

May 2015 subject reports

ECONOMICS TZ2

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

Overall grade boundaries

Higher level

Grade:	1	2	3	4	5	6	7
Mark range:	0 – 11	12 - 24	25 - 37	38 - 50	51 - 62	63 - 75	76 - 100

Standard level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 12	13 - 25	26 - 39	40 - 50	51 - 61	62 - 72	73 - 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 2015 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

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 6	7 - 12	13 - 20	21 - 26	27 - 31	32 - 37	38 - 45

Recommendations for IB procedures, instructions and forms.

This was the third May session for the new syllabus and most centres have adapted well to the new criteria. However, there were a few exceptions. Overall the standard was good, although a few candidates were hampered by their use of English. Some centres produced excellent work. A few centres prepared their candidates inadequately, and some were either unaware of the assessment criteria or were hugely generous in the marks awarded to their candidates.

A substantial number of portfolios did not include a summary portfolio coversheet. A template version of a summary portfolio coversheet and commentary coversheet are available in the Teacher Support Material (TSM). The 3/CS form does not give all the required information on sources, syllabus sections and word counts.

A number of centres did not accurately complete the 3/CS form. Centres should check the addition on the reverse side of the 3/CS form, and make sure the forms are signed by the candidate and the teacher.

The maximum time lapse between the source article and the written commentary is one calendar year. The maximum word count is 750 words but there is no minimum word count. If a commentary is longer than 750 words the moderator will stop reading at 750 words so the candidate could lose marks from their analysis and evaluation. Some centres and candidates have not adjusted to the requirement that footnotes are only used to provide references, but not for definitions. Specific definitions are not required: the important thing is to demonstrate that the terms are understood and used accurately.

It is important to carefully follow the rubric requirements. Many candidates lost a mark under criterion F because they did not provide a summary portfolio sheet with details of the sources, syllabus sections, the date commentaries were written and word counts. It is advisable to give the full URL (web address) of the articles. Articles should be complete, and the parts that the commentary is focusing on should be highlighted. If an article is in another language the candidate must provide a full, clear translation. Completing the front-page section "Titles and dates of work" of the 3/CS form does not replace a summary portfolio sheet.

It is recommended that teachers include a comment on the portfolio, explaining the marks they have awarded. These comments should be on a separate sheet; the portfolios should not be annotated by the teacher. A few teachers marked on the scripts with red pen, which can create confusion during moderation.

The range and suitability of the work submitted

Most candidates followed the rubric requirements and submitted three commentaries from different sources and covering three syllabus sections, within the word count. When this does not happen it is important that the teacher takes this into account when assessing the portfolio as it will affect the moderating factor for the centre.

Candidate performance against each criterion

Criterion A: Diagrams

Most candidates included relevant diagrams but these were not always explained well. Too many simply copied generic graphs from textbooks or internet sources without making them specific to the commentary. It is preferable that candidates create their own graphs, either by hand or using computer skills. If candidates have copied graphs they must give the source. Please note that the criterion descriptor assesses whether the candidate “is able to construct and use diagrams” so copy/paste diagrams will not achieve maximum marks. Candidates should avoid very lengthy descriptions of graphs, especially where these are generic graphs which have been copied. Some candidates made reference to colours on their graphs but then sent portfolios printed in black and white.

Criterion B: Terminology

Terminology needs to be used appropriately, but this does not mean every term must be defined. Terms like “price elasticity of demand” could be briefly explained with a comment such as “which measures how responsive the quantity demanded is to a change in price.” If precise definitions are copied they must be in quotation marks and a source be given. They must not be in footnotes or they will be ignored. This criterion implies that the candidate displays understanding of the terms used. A number of candidates used an inappropriate dictionary definition for economic terms such as deficit or depreciation. Most candidates achieved high marks in this criterion.

Criterion C: Application

This criterion tests whether the candidate has recognized the appropriate economic issues from the chosen article. It is important to make links to the article, and not simply present some economic theory that is vaguely relevant. Some candidates made very little reference to the articles, and a few did not understand the articles. A common fault was to choose articles that were far too complex or dealt with issues not in the IB syllabus. Most candidates recognized the appropriate economic issues and achieved high marks.

Criterion D: Analysis

This criterion deals with explaining and developing economic theories linked to the article. It is important that the commentary makes repeated references to the article and integrates the theory and practice. An example might be discussing whether taxing alcohol is a better solution to market failure than regulating sales or prohibition. A common fault was to simply summarize some economic theory without clearly linking it to the article. The descriptors for level 2 and 3 distinguish between “appropriate” and “effective” analysis; many commentaries were considered “appropriate” as the analysis was not developed enough.

Criterion E: Evaluation

A key issue in this criterion was whether the candidate “synthesizes his or her analysis”. If candidates have simply paraphrased an article that has already done the analysis and evaluation of an issue it is not possible to access the top levels on this criterion: the evaluation is not of the candidate’s own analysis. Many simply explained an article, generally agreeing with the author. Too many candidates gave opinions that were not backed up by appropriate economic reasoning. It is not possible to access the top level unless the candidate considers counter-arguments, and discusses benefits and disadvantages of a policy.

Criterion F: Rubric requirements

It is important to carefully follow the rubric requirements. Many candidates lost a mark under criterion F because they did not provide a summary portfolio sheet with details of the sources, syllabus sections, the date commentaries were written and word counts.

The descriptor about “different and appropriate sources” was designed to avoid candidates choosing excerpts from books, tutorial guides, government reports or personal blogs. A number of online media now include opinion columns which are technically “blogs” but these are acceptable if they are in a recognized news media source.

Recommendations for the teaching of future candidates

- The internal assessment (IA) should be an integral part of the IB course, not simply a set of assignments at the end of the course. The IA can be valuable to understanding the different parts of the syllabus and is especially important in providing examples that can be used in the externally assessed components. It is recommended that candidates read through their IA as part of their revision for examinations.
- Centres should provide guidance in selection of suitable articles but the choice must be made by the candidate. Some centres used a very limited selection of sources and topics for their IA, which gave the impression that teachers had selected the articles. Teachers are reminded that they are allowed to give feedback on a first draft of the commentary but the second draft is considered final.
- A few centres, or candidates, did not appear to have produced a first and subsequent final draft of the commentaries.
- It is important to stress the potential consequences of academic misconduct. Teachers should take care to verify the honesty of work presented, ensuring that the language and analysis presented is really that of the candidate.
- It is also necessary to remind teachers against providing too much assistance to candidates. It is part of the candidates’ task to find and analyse the article: this should not be done by the teacher. A number of centres presented samples where many candidates had used the same articles. Articles must not be given to the class by the teacher, and the production of the commentary must be each candidate’s individual work.

