

## ECONOMICS TZ2

(IB Africa, Europe & Middle East & IB Asia-Pacific)

### Overall grade boundaries

#### Higher level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 12	13 - 24	25 - 37	38 - 49	50 - 61	62 - 73	74 - 100

#### Standard level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 11	12 - 25	26 - 39	40 - 50	51 - 63	64 - 75	76 - 100

### Time zone variants of examination papers

To protect the integrity of the examinations, increasing use is being made of time zone variants of examination papers. By using variants of the same examination paper candidates in one part of the world will not always be taking the same examination paper as candidates in other parts of the world. A rigorous process is applied to ensure that the papers are comparable in terms of difficulty and syllabus coverage, and measures are taken to guarantee that the same grading standards are applied to candidates' scripts for the different versions of the examination papers. For the May 2012 examination session the IB has produced time zone variants of the Economics papers. Grade boundaries for the different time zoned papers are set separately, and careful judgments are made that are based on criteria for performance level, to account for differences in the papers.

### Higher and standard level internal assessment

#### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 2	3 - 5	6 - 9	10 - 11	12 - 14	15 - 16	17 - 20

### The range and suitability of the work submitted

The internal assessment component reflects continued progress as schools become more familiar with the criteria. Many centres are preparing their candidates very well for this

component and have refined the process over the course of the last few years. The quality of the assessments is also improving. There are still some centres where very serious differences exist between teacher and moderator, but this is becoming less and less common. One centre appeared to have prepared candidates for the syllabus that will be examined from 2013. A number of centres sent portfolios without correctly completed forms, some without the teacher or candidate signatures. Teachers are encouraged to include comments on their candidates' work when they send portfolios for moderation. Comments should only be used to explain decisions on the awarding of marks and should be done on a separate sheet.

## Candidate performance against each criterion

### Criterion A

Most candidates achieved the maximum two marks for Criterion A and when this was not the case, most teachers deducted a mark accordingly. Some candidates provided a word count of below 750 words when in reality the commentary was longer than this. Some candidates seem to be unaware that all words are included, including footnotes and diagram labels. It is important to note that moderators do count words.

### Criterion B

The quality of diagrams continues to improve. The maxim that diagrams require full, relevant explanations still holds true. There are still too many examples of candidates losing marks because their diagrams are poorly explained. The diagrams should be adapted to the articles, giving, for example, "price per barrel of oil." There are a number of candidates who choose to cut and paste their diagrams from websites or textbooks. This is to be discouraged, but is permitted if the diagrams are sourced fully. Candidates should be encouraged to draw the diagram themselves to illustrate that they fully understand them and so they can use them in their final examinations. Hand drawn graphs are perfectly acceptable. Please note that the rules on counting the words in titles and labels will change in the examination session for May 2013. There were some very good examples, which gained full marks for this criterion.

### Criterion C

This criterion was not a problem for most candidates. Most understood which terms to define. More able candidates used the language of economics appropriately and were also able to define terms well. It is not necessary, or desirable, to define all economic terms.

### Criterion D

Paraphrasing the article was common by the weakest candidates. A useful technique to try and help weaker candidates with analysis might be to ask for a statement of what is the main point they are discussing early in the commentary.

### Criterion E

The quality of work produced by candidates in terms of evaluation was at approximately the same standard as in previous years. Evaluation still remains the most difficult area to get full marks. Candidates need to evaluate the economic theory in the context of real-world

examples, within their commentaries. It was a pleasure to see candidates not just evaluating at the end of each commentary, but throughout.

## Recommendations for the teaching of future candidates

- More able candidates used the language of economics appropriately and were also able to define terms well. It is not necessary, or desirable, to define all economic terms.
- The choice of article continues to be very significant. Better articles allowed candidates to explain the events within them using economic theory. It is important that teachers continue to include a front cover summary document (an example can be seen in the teacher support material) and a front cover for each commentary. Long articles should be highlighted. If an article is not in the working IB language of the centre then a translation should be provided.
- Centres should be vigilant to make sure that a candidate does not do two commentaries on a very similar topic.
- As always, diagrams are an area that often lets candidates down. Diagrams should be explained in detail and referred to directly.
- Teachers are encouraged to introduce the internal assessment within the second half of the first term of the course. By this time, candidates will have a basic grasp of economic principles and should be able to find a suitable article to comment on. The first one can be used as a “practice” if necessary.
- If possible, produce a small booklet/handout dealing about the coursework, containing the official IB guidelines, the marking criteria, sample articles (good and bad), and perhaps exemplar portfolios and possible “deadline dates” for submission of extracts and commentaries to teachers for advice/comment.
- Teachers are reminded that candidates may submit a “first draft” and “final draft” of each commentary, but no more drafts.

### Further notes

Please note that in the syllabus for May 2013 any definitions must be incorporated into the commentaries and not be put in footnotes. It is vital that teachers carefully study the new syllabus, for first examination in May 2013, as the IA criteria are substantially different.

## Higher level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
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**Mark range:**            0 - 3            4 - 6            7 - 9            10 - 12            13 - 16            17 - 19            20 - 25

## The areas of the programme and examination that appeared difficult for the candidates

There were a number of areas, which presented challenges to candidates. In question two they found “the extent to which” part of the question difficult to deal with. Candidates found it hard to apply supply side policies, in question three, to correct a deficit on the current account of the balance of payments; they were therefore unable to make appropriate evaluation. Candidates also struggled to get to grips with part (b) of question four. Globalization is a broad topic and candidates struggled to suitably manage it to the needs of the question.

