

LINDO SYNAPSE

Virtual Subject Specialist Vault

IB DP ECONOMICS · UNIT 3

Macroeconomics

Complete Lesson Plan & Practice Pack Bundle

Subtopic	Title
3.1	Introduction to Macroeconomics (3 × 75-min lessons)
3.2	Aggregate Demand
3.3	Aggregate Supply
3.4	Inequality and Poverty
3.5	Monetary Policy
3.6	Fiscal Policy
3.7	Supply-Side Policies

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Lesson 2 — Macroeconomic Objectives: Targets, Conflicts & Trade-offs

Lesson Blueprint — At a Glance

Learning Objective

Students can identify all four macroeconomic objectives, explain two conflicts between them using Kaimura data, and evaluate whether GDP is a sufficient welfare measure for a small island economy.

Key Concepts

Four macroeconomic objectives; economic growth; low unemployment (7.1% Kaimura, 24% youth); low and stable inflation (4.2% Kaimura); current account balance (–KMD 3.6bn Kaimura); conflicts between objectives; GDP limitations as a welfare measure; HL: Phillips Curve, NAIRU.

Success Criteria

Name all four macroeconomic objectives and give one Kaimura data point showing each objective is not currently being met; explain the mechanism by which reducing unemployment in Kaimura worsens the current account balance; identify two GDP limitations.

Duration / Level

75 minutes | Both — differentiated (HL: NAIRU, natural rate of unemployment, Phillips Curve, long-run PC) | Diploma Programme Year 1

Prior Knowledge

Lesson 1 completed — business cycle, GDP, both output gap types, four macroeconomic objectives, macro/micro distinction.

Common Misconceptions This Lesson Targets

"Achieving economic growth automatically improves all four macroeconomic objectives." — Growth can worsen inflation, the current account balance, and inequality simultaneously.

"Macroeconomic policies are the same as macroeconomic objectives." — Objectives are the goals; policies are the tools.

"Exports subtract from GDP and imports add to it." — The formula is $AD = C + I + G + (X - M)$, so exports ADD and imports SUBTRACT.

IA Connection

Students writing about any economy's macroeconomic performance can apply the four-objective framework, mapping data to each target and identifying conflicts.

Suggested IA tags: Four-objective failure (all four simultaneously off-target); youth unemployment 24%; GDP vs HDI vs Gini as welfare measures; CA deficit KMD 3.6bn as a constraint; tourism-driven growth and its distributional limits

75-Minute Lesson Flow

Hook	Define	Model	Apply	Practise	Evaluate	Assess
8 min	12 min	12 min	10 min	12 min	14 min	6 min

Phase-by-Phase Delivery

PHASE 1 — HOOK & CONTEXT (8 min)

SL — both levels unless noted

Present the full Kaimura dashboard: all four macro data points. Cold-call: if you were the Finance Minister, where would you start? Which objective matters most?

HL — additional / extension

Add Gini 0.38 and HDI 0.782. Ask: does equity change your priority list? Does GDP alone tell you how well Kaimura is doing?

Teacher Script

WRITE on board: GDP KMD 18.4bn | Unemployment 7.1% (youth 24%) | Inflation 4.2% | CA Deficit KMD

BONUS RESOURCE 1 — STUDENT CONCEPT CARDS

Subtopic 3.1 — Introduction to Macroeconomics

A standalone student handout. Each card follows *In one line* → *Meaning* → *Apply it*.

1. Macro vs. Micro

In one line: Two different lenses for looking at the economy.

Meaning

Microeconomics studies individual consumers, firms, and markets. Macroeconomics studies the economy as a whole — total output, total employment, the overall price level, and trade with the rest of the world. The unit of analysis changes completely.

Apply it

If Kaimura's GDP falls 16% in a year, that is a macroeconomic event — it affects the whole country. If one hotel in Kaimura closes, that is a microeconomic event — it affects one firm and its market.

2. Gross Domestic Product (GDP)

In one line: The economy's report card — but not its happiness score.

Meaning

Gross Domestic Product is the total value of all final goods and services produced within a country in one year. It tells you the size of the economy, not how well people are living.

Apply it

Kaimura's GDP fell from KMD 20bn to KMD 15.5bn in 2020 — a drop of over 20% — when its tourism sector collapsed almost overnight.

3. The Business Cycle

In one line: Economies move in waves, not straight lines.

Meaning

Every economy passes through expansion (boom), peak, contraction (recession/trough), and recovery — repeatedly. Knowing which phase an economy is in determines which policies will work.