Further comments

A small number of candidates did not fulfil the criteria by producing three commentaries that were on almost identical topics: this should be strongly discouraged by centres as it could be considered intellectual dishonesty. While very short commentaries do not get punished under Criterion F they are unlikely to score well on other criteria.

Higher level paper one

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 6	7 - 12	13 - 17	18 - 23	24 - 30	31 - 36	37 - 50

The areas of the programme and examination which appeared difficult for the candidates

It is evident that candidates are challenged when attempting to respond to certain command terms, for example, 'to what extent' on this particular examination paper.

Many candidates also struggle to provide suitable examples to accompany their responses. Where they are used, candidates frequently provide very old examples. It is worth noting that the top level mark bands refer to the inclusion of examples as being an indicator of a level 3 and a level 4 response.

The use of diagrams was variable. Many candidates did not properly draw them or, having done so did not explain them appropriately in the context of the question they were attempting to answer.

This is quite a challenging examination paper in terms of the amount that is expected of candidates in the time available. It is therefore important to consider time management as part of an examination preparation strategy; some candidates clearly do not do this.

In terms of syllabus coverage, candidates were less comfortable with question 1 and the material it covered. Many candidates were not well acquainted with the signalling and incentive functions of the price mechanism. There were also many candidates who struggled to provide a clear explanation of what common access resources are.

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

Some centres clearly prepared their candidates very carefully. Responses provided in these instances produced well-used and sophisticated diagrams with fully developed explanations with regard to their relevance to the question at hand. They were frequently able to provide suitable and contemporary examples.

Theoretical knowledge was particularly strong with regard to the theory of monopoly and also the application of the multiplier amongst higher achieving candidates. The highest achieving candidates were able to demonstrate a strong understanding of all elements of theory relevant to this examination paper.

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

Question 1

- (a) It is surprising to see how many candidates struggle to explain the basic mechanics of the price mechanism. The basic link between price change and subsequent impacts on resource allocation proved to be a challenge for a significant number of candidates. Candidates were often unable to explain why a shift in either demand or supply would produce a new equilibrium. This in turn would result in a change in resource allocation. Many candidates curiously decided to impose a price change by regulation, and were disinclined to consider the subsequent surpluses and shortages. The signalling and incentive functions of price were often not appropriately considered.
- (b) This question produced some good responses but the biggest problems arose when candidates were unable to explain adequately what common access resources were. Many candidates therefore could not identify the main characteristics, of diminishability, through being rivalrous, and non-excludability. There were frequent cases of confusion with public goods and this tended to derail the subsequent response. The highest achieving responses tended to consider different courses of action open to governments and to evaluate those approaches. Examples were used in many instances.

Question 2

- (a) Candidates were usually comfortable relating relevant elements of monopoly theory. Candidates were less comfortable explaining how government might intervene to regulate this market structure. There was an opportunity to make use of examples to elaborate on the ways in which government might be able to exert influence, for example through direct ownership or through the promotion of trade with other countries to expose the market to more competition. Some candidates explained how intellectual property rights might be modified to reduce market power.

- (b) Candidates were generally well able to list the disadvantages of monopoly but were less able to provide suitable balance in considering potential advantages. Good responses offered strong synthesis and evaluative skills justifying the existence of monopolies. It was usual for economies of scale and natural monopolies to feature with the higher achieving candidates able to provide current examples from their local economy.

Question 3

- (a) High achieving responses were able to provide precise definitions, with the correct formula and a clear explanation of the theory of the multiplier, using injections and leakages; to explain the possible impact of a rise in government spending. Many candidates opted to provide a numerical example and diagrams, to show the relevant changes. This was an area where candidates were relatively comfortable with the concepts.
- (b) The highest achieving responses were able to integrate the type of unemployment; the duration of unemployment; the magnitude of unemployment and, the possible impact of unemployment on a government's finances, as a means to effectively tackle this question. Higher achieving candidates carefully addressed the command term with their response. Lower achieving candidates tended to write down all they knew about the topic, with insufficient reference to what was being asked. The command term in this question seemed to be difficult for some candidates, who did not provide sufficient reference to it in framing their response.

Question 4

- (a) This was a popular question and the majority of responses were able to appropriately link business spending on research and development and government expenditure on infrastructure with a shift in the long-run aggregate supply curve. Once again the highest achieving responses provided well-considered examples and diagrams that were well drawn and clearly explained. Lower achieving responses tended to provide poor diagrams.
- (b) A significant number of candidates were unclear as to what interventionist supply-side policies were. Some simply talked generally about supply-side policies with no attempt to subdivide them, others attempted to explain interventionist policy, but did so using market-based examples. It was common for candidates to attempt to explore the merits of interventionist supply-side policies in terms of the possible advantages and disadvantages they might have when compared to alternative demand-side policies. This is perfectly reasonable so long as the demands of the question are met and the emphasis remains on the evaluation of interventionist supply-side policy. The highest achieving responses were able to do this and were also able to provide meaningful contemporary examples.

Recommendations and guidance for the teaching of future candidates

- Encourage candidates to apply examples to questions where possible. They should be contemporaneous where possible.
- Encourage candidates to keep a diary of economic events through the use of appropriate news media, during their course, to help with collecting examples. It might also help with collecting sources for the IA.
- It is important that diagrams are used and that they be relevant to the question. They must be fully labelled and explained.
- Candidates should revise diagrams as a discrete task to become more familiar with how to apply them.
- Candidates should ensure when drawing diagrams that they are drafted using dark lines so that they are clear when the scripts are scanned.
- Candidates should ensure that their written responses are readable. Increasing numbers of scripts are difficult to read.