## The areas of the programme and examination in which candidates appeared well prepared

Candidates appeared well versed in the theory of the firm. The kinked demand curve was well employed in a majority of cases and most candidates could effectively describe the features and explain the theory of the different market structures. Macroeconomics was well developed by a majority of candidates in question two.

## The strengths and weaknesses of the candidates in the treatment of individual questions

### Question 1

- (a) Most candidates understood what was meant by a market dominated by a few firms, there were a lot of good responses. This was a very popular question, many responses contained a good explanation of both collusive oligopoly and non-collusive oligopoly, and why these might result in price stability. Some candidates made hard work of drawing and labelling appropriate diagrams. However explanations of why price stability might prevail in non-collusive oligopoly seemed almost universally sound.
- (b) Again this was often as well attempted as part (a). Candidates generally showed a good understanding of what productive efficiency and allocative efficiency are. Candidates could usually link the number of firms in an industry with the different market structures offered by the theory of the firm. There was a tendency to select two structures rather than to consider all those introduced by the syllabus. This was perfectly satisfactory, as the question had not specified the number of market structures to consider.

### Question 2

- (a) Also very popular and often well done. There were many good answers to this question. Good candidates could identify a variety of reasons why governments might pursue the macroeconomic goals of low inflation and low unemployment. Some candidates tended to focus on one or the other; this rather limited their access to

higher marks. Some responses produced everything the candidate knew about these topics without adequately addressing the question. This is something weaker candidates tend to do.

- (b) Candidates could generally successfully identify what expansionary demand side policies were. Better candidates could identify conflicts between policy objectives in varying degrees of depth and detail. Only the very best candidates were able to fully address the part of the question which asks candidates to “evaluate the extent to which” such demand side policies might generate conflicts. However the idea of the existence of trade-offs between policy objectives was widely understood. Most candidates were able to develop suitable diagrams to support their responses.

### Question 3

- (a) This question was answered by very few candidates. Those who did attempt it were usually able to respond quite effectively. A good understanding of appropriate theory was usually in evidence with most candidates able to offer possible consequences that were appropriate to the question.
- (b) This part of the question may have been deemed challenging. That may account for the relatively few responses seen. Candidates that did attempt the question often had little to say about how precisely supply side policies might deliver improvements in the current account of the balance of payments. They were therefore hampered when attempting to evaluate the view that supply side policies were the best response to balance of payments deficits on current account. A common approach was to consider supply side policies only briefly and then to launch into a general review of other policy options. This works only if supply side policies have also been adequately analyzed.

### Question 4

- (a) Most candidates could offer something on three of the stated factors. However a significant number could do no more than provide vague, and speculative responses, which failed to suggest they had been written by someone who had followed an economics course at this level. The use of specific examples is quite helpful with this type of question, but they need to be in suitable detail, and preferably current.
- (b) A broad topic. There were a significant number of responses that could do no more than offer disconnected general knowledge and doubtful examples. Some candidates opted to focus on one or more subtopics, for example on multinational corporations or trade. The degree to which this worked depended on the detail and examples the candidate was able to employ. It also depended on whether they were able to effectively evaluate the issues they brought forward.

## Recommendations and guidance for the teaching of future candidates

- Candidates need reminding that they should respond to the question specified on the examination paper. Too many candidates provide an answer, which, has been pre-learned, and thus takes a rather circuitous route around what has been asked. Alternatively they simply wrote down everything they know about a topic with little or no attempt to relate information to the question.
- The use of diagrams needs to be emphasized. They must be fully and accurately labelled and they should clearly be relevant to the answer being given. Now that scripts are scanned candidates need to make sure that diagrams are sufficiently dark for them to reproduce clearly.
- Teachers might encourage candidates to consider time management as an important part of the examination preparation process. Many candidates produce lengthy part (a) responses and then seem very rushed with part (b), which is worth more marks. This might be particularly important with the introduction of the new paper next year as they will need to answer two questions.
- Use relevant and recent examples to support answers. Try to provide examples in enough detail to convey evidence of real understanding of their significance and relevance.

## Higher level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 3	4 - 6	7 - 8	9 - 12	13 - 15	16 - 19	20 - 30

### General comments

As written in previous reports, skill development is an important part of teaching and learning. Teachers are encouraged while teaching the syllabus to integrate into their instruction the necessary skills for success. This may require a re-thinking of one's approach to pedagogy and the learning processes but is an important aspect of teaching and developing student potential and their ability to be successful in an examination session.

Candidates selected widely, although question six on developing economies was the least popular and most poorly responded to. Not as evident this year was the use of prepared answers perhaps due to the nature of the questions which required a clear identification of what was being asked for.

## The areas of the programme and examination that appeared difficult for the candidates

Areas of the programme that candidates had difficulty with were primarily with skill development.

Learning to answer the question asked is an important skill to aid effectively writing an examination response. While many candidates have this skill, many responses indicate the need to prepare for examinations with this in mind.

Fundamental to responding to a question effectively is to understand what the question is asking and then to discuss the relevant theories and ideas that have been posed in the question.

Equally important is defining key terms or showing an understanding of these terms that are essential to answering the question. It is clear in the assessment criteria that there is the requirement that students define terms to proceed beyond level 2. This is not the only reason for defining key words, as it also helps focus candidates on their response, assisting them in organising their thoughts, the structure of the essay and the writing of the essay.