Apply it

Kaimura was near its peak in 2018, hit its trough in 2020, and was recovering by 2022. The same data point — GDP — means something different depending on which phase it sits in.

4. Output Gaps **HL ONLY**

In one line: How far is the economy from its best possible day?

Meaning

A recessionary gap exists when actual output is below potential output — spare capacity, high unemployment, low inflation. An inflationary gap exists when actual output exceeds potential — the economy is overheating.

Apply it

In 2020, Kaimura's potential output was KMD 20bn but actual output was only KMD 15.5bn — a recessionary gap of KMD 4.5bn.

5. The Four Macroeconomic Objectives

In one line: Four targets that often pull against each other.

Meaning

Governments aim for: economic growth, low unemployment, low and stable inflation, and a satisfactory current account balance. These objectives conflict — achieving one can make another harder to reach.

Apply it

If Kaimura stimulates demand to cut unemployment, rising incomes push up imports and worsen the current account balance — one objective improves while another gets worse.

6. Circular Flow of Income

In one line: Money never stops moving through the economy.

Meaning

Households and firms circulate income continuously. Injections (Investment, Government spending, Exports) add to the flow. Leakages (Savings, Taxes, Imports) remove from it. When injections equal leakages, national income is in equilibrium.

Apply it

Phase	SL — Standard Level	HL — Higher Level
Phase 6 — Evaluate	Discussion: for vs against increasing G.	Full two-sided evaluation: multiplier overstated by import leakage, crowding out.
Homework	Draw the AD diagram from memory; one determinant per component.	Plus a 200-word response on why the multiplied impact of an export shock exceeds the direct fall.

Practice Question Bank

Topic	Marks	Use in Lesson
AD — Explain effect of a rise in interest rates on real GDP and price level	4	Phase 5 — SL Guided Practice
AD — Identify two determinants of consumption	2	Phase 5 — Short Practice
Keynesian Multiplier — HL calculate Δ GDP from autonomous investment and MPC	4	Phase 5 — HL Guided Practice

Examiner Tip

EXAMINER TIP

The most common AD diagram error: confusing a movement along the AD curve with a shift. A change in the price level causes a movement along the existing curve. A change in any determinant shifts the entire curve. For HL multiplier questions, students must show their working: state MPS, calculate the multiplier, calculate total ΔY .

Homework & Follow-Up

Category	Instruction
SL Homework	Draw and label the AD diagram from memory; write one determinant for each AD component.
HL Homework	In addition to SL: write a 200-word response explaining, using the Keynesian multiplier, why the impact of Kaimura's export collapse is greater than the direct fall in export revenue alone.

Live Differentiation

SUPPORT — All Students

Give students a single concrete scenario — Kaimura's airports close — and ask them to identify ONLY which AD component is affected (X) before asking them to classify it as a shift.

STRETCH — HL Extension

HL students should evaluate why import leakage makes the Keynesian multiplier smaller in Kaimura than it would be in a larger, less trade-dependent economy.

If students are stuck, say this:

Go back to the equation: $AD = C + I + G + (X-M)$. Find the letter that matches what changed in the scenario. If the price level changed, nothing on the right-hand side changed — that's a movement along the curve. If anything on the right-hand side changed, the whole curve moves — that's a shift.

SAY: 'Draw the AD/AS diagram showing: AD shifting left due to tourism collapse, SRAS shifting left due to rising fuel import costs.' COLD-CALL: 'What is the combined effect?' [Output falls sharply.] 'Can the government use the same policy for both shocks?' [No — stimulating AD when SRAS has shifted left worsens inflation.]

PHASE 5 — GUIDED PRACTICE (12 min)

SL — both levels unless noted

Q1 [4 marks]: Using an AD/AS diagram, explain the effect of a positive supply shock on real GDP and the price level. Q2 [3 marks]: Identify three factors that can shift the short-run aggregate supply curve. Q3 [2 marks]: Define stagflation.

HL — additional / extension

Add Q4 [6 marks HL]: Using an AD/AS diagram, distinguish between the Keynesian and Classical views on the long-run aggregate supply curve AND explain the self-correction mechanism from a deflationary gap.

Teacher Script

SAY: 'Exam conditions. Begin.' SAY: 'Q1 diagram must show: labelled axes, original SRAS/LRAS/AD, shift in SRAS right, new equilibrium, effects on BOTH price level and GDP annotated.'

WATCH FOR: Circulate silently — note errors in diagram labelling without correcting aloud.