Standard level paper one

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 7	8 - 14	15 - 21	22 - 26	27 - 31	32 - 36	37 - 50

General comments

The examination paper was generally well received by centres. The overall level of answers produced by candidates was consistent with previous year's examination papers. The balance of answers across the questions on the examination paper favoured question 1 and 4 with questions 2 and 3 proving less popular.

The areas of the programme and examination which appeared difficult for the candidates

Candidates appeared to find the following areas of the programme difficult: the circular flow of income and the role of savings and investment; how the economy adjusts to full employment income in the long run and how infrastructure and research and development impact on aggregate supply.

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

Candidates seemed well prepared in the following areas of the programme: price theory and how supply affects and is affected by price; the pact of subsidies; merit goods; minimum prices and interventionist supply-side policies.

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

Question 1

- (a) Candidates were generally comfortable explaining that an increase in price leads to an increase in quantity supplied and supported this using an appropriate diagram. The highest achieving responses explained that quantity supplied increases through the profit incentive and showed how an increase in demand leads to an increase in price. Candidates were generally good at explaining how an increase in supply leads to a fall price and showed this on a diagram with the supply curve shifting. The highest achieving responses gave examples of why supply increases.
- (b) There were some very good responses to this question where candidates explained how subsidies can encourage the consumption of merit goods. It was pleasing to see candidates explaining merit goods by using cost and benefit diagrams and illustrating how a subsidy can reduce the market failure associated with merit goods. Higher achieving responses used effective examples to support their explanation by, for example, considering markets for healthcare and education. The highest achieving responses evaluated the points they made by: considering the problems of applying subsidies; the impact of subsidies on different stakeholders and looking at the long- and short-term implications of the policy.

Question 2

- (a) This was the less popular question in section A. Some candidates may have been put off answering this question through fear of not being able to write enough. The highest achieving responses clearly defined factors of production and set out how changing costs affect supply in agricultural markets. This was most effectively done by using specific agricultural market examples and using a demand and supply diagram to illustrate this. A common mistake was for candidates to ignore agricultural markets in their answer and talk in general terms about changes in supply.
- (b) The principle of price floors (minimum prices) was quite well understood and most candidates answered this question appropriately. The highest achieving responses explained how the minimum price is a guaranteed price for farmers that supports their income and this was illustrated with a clear demand and supply diagram to show the price floor. Higher achieving responses explained how this is maintained by the government intervening in agricultural markets to purchase excess supply. Lower achieving responses did not explain the minimum price diagram clearly and failed to

explain how the floor price is maintained. The highest achieving responses evaluated the policy by considering: the problems of applying it (cost of intervention buying); the impact on different stakeholders and the long- and short-term implications of the policy.

Question 3

- (a) This was the least popular question on the paper. Many candidates had knowledge of the circular flow of income and how a rise in savings increased leakages and a fall in investment reduced injections.

This was normally explained using a circular flow of income diagram, although the effectiveness of the diagram used was variable. The highest achieving responses explained the nature of savings and investment and how they affected the economy whereas lower achieving responses just considered them as leakages and injections. A general weakness here, as with many macroeconomic questions, is a lack of examples to illustrate the points made.

- (b) Candidates either knew the answer to this question or they did not. There were some really strong answers here where candidates clearly explained the neo-classical view of the economy where the economy adjusts in long run when equilibrium income is not at full employment. Higher achieving responses, for example, explained how wages and prices fall in a deflationary gap situation which causes SRAS to increase and move the economy back to full employment. This could then be evaluated by considering the time frame of the SRAS adjustment, or the Keynesian view that wages do not fall and this stops the SRAS adjustment taking place. There were also some very poor answers where candidates did not really understand the demands of the question and were not able to answer it precisely enough.

Question 4

- (a) Most candidates were able to define and explain LRAS and how the LRAS curve shifts to the right if research and development (R&D) and expenditure on infrastructure increases. The highest achieving responses clearly explained how R&D and infrastructure affect LRAS by using examples. The ability to show an understanding of the how R&D and how infrastructure actually impact on the economy was crucial and lots of candidates did not do this.
- (b) This question required a strong explanation of what interventionist supply-side policies are (government support for key industries, infrastructure projects, subsidies for R&D, etc) and how they lead to economic growth. The highest achieving responses did this and supported their explanations with AD/AS diagrams, used effective examples (very few did this) and evaluated the policies considered. It was pleasing to see candidates considering evaluative points like: the financial costs of intervention, the possible inefficiency of state intervention, the time it takes for the policy to work and the problems of applying the policy in a recession. Many high achieving responses went on to contrast the interventionist approach with the market-based approach. Candidates must, however, show some caution here. The question is on interventionist policies so

this should be the focus of the answer. Some candidates choose to focus more on alternative policies (demand-side, market-based supply-side) and this takes the answer away from the central theme of the question. This is quite a common problem with answers to policy-based questions.

Recommendations and guidance for the teaching of future candidates

- Candidates should be made aware of the assessment criteria used when preparing for the examination.
- Candidates should be encouraged to use real-world examples to support points made, particularly in macroeconomic questions. For example, where interventionist supply-side policies have been used by government.
- Candidates should be encouraged to fully develop theory that is the central theme of the question. In question 1(a), for example, where the reasons for an increase in quantity supplied and a movement of the supply curve need to be explained.
- Candidates need to develop their evaluative (critical thinking) skills when answering part (b) questions. In question 2(b), for example, candidates consider how a policy used to support farmers might have significant costs for other stakeholders in the economy and for the overall efficiency of the economy.

Higher level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 4	5 - 9	10 - 15	16 - 20	21 - 24	25 - 29	30 - 40

General comments

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

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 and of a suitable degree of difficulty.

The areas of the programme and examination which 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) Many candidates were aware that it is a form of trade liberalization and that member countries agree to trade freely amongst themselves. Fewer were able to add that the members also adopt common external barriers/trade policies towards non-members. Lower achieving candidates were not aware of how customs unions operate and wrote vaguely about what they thought a eurozone did.