An explicit answer to the question is required as it is not up to the examiner to attempt to understand implicit definitions or arguments as to what the student is saying.

## The areas of the programme and examination in which candidates appeared well prepared

It is pleasing to highlight that clearly the syllabus had been covered and that candidates to varying levels had learned this material. Most candidates completed the three essays in the one hour allocated, with no question(s) being clearly favoured above the others. This suggests schools do prepare students well.

## The strengths and weaknesses of the candidates in the treatment of individual questions

### Question 1

This question on the differences between economies of scale and the law of diminishing returns was attempted by many students with varying degrees of success. Candidates were more prepared for the economies of scale component of the question than diminishing returns. Definitions were not always given with students relying on examples to illustrate the point being made, often without explicitly explaining the theory. Likewise many students explained the theory without realising that an example would have helped their response.

Too few candidates realised the importance of short and long run and linking time back to fixed and variable factors. Additionally, too few candidates explained the

difference between the two concepts, preferring to simply explain them both. These criticisms were compounded by poor choice of diagrams and labelling with many students using revenue and cost curves rather than product curves to explain the law of diminishing returns.

### Question 2

This was a reasonably popular question which was approached in a variety of ways. The most effective responses clearly outlined the factors affecting and leading to a fall in aggregate demand, linked this to the demand for labour and explained how this led to cyclical/demand deficient unemployment. Too many answers ignored aggregate demand and argued that because wages were sticky in a downward direction the result was unemployment. Again key terms were often not defined, and where the business cycle was used, not fully explained. This was a rather open ended question which proved difficult for candidates.

### Question 3

This proved to be another relatively popular question, especially with weaker students. Most students answered with a discussion of Veblen and Giffen goods, with responses tending toward the superficial and few candidates correctly explaining Giffen goods. Many students did not explain 'normal' demand curves, why they sloped from left to right and how the law of demand justified this. A small number of students mentioned perfectly elastic and inelastic demand curves, and the 'band wagon effect' none of which allowed for an in depth discussion. Despite these comments the question was fairly well answered.

### Question 4

Many candidates approached this question from the view that it dealt with the benefits of free trade. This question on the customs union and the potential trade gains or losses arising from its formation was generally well answered particularly if their response concentrated on trade creation and trade diversion, integrating and discussing these issues with the relevant diagrams. Some candidates explained other gains and losses from trade. Weaker students tended to draw 3 countries (A, B, C) bounded in a circle with free trade and country (D) outside with a tariff barrier imposed on it, and many did not always address the question, "... the potential trade gains and trade losses".

### Question 5

This is a question that required clear definitions of the relevant concepts or ideas to be effectively answered. While reasons as to why a depreciation or devaluation could occur how it may result in an improvement of the Balance of Payments on Current account was not always well handled. Weaker candidates were caught out by poor knowledge and understanding of the notion of currency devaluation. However there were also many excellent answers with clear definitions of relevant terms and candidates who understood the importance of price elasticity of demand, the



Marshall-Lerner condition, the J curve and the significance of the short run and long run in relation to these two concepts.

### Question 6

This question appeared challenging for many candidates and was poorly answered. Candidates made the mistake of discussing economic development and not growth, failing to explain what a developing country is, and including the notion of sustainable development. Explanations often were generalised and superficial. Inequality of income distribution (without explaining what this is) and negative externalities of production (without explain why these happened) were the two most popular consequences of growth which were satisfactorily handled. Students who were able to discuss rural to city migration did well. Candidates tended to see this question and give vague answers, straying from the focus of the question.

## Recommendations and guidance for the teaching of future candidates

The recommendations and guidance remains largely as in previous reports. Candidates need to be able to apply their knowledge of economics to the questions being asked in the examination. To this end it is important that:

- Emphasis is given to the selection, drawing, labelling, interpreting and explaining of diagrams.
- Key terms or concepts are defined. This ensures a focus and an effective response to the question (without leaving the examiners guessing as to what is meant).
- Students develop an understanding of what the question is asking.
- The question must be understood and answered in the context of the syllabus.
- It is important to explicitly demonstrate knowledge and understanding.
- To use examples to illustrate the point being made, and practice answering examination questions.

### Further Comments

Teachers are encouraged to use the G2 forms and offer feedback following the examinations. These responses are considered at grade award and provide useful information which helps in judging the difficulty or otherwise of the paper.

## Higher level paper three

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 8	9 - 16	17 - 23	24 - 30	31 - 37	38 - 44	45 - 60

## General Comments

This subject report, used in conjunction with the markscheme, is designed to help teachers prepare their candidates for future exams by clarifying the expectations of the IB examining team. Since the markscheme outlines the best responses, this report focuses more on more common errors made by candidates. General comments about exam-writing techniques are similar, if not exactly the same as in previous reports.

The examination was reasonably well-received by those centres that completed the feedback forms. Some concerns were raised about the lack of HL extension material. There were also some concerns about some of the language in the texts, where teachers were worried that their non-native candidates might have struggled.

Evaluation in the final part (d) questions was often lacking; there is still a tendency for candidates to provide lists of advantages and disadvantages without coming to reasoned conclusions or making a judgment. Examiners do not expect a particular number of specified points to be made in these sub-questions and are instructed to reward all plausible points, but to reach the top band, effective evaluation must be carried out.

Teachers must be aware that this is the final May examination session using the 'old' syllabus. In May 2013, the data response paper will be structurally very similar, so the advice in this report will be relevant. However, the main focus of the questions in May 2013 will be from Sections 3 and 4 of the syllabus.