PHASE 6 — EVALUATE & EXTEND (12 min)

SL — both levels unless noted

Discussion: 'Can Kaimura's government fix a supply shock with demand-side policy? Why or why not?' Evaluate: AD stimulus worsens inflation when a supply shock is the cause.

HL — additional / extension

Evaluate the proposition: 'Supply-side policies are always preferable to demand-side policies for addressing stagflation.' Use Kaimura evidence. Consider time lags vs the urgency of the unemployment crisis.

Teacher Script

COLD-CALL: 'Kaimura's SRAS has shifted left — fuel costs are rising. Can it use demand-side policy?' [No — stimulating AD in a supply shock context worsens inflation.] SAY: 'The appropriate response to a supply shock is supply-side policy. But that takes time.'

PHASE 7 — CONSOLIDATE & ASSESS (8 min)

SL — both levels unless noted

Exit ticket: draw a full AD/AS diagram from memory. Label SRAS, LRAS, AD, equilibrium. Show one negative supply shock. Mark the deflationary gap. List three SRAS shifters.

HL — additional / extension

Exit ticket adds: on a second diagram, show the Classical self-correction mechanism from the deflationary gap. Label: falling wages, SRAS shifts right, economy returns to potential.

Teacher Script

SAY: 'Silence. Draw the full AD/AS model. Label everything. Show one negative supply shock. Mark the deflationary gap. List three SRAS shifters. Four minutes.' CIRCULATE and collect.

SL / HL Differentiation Guide

Phase	SL — Standard Level	HL — Higher Level
Phase 2 — Define	SRAS defined. Why SRAS slopes upward: sticky wages, menu costs, misperceptions. SRAS shifters: input costs, wages, commodity prices, indirect taxes, technology, regulation. LRAS, potential output, stagflation.	Add: deflationary gap and inflationary gap on the full AD/AS diagram.

inequality exist? WHAT does it do to an economy? And WHAT can a government do about it?'

PHASE 2 — DEFINE & ANCHOR (12 min)

SL — both levels unless noted

Define absolute poverty, relative poverty, income inequality. Teach seven causes of inequality: education and skills gap, wage differentials, unemployment, discrimination, inheritance and wealth, globalisation, and market power. Then teach the consequences: reduced social mobility, worse health and educational outcomes, political instability, reduced AD (lower quintiles have higher MPC), increased crime rates.

HL — additional / extension

Add: Kuznets Curve introduction — as economies develop, inequality first rises then falls. Where would you place Kaimura on the Kuznets Curve?

Teacher Script

WRITE: POVERTY = threshold, INEQUALITY = distribution. SAY: 'A country can have low absolute poverty but high inequality.' *WRITE: causes of inequality on the board. SAY: 'In Kaimura — education gap: youth unemployment 24% tells us many young workers lack the skills for available jobs.'*

WATCH FOR: Ensure students use precise terminology — cold-call immediately after each definition.

PHASE 3 — MODEL & EXPLAIN (14 min)

SL — both levels unless noted

Draw the Lorenz Curve step by step: axes (cumulative % population on X, cumulative % income on Y), the line of equality (45 degree diagonal), the Lorenz curve plotted below. Use Kaimura quintile data. Compare with Velantia (0.29) and Mardova (0.51). Then present five redistribution policy tools with mechanisms: progressive taxation, transfer payments, conditional cash transfers, minimum wage, and investment in education and healthcare.

HL — additional / extension

Add the Kuznets Curve diagram — inverted U. As GDP per capita rises, inequality first rises then falls. Discuss whether Kaimura is on the rising or falling slope.

Teacher Script

SAY: 'Draw your axes.' *WRITE: draw the Lorenz Curve step by step. SAY: 'X-axis: cumulative percentage of population. Y-axis: cumulative percentage of income. Line of perfect equality = 45 degree diagonal.'* *SAY: 'For each redistribution policy, the examiner wants the mechanism — how exactly does it shift income from upper to lower quintiles? And the limitation — what is the cost or risk?'*

WATCH FOR: Both axes must be labelled before any curve is drawn. Students frequently draw curves first. Intervene early.

PHASE 4 — KAIMURA APPLICATION (10 min)

SL — both levels unless noted

Students construct the Lorenz Curve using Kaimura quintile data. Compare with Velantia and Mardova. Then for each of the five redistribution tools: state the mechanism and one Kaimura-specific limitation. Which policy would work best for Kaimura?

HL — additional / extension

Link income inequality to reduced aggregate demand from lower-quintile purchasing power. Draw the AD/AS consequence: income concentrated in the upper quintile leads to lower AD and lower equilibrium real GDP.