- (ii) This question was surprisingly poorly answered on the whole. Lower achieving candidates were completely confused and wrote incorrectly about indirect taxes, *ie* taxes on expenditure. Others were partially correct, saying that they were income taxes paid by individuals to the government, although this is obviously an example of a direct tax, as opposed to a full definition. Direct taxes are taxes on income (or wealth), including household income and firms' income (profits).
- (b) Lower achieving candidates ignored the question and chose to explain how the devaluation of the lat may have been caused, as well as providing an exchange rate diagram. Higher achieving candidates explained that the devaluation of the lat may lead to an increase in export revenue, a decrease in import expenditure, and so an increase in net exports and a shift of the AD curve to the right and that this would bring about an increase in real GDP. They also drew a correctly labelled AD/AS diagram showing the above. As is always the case, a Keynesian AS diagram was fully acceptable, as well as a neo-classical (LRAS) diagram.
- (c) This question was generally not well answered and many candidates showed confusion relating to PPC's and movements within them, or upon them. Higher achieving candidates drew a PPC diagram, with a movement from one point inside the curve to a point closer to the curve. They then explained that there was economic growth between 2008 and 2012 and so an increase in actual output. Some candidates showed two movements, with an initial shift away from the PPC and then another shift back towards it. This was also correct, but not necessary for full marks. Many candidates shifted the PPC curve outwards and explained that economic growth leads to a shift of the PPC, which is incorrect. This is an area of the syllabus that centres may need to look at more carefully.
- (d) Higher achieving candidates defined a monetary union and then introduced possible positive and negative outcomes that could come about through membership, using examples from the text to support the theory that they used. They then weighed up the strengths and limitations and produced a balanced judgment/conclusion.

The lower achieving candidates tended to ignore the eurozone aspect of the question and chose to write upon the benefits of membership of a customs union instead. Since Latvia had already been a member of the EU customs union, this type of response was not suitable. There was also a tendency to simply repeat points that were made in the text without using economic theory to develop any analysis.

Question 2

- (a) (i) Most candidates were able to give an appropriate definition for this question.
- (ii) For candidates who attempted this question, there were very few who failed to score full marks for this definition. The only issue that arose was that many candidates wrote too much. Some candidates even drew the tariff diagram, which was unnecessary.

- (b) Most candidates were able to get two marks for a definition of a budget deficit. Most candidates got at least one mark for their definition of current account deficit, but failed to get a second mark because they referred only to trade in goods and services (neglecting investment income and/or transfers). Another shortcoming was that some candidates were unable to distinguish between 'value' and 'volume' by inaccurately writing things like "A current account deficit is the situation in which imports are greater than exports".
- (c) There was a broad mix of answers to this question, with some excellent and concise responses. However, a number of candidates missed the key theory suggested by the text.

Despite the clear indication in the text that there was an outflow of funds from India (indicating an increase in supply of the rupee), a common mistake amongst lower achieving candidates was to illustrate and explain that the increase in the US interest rates would lead to a fall in the demand for the rupee. While credit was possible, this approach mainly led to some very confused and contradictory responses. A general rule is that any change in the value of a currency may be explained by either an increase in supply (depreciation) or an increase in demand (appreciation).

- (d) This is a straightforward question based clearly on a learning outcome. The syllabus refers quite explicitly to three measures that may be taken to reduce a current account deficit. Candidates who knew these three measures and could apply them within the context of the Indian case study were able to perform well. The lower achieving responses focused narrowly on the part of the extract that referred to the gold tariff, and wrote at length about protectionism. This was perhaps because to many IB candidates, the tariff diagram is a favourite. Other answers focused on the growth strategies of export promotion and import substitution. These were able to earn marks, but the analysis was often not clearly linked to the current account deficit.

Question 3

- (a) (i) Most candidates were able to write about a trade agreement as an agreement to liberalize trade, but many were unaware that the agreement is between two countries.
- (ii) Despite the fact that this term keeps coming up on examinations, many candidates still simply list examples of different types of infrastructure, rather than explain what it is.
- (b) This question was handled well by the majority of candidates. Even candidates who performed less well on other sections of the examination did very well on this question part. One shortcoming was a failure to refer to opportunity cost in the written explanation.

- (c) In terms of the diagram, most candidates performed quite well on this question, recognizing a shift in the PPC. However, there was some rather poor labelling. In the written explanation, many candidates seemed to incorrectly assert that education/training would lead to an increase in output, rather than an increase in potential output.
- (d) The biggest problem with the question was an inability of a great many candidates to link their analysis to economic development. Many simply wrote about how trade could contribute to economic growth. Many candidates uncritically accepted the statement in the question that trade is more effective, and delivered a pre-prepared and one-sided explanation of the disadvantages of aid. Relatively few candidates effectively contrasted the pros and cons of aid and trade to reach a balanced conclusion. Having said that, there were also some excellent responses that made very good use of the abundant data and applied relevant theory. The format of the question led higher achieving candidates to effective evaluation.

Question 4

- (a)
 - (i) Most candidates were able to define this term, although many neglected to refer to the word 'sustained' in their definition.
 - (ii) Almost all candidates successfully defined this term.
- (b) In general, this question was not well answered, even though it is a straightforward question based on the learning outcomes. The lower achieving responses explained the terms of trade as the nature of the relationship between trading nations. An alternate (incorrect) approach was to define the terms of trade as the amount of exports in relation to the amount of imports. Some had a vague idea that it was about the prices of exports and imports but got the formula the wrong way around. Some candidates seemed to confuse the words 'value' and 'price' in their explanation of the term. If the rest of the explanation indicated that the candidates knew that the formula concerned the price of exports and imports, then full marks were available. Having said that, there were also a significant number of candidates who understood the question and were able to apply the relevant theory correctly.
- (c) Candidates generally performed well in this question, with the majority drawing a correct diagram. However, there were inevitable inaccuracies in the labelling. Most candidates recognized that a fall in the Gini coefficient meant a decrease in income inequality, though some neglected to actually state this in the written explanation.
- (d) This question comes straight from the learning outcomes, so it is an area that candidates should be prepared for. The syllabus is very clear on possible approaches. While there were certainly some excellent and perceptive responses that used the text meaningfully, there were a great many long-winded responses that failed to present appropriate economic theory.