## The areas of the programme and examination that appeared difficult for the candidates

This will be treated in the context of the individual questions

## The areas of the programme and examination in which candidates appeared well prepared

This will be treated in the context of the individual questions

## The strengths and weaknesses of the candidature in the treatment of individual questions

Question 1 was by far and away the most popular question, answered by the vast majority of the candidates. Question 2 was the second most popular. Question 3 was the third most popular. Question 5 was the fourth most popular and Question 4 was the least popular.

### Question 1

(a) (i) Minimum price

This question was generally well answered. However, a number of candidates failed to explain that the price was set above the equilibrium. The weaker candidates were often confused and described a maximum price, set below the equilibrium.

(ii) Free market

Weaker candidates failed to mention the role of demand and supply (consumers and producers) in the allocation of resources. The weakest candidates wrote about free trade rather than a free market.

(b) Most candidates were able to show a shift of the demand curve for cigarettes to the left and explain that a ban on tobacco advertising would eventually lead to a fall in demand for cigarettes, lowering price and the quantity demanded and supplied. Some candidates took a market failure approach to the question and showed a reduction in welfare loss, which was also fully rewarded. Weaker candidates were confused and shifted the supply curve to the left.

(c) Many candidates were able to show a relatively steep demand curve and to show and explain that a change in price would lead to a relatively smaller change in quantity demanded. However, a significant number of candidates were rather inexact here and simply wrote about a “small change” in quantity demanded, failing to stress the importance of the relative changes in price and quantity. A number seemed to think that the demand for cigarettes would be perfectly inelastic. They received some reward for this.

While candidates were not penalised for talking about an inelastic good (as opposed to a good with inelastic demand), it is disappointing to see so many candidates make this error in terminology. It was also not uncommon to read that cigarettes are inelastic, which again, is poor terminology. There was also a lot of confusion between a ‘fall in demand’ and a ‘fall in quantity demanded’.

(d) This was a reasonably well answered question, with a good amount of material from the text on which to draw. Unfortunately many of the responses simply explained the arguments for and against imposing a minimum price, failing to evaluate the economic effects. Weaker responses failed to apply the theory to the actual situation and identified an excess supply of cigarettes, which they suggested the government would have to purchase and then store or sell abroad. They missed the point of the minimum price, which was to reduce consumption. Many candidates uncritically copied out sections of the text, without developing economic theory.

## Question 2

(a) (i) Negative externalities

Most candidates referred to third party effects, but weaker candidates failed to acknowledge what it was that would cause the external costs. It was possible to explain either a negative externality of production or of consumption, or simply the external costs of an economic transaction.

(ii) Structural unemployment

Since there are several causes of structural unemployment, examiners rewarded a number of different approaches to this type of unemployment. Candidates who simply defined unemployment or defined a different type of unemployment received no credit.

- (b) Most candidates were able to show a fall in supply, but many failed to refer to increased costs as the determinant of supply in their written explanation.
- (c) It is clear that most candidates have learned MSB/MSC analysis and could identify the market failure here as a case of a negative externality of production. Many candidates shaded the wrong welfare loss triangle. Weaker candidates did not remember the correct labels for the curves. Even where diagrams were correct, candidates often did not earn full marks because they didn't actually explain why it was a market failure, but simply stated that it was a negative externality.
- (d) Weaker candidates tended to uncritically copy out sections of the text without developing relevant theory, rather than use economic theory to analyse the case. There was a tendency to exaggerate the consequences of the ETS on the economy. For example, candidates would assume that there would be high levels of structural unemployment, and then write at length the costs of high unemployment. Similarly, candidates would assume that if some Australian exports were to become less competitive internationally, this would lead to a current account deficit.

Few candidates discussed possible positive effects.

### Question 3

- (a) (i) Indirect tax

There were a great many very imprecise definitions of this quite straightforward term.

- (ii) Inflation

Most candidates were able to earn at least one mark on this question. The most likely reason to not score full marks was to neglect to mention to the time frame by using a word such as 'sustained' or 'persistent'.

- (b) Both a macro and a micro approach were acceptable for this question. Many candidates neglected to refer to increased costs as the reason for a shift in supply. When using a microeconomic diagram, it was common to see parallel, rather than divergent curves.

- (c) Most candidates were able to show and explain a fall in aggregate demand. However, the explanations were often quite muddled. Commonly, candidates lost marks because they did not refer to Greek economic growth, as asked in the question.
- (d) This question was not widely well done. Many candidates simply used the text to identify the impact of the debt crisis on the Greek economy, but did not go further to analyse the measures taken. Candidates often went off track in this answer and wrote about what the Greek government could do to stimulate the economy. In many cases, there was very little understanding of the situation facing Greece.

#### Question 4

This was the least popular question by far, presumably because candidates were put off by the inclusion of the term 'two-tiered exchange rate'.

- (a) (i) Informal market

Many candidates assumed that an informal market involves illegal economic activity, as opposed to unrecorded economic activity,

- (ii) Exchange rate

This question was largely well-answered.