Teacher Script

Lesson 1 — Monetary Policy

Lesson Blueprint — At a Glance

Learning Objective

Students can explain the three tools of monetary policy, draw the AD/AS effect of both contractionary and expansionary monetary policy, and evaluate the effectiveness of monetary policy for a small island economy like Kaimura.

Key Concepts

Monetary policy — definition; three tools: interest rates, open market operations, reserve requirements; contractionary monetary policy; expansionary monetary policy; inflation targeting; KCB base rate 3.5%; HL: transmission mechanism (12-24 month lag); HL: quantitative easing; HL: liquidity trap.

Success Criteria

Trace the full transmission chain from a KCB interest rate change to the effect on Kaimura's price level, stating every intermediate step; draw an AD/AS diagram showing the effect of contractionary monetary policy; explain at least two specific reasons why monetary policy is less effective in Kaimura than in a large developed economy.

Duration / Level

75 minutes | Both — differentiated (HL: transmission mechanism, QE, liquidity trap) | Diploma Programme Year 1

Prior Knowledge

3.2: AD and the AD/AS diagram fully established. 3.3: SRAS, LRAS, deflationary gap. Macroeconomic objectives and conflicts. Kaimura economy background.

Common Misconceptions This Lesson Targets

"Raising interest rates always causes a recession." — Raising rates reduces AD and slows inflation, but does not automatically cause negative growth.

"Open market operations involve the central bank buying and selling goods and services." — OMOs involve buying and selling government bonds, which injects or withdraws money from the banking system.

"Monetary policy affects aggregate demand faster than fiscal policy." — The monetary policy transmission mechanism operates with a 12-24 month lag; government spending can affect AD more quickly.

IA Connection

Any article about a central bank interest rate decision, quantitative easing announcement, or monetary policy review can be analysed using the monetary policy transmission mechanism and evaluated against the specific constraints of the economy in question.

Suggested IA tags: KCB base rate 3.5% — inflation 4.2% vs 2% target; shallow financial sector — limited transmission channels; import leakage reducing monetary policy effectiveness; CA deficit KMD 3.6bn as a constraint on expansionary MP; HL: exchange rate channel — KMD appreciation risk

75-Minute Lesson Flow

Hook	Define	Model	Apply	Practise	Evaluate	Assess
7 min	12 min	12 min	10 min	12 min	14 min	8 min

Phase-by-Phase Delivery

PHASE 1 — HOOK & CONTEXT (7 min)

SL — both levels unless noted

KCB scenario: 'Kaimura inflation is 4.2% and rising. The KCB is deciding whether to raise interest rates. Should it?' Cold-call for and against.

HL — additional / extension

Same hook. Add: what is the risk of raising rates too fast? Too slow? Is there a situation where raising rates does nothing at all?

Lesson 1 — Fiscal Policy

Lesson Blueprint — At a Glance

Learning Objective

Students can draw the AD/AS effect of both expansionary and contractionary fiscal policy, distinguish a cyclical from a structural budget deficit, and evaluate the effectiveness of fiscal policy for Kaimura.

Key Concepts

Fiscal policy — definition, two instruments (G and T); expansionary fiscal policy — mechanism and AD/AS effect; contractionary fiscal policy — mechanism and AD/AS effect; budget deficit, surplus, balanced budget; cyclical vs structural budget deficit; public debt implications for SIDS; automatic stabilisers; HL: Keynesian multiplier (revision from 3.2); HL: crowding out mechanism; HL: Laffer Curve.

Success Criteria

Draw both the expansionary and contractionary fiscal policy AD/AS diagrams with the correct gap identified before the policy, the AD shift in the correct direction, and effects on both price level and real GDP annotated; distinguish between a cyclical and a structural budget deficit and classify Kaimura's current deficit; explain the mechanism of automatic stabilisers during a recession.

Duration / Level

75 minutes | Both — differentiated (HL: Keynesian multiplier, crowding out, supply-side effects of fiscal policy, Laffer Curve) | Diploma Programme Year 1

Prior Knowledge

AD/AS model fully established (3.2, 3.3). GDP, circular flow (3.1). Types of unemployment. Kaimura economy background.

Common Misconceptions This Lesson Targets

"A budget deficit always means the government is being irresponsible." — A cyclical deficit is an automatic, appropriate response to recession; only a structural deficit signals a fundamental spending problem.

"Automatic stabilisers require new government decisions to take effect." — Automatic stabilisers work without any new policy decisions; they activate automatically when economic conditions change.