A very clear shortcoming among many responses was an inability to link the theory presented with economic development. There was a tendency for some candidates to treat this as a macroeconomics essay question, and examine the pros and cons of interventionist and market-oriented supply-side policies, without making any links to development. Some even perceived the question to be a comparison of demand-side policies (interventionist) with supply-side policies. Although the question did not refer specifically to Peru, there was ample evidence in the text about Peru, and many candidates did not make good use of this evidence.

Recommendations and guidance for the teaching of future candidates

Many will note that these suggestions have appeared in previous examiner reports, at both standard and higher level, for the past syllabus. However, since the structure of the questions, as well as the expectations, have not changed with the new syllabus, the advice remains largely the same.

- Teachers should 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.
- Many part (b) and (c) questions require the use of a diagram, and these are generally all standard diagrams from the syllabus. Candidates would thus benefit if they compiled a glossary of all the diagrams. Where a diagram is used in part (b) or (c) questions, candidates should be sure to use/explain the diagram by making references to it in the response. The diagram and the explanation must be integrated with each other. Since diagrams are meant to be dynamic (*i.e.* they illustrate a change to a situation) 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.
- Diagrams should not be placed at the end of the answer booklet. They should be drawn exactly where the accompanying explanation is written.
- Candidates should take about a third of a page to draw their diagrams, and should use a ruler to make sure that it is drawn neatly so that the information is clear. All curves/lines and axes must be labelled.
- It is the policy that candidates are not allowed to use coloured pens/pencils on their examinations. Therefore, there should not be references to different coloured lines in the diagram, as these will not show up on the scanned examinations. 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 part (b) and (c) questions. They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- Where a diagram is required, the questions always stipulate which diagram is to be used. Despite this, candidates often draw different ones. This is yet another reason why it is so important to read the question carefully.
- Candidates could be advised to re-read a question once they have finished writing their answer. This can serve as a self-check to make sure that the question is actually answered. In many cases, candidates come very close, but do not actually answer the question set and they would easily get the full marks if they added just one line to present a clear answer to the actual question.
- Candidates must be reminded that to achieve top marks in part (d) questions, they must make reference to the text. Encourage candidates to use quotation marks, or make references to the paragraphs or texts.
- Answers to part (d) questions also require candidates to apply and develop the economic theory that is relevant to the text/data. It is not enough to simply mention the relevant theory; answers which reach the top level 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 command terms that may be employed in part (d) questions and the evaluation/synthesis skills that are being tested. The synthesis/evaluation command terms are 'compare', 'compare and contrast', 'discuss', 'evaluate', 'examine', 'justify', and 'to what extent...' Each of the command terms has an explanation in the syllabus guide and candidates and teachers need to be aware of these.
- Theory provided in part (d) questions must be directly linked to the text/data to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to really 'engage' with the text, in order to be able to apply the theory.
- There is concern at the extent to which candidates are uncritically paraphrasing the texts in their answers to part (d) questions. 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 carry out some evaluation.

Standard level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 4	5 - 8	9 - 13	14 - 18	19 - 22	23 - 27	28 - 40

General comments

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

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. There seemed to be very few problems with candidates managing their time appropriately.

The performance of candidates seemed to be fairly equal between the international economics section and the development economics section.

The areas of the programme and examination which 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) Many candidates were aware that it is a form of trade liberalization and that member countries agree to trade freely amongst themselves. Fewer were able to add that the members also adopt common external barriers/trade policies towards

non-members. Lower achieving candidates were not aware of how customs unions operate and wrote vaguely about what they thought a eurozone did.

- (ii) This question was surprisingly poorly answered on the whole. Lower achieving candidates were completely confused and wrote incorrectly about indirect taxes, ie taxes on expenditure. Others were partially correct, saying that they were income taxes paid by individuals to the government, although this is obviously an example of a direct tax, as opposed to a full definition. Direct taxes are taxes on income (or wealth), including household income and firms' income (profits).
- (b) Lower achieving candidates ignored the question and chose to explain how the devaluation of the lat may have been caused, as well as providing an exchange rate diagram. Higher achieving candidates explained that the devaluation of the lat may lead to an increase in export revenue, a decrease in import expenditure, and so an increase in net exports and a shift of the AD curve to the right and that this would bring about an increase in real GDP. They also drew a correctly labelled AD/AS diagram showing the above. As is always the case, a Keynesian AS diagram was fully acceptable, as opposed to a monetarist (LRAS) diagram.
- (c) This question was generally not well answered and many candidates showed confusion relating to PPC's and movements within them, or upon them. Higher achieving candidates drew a PPC diagram, with a movement from one point inside the curve to a point closer to the curve. They then explained that there was economic growth between 2008 and 2012 and so an increase in actual output. Some candidates showed two movements, with an initial shift away from the PPC and then another shift back towards it. This was also correct, but not necessary for full marks. Many candidates shifted the PPC curve outwards and explained that economic growth leads to a shift of the PPC, which is incorrect. This is an area of the syllabus that centres may need to look at very carefully.
- (d) Higher achieving candidates defined a monetary union and then introduced possible positive and negative outcomes that could come about through membership, using examples from the text to support the theory that they used. Positive points included the elimination of exchange rate uncertainty, easier planning for firms, increased foreign investment, economic growth, less dependence on Russia, and the benefits of having to meet the criteria for membership, building a good economic foundation for the future. Negative points introduced included the loss of sovereignty over monetary policy, changeover costs, the problems of supporting other eurozone members, the threat of inflation, and Latvia's loss of power in controlling its own exchange rate to improve competitiveness. They then weighed up the strengths and limitations and produced a balanced judgment/conclusion.

The lower achieving candidates tended to ignore the eurozone aspect of the question and chose to write upon the benefits of membership of a customs union instead. This led to theoretical responses, which were off topic.