- (b) In spite of the difficulty of this question, many candidates were able to understand the text enough to be able to explain why there are two different official exchange rates and relate this to the need to import necessity goods at a favourable exchange rate. Candidates were confused about a stronger/weaker VEF stating that  $VEF4.3=1\$$  is a higher/stronger value for the Venezuelan currency than  $VEF2.6=1\$$ .
- (c) This question was rather surprisingly poorly done by many candidates. While it was possible to identify inflation as being caused by cost-push or demand-pull factors, many candidates were unable to do either.
- (d) There were a few excellent responses to what was a difficult question, showing an impressive grasp of fixed exchange rates. However, there was a tendency for candidates to present a standard discussion of the advantages and disadvantages of a fixed exchange rate, many with little understanding of the Venezuelan context.

#### Question 5

- (a) (i) Quotas

Most candidates were able to access full marks for this question by referring to a limit on either the value or volume of imports.

- (ii) Economic development

As usual, there were some extremely vague responses to this question. Candidates ought to be able to appreciate that this is a term that they will need to be able to define. Answers which spoke about only one aspect of development (usually higher living standards) earned one mark. Candidates often said how development might be measured, not what it actually is.

- (b) A wide range of approaches to this question were accepted. One clear weakness was for candidates to explain the problem of overdependence on a narrow range of exports, without focusing on the specific problems associated with primary products/commodities.
- (c) Candidates seem to love drawing the tariff diagram. However, there is often a lot of careless labelling. Many candidates incorrectly labelled the horizontal supply curves. Many candidates wasted a lot of time explaining all the consequences of reducing the tariffs, rather than simply answering why trade would increase.

Some candidates discussed the effect of imposing a tariff, rather than the effect of reducing it. It was acceptable to discuss a removal of a tariff, as opposed to a reduction of the tariff.

- (d) This was a difficult question for candidates. The most common approach was to discuss the benefits of increased trade in general, rather than to discuss the benefits of increased trade within Africa. Candidates often simply rephrased the text. Few were able to outline the opportunities and obstacles associated with an increase in trade within Africa.

## Recommendations and guidance for the teaching of future candidates

Many will note that these suggestions have appeared in previous examiner reports at both the Standard and Higher Level. Since the expectations have not changed, the advice remains the same.

- Teachers should really encourage their candidates to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the candidates are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help candidates in this important skill, candidates might be encouraged to compile a glossary of terms. Candidates must be taught to include appropriate economic words in their definitions, in order to distinguish themselves from people who have simply picked up some information without having taken an economics course.
- In part (a) questions, candidates should be encouraged to write *no more than* two sentences.
- Candidates will also benefit if they compile a glossary of all the diagrams. Most questions (b) and (c) require the use of a diagram, and these are generally all

standard diagrams from the syllabus. Where diagrams are used in parts (b) and (c), candidates should be sure to use/explain the diagram by making references to the diagram in the response.

- Diagrams should not be placed at the end of the exam. They should be drawn exactly where the accompanying explanation is written.
- All too often, candidates will use a correct diagram, but then fail to make use of the diagram in their explanation. The diagram and the explanation must be integrated with each other. Candidates should explain reasons for any changes and use (dotted) lines to the axes and notation such as (q1 to q2) or (AD1 to AD2) in their written work.
- Candidates should take about a third of a page to draw their diagrams, and should use a ruler to make sure that it is done neatly so that the information is clear.
- It is the policy that candidates are not allowed to use coloured pens/pencils on their exams, so this should no longer be encouraged. However, they should be sure to use arrows to indicate the direction of change of any variables.
- Diagrams should be made appropriate to the question and/or the market in the question.
- Candidates must also be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents candidates from achieving full marks.
- Candidates must be taught to carefully identify what a question is asking for in parts (b) and (c). They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- While examiners are observing much improvement, candidates must be reminded that to achieve top marks in questions (d), they must make reference to the text. Encourage candidates to use quotation marks, or make references to the paragraphs or texts.
- Part (d) answers also require candidates to apply and develop the economic theory that is relevant to the case study. It is not enough to simply mention the relevant theory; answers which reach the top band must illustrate that the candidate can clearly use/apply that theory. Candidates need to show an examiner that they have studied an economics course, not simply that they can use some economic words that appear in a question or in the text.
- Candidates must be aware of the different ways that they can carry out the skill of evaluation. To start, candidates can be encouraged to discuss advantages and disadvantages of a particular economic 'event' or policy; they can look at an issue from the perspective of different stakeholders or they can consider the differences between short run and long run consequences. But it is not sufficient to just list

advantages or disadvantages or to distinguish between the short and the long run. For evaluation to be effective, it is necessary to make a reasoned and justified judgment regarding the information.

- Theory provided in part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to really 'engage' with the case study, in order to be able to apply the theory.
- Examiners are concerned at the extent to which candidates are uncritically paraphrasing the texts in their part (d) answers. Candidates should be encouraged to think critically about the information in the text and challenge the viewpoints held by the authors or people quoted in the articles. Candidates often seem oblivious to the source of the information in the text, missing an ideal opportunity to do some evaluation.

## Standard level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 3	4 - 6	7 - 9	10 - 12	13 - 15	16 - 18	19 - 25

### General comments

The was well received by centres (according to submitted G2 feedback forms) and by examiners who felt the paper was an appropriate test of standard level candidates and of a similar level of difficulty relative to previous years. Of course, candidate responses varied across the mark range but the overall standard was encouraging. Centres and candidates have responded positively to the advice of previous reports and are working hard to produce answers that meet the demands of the markscheme.

### The areas of the programme and examination that appeared difficult for the candidates

As in previous sessions the areas of the syllabus that caused candidates most problems were international trade (question 3) and economic development (question 4). The relatively small number of students choosing these questions suggests candidates lack the confidence to attempt questions in these areas. In question 1, the explanation of the signalling and incentive functions of price proved quite challenging for many candidates.

