efficiency

Efficiency is also central to economics because it deals with the idea of making the best possible use of scarce resources in order not to waste them. Efficiency is especially important in the following real-world issues.

- **Microeconomics real-world issue 1**, in Chapter 2, introduces the concept of allocative efficiency arising when social surplus is maximum, occurring in competitive markets with no market failure.
- **Microeconomics real-world issue 2** deals extensively with the concept of efficiency, as it identifies the conditions under which there is allocative efficiency and what governments can do to reduce inefficiency when there is some form of market failure.

- **The global economy real-world issue 1**, in Chapters 14 and 15, deals with the achievement or not of allocative efficiency under various kinds of trade policies.

### Equity

Equity, or the lack of it, is a normative issue with important consequences within and between countries everywhere. Equity is especially important in the following real-world issues.

- **Microeconomics real-world issue 2**, in Chapter 6, deals with the inability of the market system to achieve equity (HL only).
- **Macroeconomics real-world issue 1**, in Chapter 12, offers an extensive discussion of the causes and consequences of inequity, inequality and poverty.
- **The global economy real-world issue 1** is concerned with the inequitable distribution of benefits and costs of international economic links and increasing economic integration.
- **The global economy real-world issue 2** includes discussions of equity in economic growth and development.

### Economic well-being

This is a multi-dimensional concept, referring to levels of prosperity, economic satisfaction and standards of living among the members of a society. Economic well-being is especially important in the following real-world issues.

- **Macroeconomics real-world issue 1** deals with problems of measurement of economic well-being (Chapter 8), the effects of varying economic activity on economic well-being, and issues of inequality and poverty that impact on economic well-being (Chapter 12).
- **The global economy real-world issue 1** is concerned with the impacts of gains or losses from international economic links on economic well-being.
- **The global economy real-world issue 2** has extensive discussions of the problems of developing countries and how these relate to economic well-being.

## Sustainability

This concept is central to the preservation of the environment. It is crucial to economics because economic activities far too often result in environmental destruction. Sustainability is especially important in the following real-world issues.

- **Microeconomics real-world issue 2**, in Chapter 5, is concerned with issues of environmental unsustainability and policies to correct this.
- **The global economy real-world issue 2** refers extensively to the Sustainable Development Goals.

## Change

The world is characterised by continuous change in the institutional, technological, social, political and cultural environments in which economic events take place. Change is especially important in the following real-world issues.

- **Microeconomics real-world issue 1** shows demand and supply conditions changing all the time, resulting in resource reallocation, new product creation, technological changes and continuous changes in market conditions.
- **Macroeconomics real-world issue 1** deals with change in the macroeconomy arising from numerous factors affecting aggregate demand and aggregate supply.
- **The global economy real-world issue 2** deals with the need to make sweeping changes in many countries around the world in order to address the objectives of economic growth and economic development.

## Interdependence

Interdependence refers to the idea that all economic decision-makers, at all levels, depend on one another for the achievement of their economic objectives. Interdependence is especially important in the following real-world issues.

- **Microeconomics real-world issue 1** shows how economic decision-makers are interdependent in markets.
- **Macroeconomics real-world issue 1** deals with the interdependence of consumers, producers, the government, the foreign sector and the banking sector (as illustrated by the circular flow of income model) in determining economic outcomes in the macroeconomy.
- **Macroeconomics real-world issue 2** similarly shows the interdependence of the above decision-makers on an aggregate level in the context of changes arising from a variety of macroeconomic policies.

- **The global economy real-world issue 1** is concerned with the growing interdependence between countries around the world.

## Intervention

Intervention refers to actions by the government when it intervenes in the workings of markets. Intervention is especially important in the following real-world issues.

- **Microeconomics real-world issue 2** centres on intervention in markets by the government in order to deal with the inability of markets to achieve socially desirable outcomes.
- **Macroeconomics real-world issue 2** is concerned with intervention at the macro level so that socially desirable objectives, such as low unemployment, low and stable rate of inflation and economic growth, can be achieved.
- **The global economy real-world issue 1** deals with intervention by governments in international trade or exchange rate and balance of payments issues, in order to achieve important economic objectives.
- **The global economy real-world issue 2** is concerned with government policies intended to achieve objectives related to economic growth and economic development.

You should bear in mind that this matching of key concepts with real-world issues is not exhaustive. There may be more areas where various key concepts are relevant to more real-world issues. You should not feel limited by what is written in these pages; rather you should feel free to come up with more ideas about the numerous applications of the key concepts to the many areas of economics.