Question 2

- (a) (i) This question was well answered, with most candidates explaining that an exchange rate is the value of one currency expressed in terms of another.
- (ii) Answers to this question tended to lack detail. Most candidates explained that import expenditure would be greater than export revenue. However, only higher achieving candidates went into the required detail and explained that it was a situation where the outflows of money from trade in goods and services, income flows, and transfers were larger than the inflows of the money.
- (b) On the whole, this question was not well answered, and raised another area of the syllabus that centres may need to look at very carefully. Higher achieving candidates, who were clearly in the minority, drew a correctly labelled exchange rate diagram with a shift of the supply curve of the real to the right and a fall in the exchange rate. They also explained that an increase in US interest rates would lead to an increase in Brazilian saving in US financial institutions, and so an increase in the supply of the real, as Brazilians purchase dollars, reducing the exchange rate.

Despite the clear indication in the text that “money is leaving developing economies” (indicating an increase in the supply of the real), a common mistake amongst lower achieving candidates was to illustrate and explain that the increase in the US interest rates would lead to a fall in the demand for the real. While credit was possible, this approach mainly led to some confused and contradictory responses. A general rule is that any change in the exchange rate of a currency may be explained by either an increase in supply (depreciation) or an increase in demand (appreciation).

- (c) This was a better answered question, with most candidates explaining that the move to a deficit would lead to a fall in net exports, reducing aggregate demand in the economy, and then drawing a correctly labelled AD/AS diagram, with the AD curve shifting to the left. They then further explained how this might harm the economy in terms of a decrease in real GDP and/or negative economic growth and/or an increase in unemployment. A number of candidates did not fully answer the question, omitting to explain the potential harm to the Brazilian economy.
- (d) Higher achieving candidates gave a balanced response, highlighting consequences of a fall in the value of the real, both positive and negative, and supporting them with evidence from the text, which was plentiful. Positive consequences included exports becoming more competitive, improvements in employment in export industries, improvements in the current account deficit, increased demand for domestic products as imports become more expensive, and increased employment in domestic industries as a consequence. Negative consequences included the danger of imported inflation, planning problems for companies, reduced consumer and investor confidence, and the problems associated with raising interest rates and using foreign reserves to support the value of the currency.

Many candidates wrote a theoretical response relating to a low exchange rate, ignoring the text, and so only reached level 2 in the markscheme. The ability to synthesize/evaluate, supported by appropriate evidence, is the higher level skill that is being sought in these questions and it is something that candidates need to be able to accomplish, if they are to reach the highest levels of achievement.

Question 3

- (a) (i) This question was surprisingly poorly answered, with many candidates clearly not familiar with the term at all. Better candidates explained two aspects of the role of an entrepreneur, such as starting up a business, employing / organizing / managing resources or factors of production, and/or risk taking.
- (ii) A well answered question, with most candidates explaining that it is the total value of all goods and services produced in an economy in a given time period. Lower achieving responses excluded the term 'value', or failed to mention that it was goods and services.
- (b) A generally well answered question, with the majority of candidates able to draw a demand and supply curve diagram showing a price floor, set above the equilibrium price, and indicating the resultant excess supply/surplus; and then explaining that the price floor will lead to an increase in quantity supplied, a fall in quantity demanded, and a subsequent surplus of cocoa. Lower achieving responses placed the price floor below the equilibrium (*ie* a price ceiling) or were not able to explain a price floor at all.
- (c) This question was generally well answered. Higher achieving responses defined opportunity cost and explained that any spending on debt servicing might be at the expense of less spending on development objectives, using information from the text, such as one third of government revenue being spent on debt servicing in the 1980s and 1990s, or that since 2008, debt servicing (government repayments) have averaged 15% of government revenue. Some candidates did not use information from the extract as requested. A few, sadly, did not seem to be familiar with the concept of opportunity cost.
- (d) The main missed opportunity for marks here was that some candidates tended not to focus on the specific interventions in the text, but wrote in a general way about ways to achieve economic development through government intervention. This led to very theoretical responses, which only achieved level 2 in the markscheme.

Higher achieving candidates identified specific government intervention policies from the text and then evaluated their possible success or failure in promoting economic development. There was much to be found in the text and policies such as the price floor for cocoa, investment to improve crop yields, the promotion of diversification, the provision of infrastructure, and reduced government expenditure on health care, were among the areas discussed. Lower achieving candidates tended to identify areas of government intervention, explain their effect on economic growth, but not link them to development.

Question 4

- (a) (i) Most candidates either got this question correct or completely incorrect. Higher achieving candidates explained that it is the total value of incomes earned by a nation's factors of production, regardless of where the assets are located. Many candidates were aware that it is a measure of national income, but no more.
- (ii) Higher achieving candidates were able to list two of the measures: life expectancy at birth, mean years of schooling, expected years of schooling, and GNI per capita. A worrying number of candidates were still working from the measures that used to make up the HDI, before changes in 2010. This is another area of the syllabus that centres may need to look at very carefully, in terms of updating teaching information.
- (b) Higher achieving candidates drew a correctly labelled AD/AS diagram, showing a shift of the AD curve to the right and a higher average price level, and explained that the increased oil exports would increase net exports, leading to greater aggregate demand and so inflationary pressure. Some said that the oil boom had led to increased investment and thus an increase in aggregate demand. If correctly explained, this approach was also fully rewarded. Lower achieving candidates seemed to think that the oil boom would increase costs (SRAS), causing cost-push inflation. This was not supported in the text.
- (c) Many candidates identified possible barriers from the text, but failed to link them to development. Higher achieving candidates identified factors, such as lack of clean drinking water, lack of resources in education and health, growing inequality, or dependence on subsistence farming; and then explained how the factor could impede development.
- (d) Higher achieving candidates successfully distinguished between growth and development and realised that oil revenues could contribute to the former, but not necessarily to the latter. However, a large proportion of candidates merely wrote an essay on what is needed for development without sufficiently focussing on how the growth of the oil industry might assist or impede such development. A problem associated with a lot of the responses for this part of the question is the fact that candidates fail to differentiate between growth and development and either write about them interchangeably or simply say that growth leads to development, without any explanation of how or why that may be.

Recommendations and guidance for the teaching of future candidates

Many will note that these suggestions have appeared in previous reports, at both standard and higher level for the past syllabus. However, since the structure of the questions, as well as the expectations, have not changed, the advice remains largely the same.