### The areas of the programme and examination in which candidates appeared well prepared



There was plenty of evidence of good levels of knowledge, understanding and skill throughout the paper. It was good to see many students using appropriate theory, defining key terms, drawing well-labelled diagrams, using examples and evaluating the points they make in part (b) answers. The syllabus areas that gave the strongest answers were government intervention in agricultural markets (question 1b) and inflation and deflation (question 2a and 2b).

## The strengths and weaknesses of the candidates in the treatment of individual questions

### Question 1

- (a) This was a popular question. Most candidates were able to explain how resources are allocated by changes in demand and supply but many struggled to explain the role of the signalling and incentive functions of price in allocating resources. These are not particularly easy concepts and were probably best explained through the use of examples. The rise in the price of oil, for example, is a signal to oil companies there is rising demand for oil and the higher price provides them with an incentive to increase supply because of the opportunity to increase their profits. In this answer it was good to see students using clear, well labelled demand and supply diagrams; this is certainly an area that has improved in recent years.
- (b) Part b was generally done quite well with many students effectively discussing government intervention through the use of price controls, buffer stocks and subsidies. Many answers used effective theory and clear diagrams to answer the question. A consistent weakness, however, was the absence of examples to illustrate the points being made. It would have been good, for example, for students to consider the how European farming subsidies have led to lower prices for consumers, higher profits for producers but at the expense of European taxpayers. There were some good attempts by candidates to produce evaluative answers in part (b) of this question and there is clear evidence of many candidates understanding the need to write evaluative answers to score well on part (b) in general.

### Question 2

- (a) This question also proved popular. Part (a) was the best answered of any section on the paper with large numbers of candidates clearly explaining the demand pull and cost push causes of inflation. A number of students did, however, fail to consider what might change aggregate demand and aggregate supply and subsequently cause inflation; this was important to explain to achieve the highest marks for this section. It would have been good, for example, to see candidates explaining how cuts in interest rates might increase consumption and subsequently aggregate demand and how rising commodity prices would reduce aggregate supply.
- (b) The answers to this section were generally quite good and many students effectively compared the relative costs to the economy of inflation and deflation. Candidates were, on the whole, better on the costs of deflation than inflation. There were also

some strong evaluative responses to this section with students considering deflation caused on the supply side (although this is theoretical) being quite a good thing for the economy relative deflation caused by falling aggregate demand and how cost push inflation is generally more damaging to an economy than demand pull. The very best answers normally revolved around candidates considering the importance of the scale and duration of inflation and deflation. Hyper-inflation in Zimbabwe, for example, was incredibly destructive to that economy and the chronic deflation Japan suffered in the 90s probably hindered that country's economic performance for a number of years.

### Question 3

- (a) This was not a particularly popular question but it did provide some strong answers. Candidates tended to tackle the question by looking at factors like slow or negative growth in the economies of a country's export markets and an appreciation in a country's exchange rate. It was good to see candidates using appropriate theory and effective diagrams when they were explaining the causes of a deteriorating current account. It would, however, have been useful for students to support their answers with more examples such as the large current account deficit run by the US as its consumers' choose to buy manufactured goods from Asia.
- (b) There were some very good answers to this question with students effectively debating the reasons for protectionism against the economic problems it causes. The best answers considered reasons for protectionism like support for infant and declining industries and as a policy to protect domestic employment. Candidates would then consider the problems protectionism brings such as higher domestic prices and retaliation accompanied by the associated loss of the benefits of free trade. The very best answers focused on the key point in the question 'never desirable'. Some candidates did have a tendency to drift from the question here by focusing more on the different types of protectionism.

### Question 4

- (a) The development question was, as usual, the least popular question on the paper. One of the issues of answering this question is working appropriate theory into the answer to reach the highest levels in the marking criteria. If, for example, a candidate chose education as a source of development then it would be good for them to consider the impact better schools and universities would have on the quality of labour and the subsequent benefits on the supply of the economy. This could be illustrated using an aggregate demand and supply diagram.
- (b) This proved to be quite a challenging question for students because they struggled with a precise meaning for the term, 'globalisation'. The question was looking for students to evaluate the possible benefits of free international trade and FDI for the 'growth and development of developing countries'. The best answers firstly considered the benefits of free trade to developing countries in terms of lower domestic prices and more consumer choice, along with the opportunities for domestic producers to access overseas markets; and evaluated this by looking at the problems

free trade poses such as MDC protectionism and domestic producers being exposed to fierce foreign competition. The best answers would then go on to consider how FDI, through the presence of multinationals, would help their economies in terms of employment, investment and production and evaluated this by looking at the disadvantages of FDI in terms of exploitation of labour and the impact on the environment.

## Recommendations and guidance for the teaching of future candidates

This is the last time this paper will be sat in its current format; next year candidates will have to complete two questions rather than one on prescribed sections of the syllabus. Certain aspects of producing good answers will be similar to the current paper. Students will still need to:

- Make sure answers address the question asked and are not based on pre-prepared answers
- Clearly and accurately define the key terms
- Use relevant economic theory
- Draw clear, well labelled diagrams
- Use examples to support each point they make
- Practise the different ways of evaluating (in part b) the points made in an answer.