"Contractionary fiscal policy causes a recession." — Contractionary policy reduces an inflationary gap; a recession would only result from poorly timed or excessive contraction.

IA Connection

Any article about a government budget announcement, an austerity programme, a stimulus package, or a tax reform can be analysed using the fiscal policy framework, identifying the instrument used, the AD effect, and evaluating the effectiveness including limitations like crowding out and time lags.

Suggested IA tags: KMD 3.6bn CA deficit as a borrowing constraint; youth unemployment 24% — demand-deficient vs structural; cyclical vs structural deficit — Kaimura classification; development-bank infrastructure investment as a fiscal and supply-side tool; Recession Scenario: unemployment 11.8%, GDP -1.2%, inflation 1.1%

75-Minute Lesson Flow

Hook	Define	Model	Apply	Practise	Evaluate	Assess
7 min	12 min	14 min	10 min	12 min	12 min	8 min

Phase-by-Phase Delivery

PHASE 1 — HOOK & CONTEXT (7 min)

SL — both levels unless noted

Scenario: 'Kaimura's GDP is growing, but unemployment is 7.1% and youth unemployment is 24%. You are the Minister of Finance. What do you do?' Show of hands: increase government

HL — additional / extension

Same. Add: if Kaimura increases G and runs a budget deficit to fund it — who pays that back? And what if the deficit is not because of the recession but because of structural inefficiency?

Lesson 1 — Supply-Side Policies

Lesson Blueprint — At a Glance

Learning Objective

Students can categorise all nine supply-side policies as interventionist or market-oriented, trace each mechanism to an LRAS shift, draw the long-run AD/AS effect, and evaluate the equity implications of market-oriented policies for Kaimura.

Key Concepts

Supply-side policies — definition; interventionist: education, healthcare, infrastructure, R&D subsidies; market-oriented: privatisation, deregulation, anti-monopoly, trade liberalisation, labour market reform; LRAS shift right — mechanism for each policy; distinction: LRAS shift vs SRAS shift; timeline comparison: supply-side 10-20 years vs demand-side 6-24 months; equity implications of market-oriented policies; HL: labour market flexibility, FDI attraction.

Success Criteria

Categorise all nine supply-side policies as interventionist or market-oriented and trace the mechanism from each policy to an LRAS shift; draw the long-run AD/AS effect of successful supply-side policies; evaluate one market-oriented policy for Kaimura by naming the efficiency gain, the equity cost, and giving a justified conclusion.

Duration / Level

75 minutes | Both — differentiated (HL: labour market flexibility in detail, equity implications, R&D and innovation policies, long-run growth) | Diploma Programme Year 1 or Year 2

Prior Knowledge

3.3: AS and LRAS — LRAS shift mechanism fully established. 3.4: macroeconomic objectives. 3.5: monetary policy. 3.6: fiscal policy. Full AD/AS model. Kaimura economy background.

Common Misconceptions This Lesson Targets

"Supply-side policies shift the AD curve to the right." — Supply-side policies shift the LRAS curve to the right by increasing productive capacity; they do not primarily work through aggregate demand.

"Privatisation always makes an industry more efficient." — Privatisation introduces the profit motive, which tends to reduce costs, but privatising a natural monopoly without regulation simply transfers monopoly power from public to private hands.

"Trade liberalisation benefits all workers in an economy equally." — Trade liberalisation creates aggregate gains but distributes them unevenly; it typically benefits workers in competitive export sectors while harming workers in import-competing domestic industries.

IA Connection

Any article about an education reform, infrastructure investment, deregulation, privatisation, or trade agreement can be analysed using the supply-side policy framework, identifying whether it is interventionist or market-oriented, tracing the mechanism to LRAS, and evaluating the equity implications.

Suggested IA tags: Youth unemployment 24% — structural skills mismatch; development bank infrastructure investment — fiscal and supply-side overlap; tourism overreliance — supply diversification needed; Gini 0.38 — inequality target alongside growth target; Recession Scenario: 11.8% unemployment — structural vs demand-deficient distinction

75-Minute Lesson Flow

Hook	Define	Model	Apply	Practise	Evaluate	Assess
7 min	12 min	12 min	10 min	12 min	14 min	8 min

Phase-by-Phase Delivery

PHASE 1 — HOOK & CONTEXT (7 min)

SL — both levels unless noted

Scenario: Kaimura has used fiscal and monetary

HL — additional / extension

Same. Add: can a government genuinely increase

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