- Teachers should 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 developing 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. Some candidates write far too much and then suffer time problems later in the paper.
- Many part (b) and (c) questions require the use of a diagram, and these are generally all standard diagrams from the syllabus. Candidates would thus benefit if they compiled a glossary of all the diagrams. Where a diagram is used in parts (b) or (c), candidates should be sure to use/explain the diagram by making references to it in the response. 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.
- Diagrams should not be placed at the end of the answer booklet. They should be drawn exactly where the accompanying explanation is written.
- 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. Very small diagrams are difficult for examiners to read, and thus reward.
- It is the policy that candidates are not allowed to use coloured pens/pencils on their examinations. Therefore, there should not be references to different coloured lines in the diagram, as these will not show up on the scanned examinations. 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 part (b) and (c) questions. They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- Where a diagram is required, the questions always stipulate which diagram is to be used. Despite this, candidates often draw different ones. This is yet another reason why it is so important to read the question carefully.

- Candidates could be advised to re-read a question once they have finished writing their answer. This can serve as a self-check to make sure that the question is actually answered. In many cases, candidates come very close, but do not actually answer the question set and they would easily get the full marks if they added just one line to present a clear answer to the actual question.
- Candidates must be reminded that to achieve top marks in part (d) questions, they must make reference to the text. Encourage candidates to use quotation marks, or make references to the relevant paragraphs or texts.
- Answers to part (d) questions also require candidates to apply and develop the economic theory that is relevant to the text/data. 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 command terms that may be employed in part (d) questions and the evaluation/synthesis skills that are being tested. The synthesis/evaluation command terms are 'compare', 'compare and contrast', 'discuss', 'evaluate', 'examine', 'justify', and 'to what extent...'. Each of the command terms has an explanation in the syllabus guide and candidates and teachers need to be aware of these.
- Theory provided in responses to part (d) questions must be directly linked to the text/data to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to fully 'engage' with the text/data, in order to be able to apply the theory.
- There is concern at the extent to which candidates are uncritically paraphrasing the texts in their answers to part (d) questions. 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 carry out some evaluation.

Higher level paper three

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 5	6 - 11	12 - 17	18 - 24	25 - 30	31 - 37	38 - 50

General comments

It is clear that the May 2015 paper was more challenging than in previous sessions. Some of the 4-mark "explain" questions tackled more difficult concepts, while candidates were possibly given a little less time to process questions and plan responses than previously.

Such a shift is not necessarily a bad thing as it seems that this paper was a better test of skills, economic understanding and the ability to analyse and apply and a better discriminator than previous papers.

It was clear that some teachers did not expect certain learning outcomes, such as those relating to satisficing behaviour, the reasons why the AD curve has a negative slope and the issue of equity, to be examined. Candidates generally could have been better prepared to tackle learning outcomes such as these. Furthermore, the terms of trade questions were not well answered. Some teachers appear to think that higher level paper 3 will examine only those concepts in the third column of the table of learning outcomes in the subject guide but this is not the case.

The areas of the programme and examination which appeared difficult for the candidates

Question 1:

- Many candidates were completely unfamiliar with the term “satisficing”.
- A surprising number of candidates were unsuccessful in calculating the price elasticity of demand when required to find the initial and final prices and quantities from a graph.
- Although the majority of candidates could relate the kinked demand curve to price rigidities in non-collusive oligopoly, the majority found difficulty in explaining clearly, with reference to interdependence, elasticity and the effect of a price change on revenue/profit or the resulting discontinuity of MR and its implications.

Question 2:

- The majority of candidates were not able to shift the aggregate demand curve to the left by \$9 billion as required.
- Only a small minority were able to show how market forces (*ie* the expected rightward shift of SRAS) might bring about a return to long-run equilibrium according to the monetarist/new classical model.
- Good answers to explain the correct reasons why the aggregate demand has a negative slope were few and far between. The majority of answers tried to apply microeconomic analysis and most relied on “a change in real income as APL increases”.
- Calculations of income tax demonstrated an area of improvement for many candidates, who simply multiplied the whole income by one tax rate.
- Understanding of equity and of the concept of progressive taxation was extremely poor. Most simply described the effect of cutting the progressive income tax on equality, without establishing a link to equity.

Question 3:

- It was common for a managed float to be defined simply as an exchange rate system in which a currency is kept within a band, without reference to periodic intervention or that such intervention is not dependent on a pre-determined “band”, but possibly on the desire to slow down the rate of appreciation/depreciation.
- A surprising number of candidates could not calculate a terms of trade index.
- While candidates could describe the reason for a deterioration in the terms of trade, a

description of the deterioration itself proved more difficult for the majority of candidates.

- Candidates found great difficulty in explaining how a change in the terms of trade might affect the current account balance.

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

Question 1:

- Candidates were generally able to analyse short- and long-run equilibrium in perfect competition, calculating profit and explaining the movement from short-run equilibrium to long-run equilibrium.

Question 2:

- The majority of candidates were able to identify reasons for a decrease in consumer spending.
- Most candidates correctly identified the position of the long-run aggregate supply curve in the monetarist/new classical model.
- Candidates recognized the effect of a lower rate of direct tax on the multiplier, although many simply referred to “an increase in spending” rather than a change in the marginal rate of withdrawal/MPC.
- Most candidates could sketch a Lorenz curve and identify how the Gini coefficient would be derived.

Question 3:

- The majority of candidates were able to convert spending in one currency to another.
- Drawing a diagram to illustrate appreciation of a currency proved straightforward for most.
- Candidates were able to explain reasons for a currency appreciation, although there was some repetition as two examples of increased exports were given.
- The possibility of selling domestic currency on the foreign exchange market or reducing interest rates was recognized by the majority of candidates.

General:

- Candidates were well-prepared for the necessity of showing their workings in calculations.
- Diagrams were generally drawn accurately and labelled appropriately.
- The incidence of rounding errors and failure to include correct units was lower than in previous sessions.

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

Question 1

- (a) (i) Answered very well by nearly all candidates.