## Standard level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 7	8 - 15	16 - 22	23 - 29	30 - 37	38 - 44	45 - 60

### General comments

This subject report, used in conjunction with the markscheme, is designed to help teachers prepare their candidates for future exams by clarifying the expectations of the IB examining team. Since the markscheme outlines the best responses, this report focuses more on more common errors made by candidates. General comments about exam-writing techniques are similar, if not exactly the same as in previous reports.

The examination seems to have been well-received by those centres that completed the feedback forms. It was considered to be a well-balanced paper, with appropriate syllabus coverage. The texts were considered to be accessible to the majority.

As is frequently the case, evaluation in the final part (d) questions was often lacking; there is a tendency for candidates to provide lists of advantages and disadvantages without coming to reasoned conclusions or making a judgment. Examiners do not expect a particular number of specified points to be made in these part (d) questions and are instructed to reward all plausible points, but to reach the top band, effective evaluation must be carried out and the text must be used.

### The areas of the programme and examination that appeared difficult for the candidates

This will be addressed in the context of individual questions.

### The areas of the programme and examination in which candidates appeared well prepared

This will be addressed in the context of individual questions.

### The strengths and weaknesses of the candidates in the treatment of individual questions

#### Question 1

(a) (i) minimum price

This question was generally well answered. However, a number of candidates failed to explain that the price was set above the equilibrium. The weaker candidates were often confused and described a maximum price, set below the equilibrium.

(ii) Free market

Weaker candidates failed to mention the role of demand and supply (consumers and producers) in the allocation of resources. The weakest candidates wrote about free trade rather than a free market.

(b) Most candidates were able to show a shift of the demand curve for cigarettes to the left and explain that a ban on tobacco advertising would eventually lead to a fall in demand for cigarettes, lowering price and the quantity demanded and supplied. Some candidates took a market failure approach to the question and showed a reduction in welfare loss, which was also fully rewarded. Weaker candidates were confused and shifted the supply curve to the left.

(c) Many candidates were able to show a relatively inelastic demand curve and to show and explain that a change in price would lead to a relatively smaller change in

quantity demanded. However, a significant number of candidates were rather inexact here and simply wrote about a “small change” in quantity demanded, failing to stress the importance of the relative changes in price and quantity. A number seemed to think that the demand for cigarette would be perfectly inelastic. They received some reward for this.

- (d) This was a reasonably well answered question, with a good amount of material from the text on which to draw. Unfortunately many of the responses simply explained the arguments for and against imposing a minimum price, failing to evaluate the economic effects. Weaker responses failed to apply the theory to the actual situation and identified an excess supply of cigarettes, which they suggested the government would have to purchase and then store or sell abroad. They missed the point of the minimum price, which was to reduce consumption.

## Question 2

- (a) (i) Appreciation

This question was generally well answered. However, a significant number of candidates omitted the fact that it related to an increase in the value of a currency in a floating exchange rate system.

- (ii) Unemployment

A well answered question, with the majority of candidates explaining that it was the people without a job, who were actively seeking work (and/or able and willing to work). Weaker candidates got confused and defined the unemployment rate.

- (b) The majority of candidates were able to show a shift of the AD (or AD<sub>L</sub>) curve to the left, explaining that if exports fell, then AD would also fall because exports are a component of AD. With a fall in real national output, there would be a fall in the demand for labour and so an increase in the level of unemployment.
- (c) This was not a well answered question on the whole. Better candidates drew an AD/AS diagram, with AD shifting to the left, and the average price level falling. They explained that an appreciated peso would lead to more expensive exports and cheaper imports, which would lead in turn to a fall in net exports, so a fall in AD, and so a fall in inflation. Some candidates showed a shift of AS to the right, explaining this as a fall in the price of imported raw materials and finished goods, reducing costs for firms, and so reducing inflation. This was fully rewarded. Many candidates were confused and showed shifts of the AD curve to the right and argued for an increase in inflation. A significant number misunderstood the question and tried to explain how inflation may have affected the appreciation of the peso.
- (d) This was a generally poorly answered question, with many candidates unable to explain what a current account deficit was and so were incapable of evaluating the possible effects. This is clearly an area that centres might concentrate on for the

future. Better candidates managed to explain the possible problems of a continuing deficit and to evaluate them, but these responses were few and far between.

### Question 3

(a) (i) Recession

This was generally well answered. The majority of candidates knew that it related to negative economic growth and the better ones also gave a time frame of at least two consecutive quarters.

(ii) Budget deficits

There were some rather vague answers here. Most candidates were aware that it was to do with spending and income, but many were unable to be exact about the definition. A simple statement that they exist when government expenditure exceeds government revenue (taxation) would have sufficed. The weakest candidates thought that they were to do with trade deficits.

(b) The question was not well answered. Many candidates clearly did not understand the relationship between an aging population and a likely fall in potential output and so were unable to offer meaningful responses. Better candidates explained that as the average age of the population increases, the proportion of the population participating in the labour force will decline, reducing the potential output of the economy. They illustrated this with either an inward shift of a PPC or a leftward shift of an LRAS curve.

(c) This was a generally well answered question and indicates that centres seem to be explaining demand-side policies very well. The vast majority of candidates showed a shift of the AD curve to the right and explained that tighter fiscal policy would lead to reduced aggregate demand and thus slow any recovery.

(d) This was not well answered. Many candidates were confused about the policy options and could not explain them properly. Weaker responses simply listed the possible options that were given in the text, with no explanation of how they might work, or evaluation of their possible impact.

### Question 4

(a) (i) Protectionism

A well answered question, with most candidates aware that it involves government intervention in order to restrict trade between countries.

(ii) Exchange rate

Another well answered question, with almost all candidates explaining that it was the value of one currency expressed in terms of another currency.

- (b) Better candidates explained that the value of the Yuan had been kept artificially low, which would keep the price of Chinese exports to the USA low, which in turn would make US domestic products less competitive in the USA. Weaker candidates simply did not understand the relationship between exchange rates and export prices.
- (c) Many candidates understood that China kept the value of the Yuan low by selling their currency and so increasing its supply on the international foreign exchange market. However, diagrams did not always reflect the explanation. In addition, the labelling of axes on the exchange rate diagrams was rather poor in many cases and is something that centres might address.
- (d) There were a significant number of strong responses to this question. Candidates identified and explained possible effects, used the text to support their explanations, and evaluated the effects, often by comparing their likely magnitude. However, many candidates ignored the exact question set and wrote in general about the possible effects of a currency appreciation on the world economy, or the USA, as opposed to the Chinese economy, as requested. Weaker candidates simply did not understand the effects of a currency appreciation and so answered very poorly.

### Question 5

- (a) (i) Economic development

Most candidates were aware that it involves better living standards and many went on to explain that it is an improvement in welfare measured from a number of viewpoints. However, a disappointing number of candidates were very vague in their answers to this question.

- (ii) Interest rates

Most candidates did well here, explaining that they are the cost of borrowing and/or the reward for lending (saving) money. Very few candidates had no idea of the concept.

- (b) Those that were familiar with the concept of the circular flow had little trouble with this question. However, it became clear that many candidates did not really understand the circular flow and the fact that investment is an injection. Because of this, they were unable to explain that micro-credit is a form of investment which could lead to an increase in the level of national income (aggregate demand) and thus, there would be an increase in economic activity.
- (c) Candidates were either fully aware of poverty cycles, or completely unaware, and so this question tended to split the candidature down the middle. Those that were aware drew poverty cycle diagrams including investment, and then explained that micro-credit could help to fill the investment gap, thus breaking the poverty cycle, increasing incomes and reducing the worst aspects of poverty.

- (d) This was a generally poorly answered question. The majority of candidates failed to distinguish between growth and development and seemed to have little idea of why micro-finance might be a means of promoting economic development. It appeared that this area of the syllabus may not have been thoroughly covered in a number of Centres and many candidates appeared to be answering this question as a last resort. There was little true understanding of development economics shown.

## Recommendations and guidance for the teaching of future candidates

- Many will note that these suggestions have appeared in previous examiner reports at both the Standard and Higher Level. Since the expectations have not changed, the advice remains the same.
- Teachers should really encourage their candidates to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the candidates are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help candidates in this important skill, candidates might be encouraged to compile a glossary of terms. Candidates must be taught to include appropriate economic words in their definitions, in order to distinguish themselves from people who have simply picked up some information without having taken an economics course.
- In part (a) questions, candidates should be encouraged to write no more than two sentences.
- Candidates will also benefit if they compile a glossary of all the diagrams. Most questions (b) and (c) require the use of a diagram, and these are generally all standard diagrams from the syllabus. Where diagrams are used in parts (b) and (c), candidates should be sure to use/explain the diagram by making references to the diagram in the response.
- Diagrams should not be placed at the end of the exam. They should be drawn exactly where the accompanying explanation is written.
- All too often, candidates will use a correct diagram, but then fail to make use of the diagram in their explanation. The diagram and the explanation must be integrated with each other. Candidates should explain reasons for any changes and use (dotted) lines to the axes and notation such as ( $q_1$  to  $q_2$ ) or ( $AD_1$  to  $AD_2$ ) in their written work.
- Candidates should take about a third of a page to draw their diagrams, and should use a ruler to make sure that it is done neatly so that the information is clear.
- It is the policy that candidates are not allowed to use coloured pens/pencils on their exams, so this should no longer be encouraged. However, they should be sure to use arrows to indicate the direction of change of any variables.



- Diagrams should be made appropriate to the question and/or the market in the question.
- Candidates must also be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents candidates from achieving full marks.
- Candidates must be taught to carefully identify what a question is asking for in parts (b) and (c). They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- While examiners are observing much improvement, candidates must be reminded that to achieve top marks in questions (d), they must make reference to the text. Encourage candidates to use quotation marks, or make references to the paragraphs or texts.
- Part (d) answers also require candidates to apply and develop the economic theory that is relevant to the case study. It is not enough to simply mention the relevant theory; answers which reach the top band must illustrate that the candidate can clearly use/apply that theory. Candidates need to show an examiner that they have studied an economics course, not simply that they can use some economic words that appear in a question or in the text!
- Candidates must be aware of the different ways that they can carry out the skill of evaluation. To start, candidates can be encouraged to discuss advantages and disadvantages of a particular economic 'event' or policy; they can look at an issue from the perspective of different stakeholders or they can consider the differences between short run and long run consequences. But it is not sufficient to just list advantages or disadvantages or to distinguish between the short run and the long run. For evaluation to be effective, it is necessary to make a reasoned and justified judgment regarding the information.
- Theory provided in part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to really 'engage' with the case study, in order to be able to apply the theory.
- Examiners are concerned at the extent to which candidates are uncritically paraphrasing the texts in their part (d) answers. Candidates should be encouraged to think critically about the information in the text and challenge the viewpoints held by the authors or people quoted in the articles. Candidates often seem oblivious to the source of the information in the text, missing an ideal opportunity to do some evaluation.