- (ii) Generally answered very well, although a small number of candidates omitted a \$ sign.
 - (iii) Almost all candidates were awarded the 1 mark available. Most gave an answer of 140 000 units, while a significant number gave the “alternative” answer of 120 000.
 - (iv) A large proportion of candidates earned full marks for this question.
- (b) Well-answered by the majority.
- (c) A pleasing number of candidates were able to explain the dynamics of a move from short-run abnormal profit to long-run normal profit, although few explained that, when normal profits are made, there is no further incentive for firms to enter the industry. The majority sacrificed a mark by neglecting to refer to the diagram. Lower achieving candidates argued that the AC curve would shift as firms entered the industry.
- (d) Candidates did not answer this question well. A significant number of candidates wrote nothing for this question, or gave vague definitions. A number of candidates defined the term by providing an alternative objective *eg* “satisficing means to maximize revenue” rather than referring to the acceptance of less than maximum profits in order to pursue other objectives, or because the firm cannot possess sufficient information to maximize profits or revenue.
- (e) The majority of candidates recognized the meaning of “non-collusive” although many could not resist the temptation to use “do not collude” as part of the definition. Several candidates referred to firms “not making agreements” without any reference to the type of agreements (*eg* price/output) which might be relevant.
- (f) (i) Many correct answers, but a significant number of rounding errors and miscalculations. Candidates found it much more difficult to calculate elasticity when values needed to be taken from a graph, in comparison to previous questions when values were given.
- (ii) As in part (i), although a greater number of accurate responses were given in comparison with the previous part.
- (g) The majority of candidates recognized the significance of the kinked demand curve, but few were able to explain clearly the significance of interdependence, the resulting price elasticity of demand and the effect on revenue/profit. Very few referred to the resulting discontinuity of MR and its implications. Lower achieving candidates merely stated that firms would wish to avoid price wars.

Question 2

- (a) (i) Many candidates recognized two reasons why consumer expenditure might decrease, although some referred to microeconomic factors such as changing marginal utility of changing tastes and preferences.
- (ii) The majority of candidates were unable to draw a leftward shift of \$9 billion of the AD curve, however many interpreted the question as meaning that the short-run equilibrium had decreased by \$9 billion.
- (iii) Generally answered well, with many earning a mark through the “own-figure rule” (OFR).
- (iv) Almost all candidates answered this question correctly.
- (v) A minority of candidates only were able to recognize that the short-run aggregate supply curve would shift to create equilibrium at LRAS. Many candidates gave “130” as the long-run equilibrium price level, assuming that the economy would return to the original equilibrium position following a decrease in AD – presumably assuming that, for some reason, AD would decrease again.
- (b) It was clear that many candidates were not aware of reasons why the AD curve has a negative slope. It was common for candidates to provide a microeconomic treatment, referring to the Law of Demand, income and substitution effects and linear demand equations. It was also common to simply argue that higher prices would mean lower real income and therefore lower AD, neglecting the likely effect of increasing nominal income as the price level increases.
- (c) (i) Although many candidates were able to calculate income tax paid, it was also the case that a significant number were not able to apply the appropriate rate to each band of income, instead multiplying the whole income by one marginal rate. Candidates should have been aware that such a system involves charging different segments of income at different rates (as per question 2 in the specimen paper).
- (ii) As above. Moreover, some candidates provided an average of two marginal tax rates rather than taking the tax paid as a proportion of gross income.
- (iii) Candidates recognized the effect of a lower rate of direct tax on the multiplier, although many simply referred to “an increase in spending” rather than a change in the marginal rate of withdrawal/MPC.
- (d) (i) Most candidates were able to sketch an appropriate Lorenz curve, although a significant proportion indicated incorrectly that the fall in indirect taxation would make the distribution of income more unequal. Many candidates drew a Lorenz curve inside the box provided rather than using the whole box, as expected.

- (ii) This question was correctly answered by the vast majority. Candidates were able to identify $a/a+b$ – even if their diagram did not contain these labels.
- (e) Although many candidates could recognize that the “rich would become richer” they were unable to relate this to a progressive income tax, and wrote fairly vague answers. Those who referred to the tax system as progressive generally explained this imprecisely by saying that those on higher incomes would pay more tax. Moreover, a small minority only were able to apply the change in the distribution of income to the concept of equity. Many treated equity as synonymous with equality. Even the highest achieving candidates generally struggled to justify a comment on equity with reference to ability to pay or fairness.

Question 3

- (a) Generally well-answered. Even the lower achieving candidates were generally able to convert AU\$ to THB.
- (b) Generally well-answered, with a significant minority incorrectly providing an answer that $\$AU1.625 = THB30.61$
- (c) Generally well-answered, although some omitted to calculate the change, foregoing 1 mark as a result.
- (d) Most candidates were able to sketch and label a diagram showing an increase in demand for/decrease in supply of \$AU. Labelling was generally good, with some candidates mixing the currencies on the vertical axis.
- (e) Generally well-answered, with lower achieving candidates simply describing the movement of the demand/supply curve and not explaining a possible reason. It was also common for candidates to give two reasons for an increase in exports or to write that “Thai candidates want to come to Australia” instead of specifying an increase.
- (f) The meaning of “managed float” was generally described in a rather vague manner, with a number of candidates simply considering it as a system in which a currency is kept within a band, instead of referring to periodic intervention by a government authority such as a central bank.
- (g) Although some candidates confused the selling of \$AU and that of foreign currency, this was generally answered well. A small number of candidates suggested increasing the supply of \$AU, without suggesting how. Others referred to increasing the supply of money rather than the more direct decrease in the rate of interest.
- (h) A large number of candidates answered this question correctly, with a significant minority dividing the 2010 value by that for 2011. There were many rounding errors.
- (i) Many candidates referred to a decrease or drop, rather than a deterioration, worsening or unfavourable movement. Only the higher achieving candidates were

able to identify that a given quantity of exports would now buy fewer imports, instead describing the change itself by referring to a fall in the price of exports relative to that of imports.

- (j) Generally well-answered and there were many possible answers.
- (k) Candidates struggled to answer this question correctly. Many candidates could not refer to increased competitiveness, and the resulting change in export revenue/import spending, which would be influenced by the relevant elasticities (M-L condition). It was common for candidates to refer to a deterioration of the ToT meaning that “the value of exports would fall” and producing inaccurate analysis as a result – such as a consequent “improvement” in a persistent surplus on the current account.

Recommendations and guidance for the teaching of future candidates

- Candidates should be reminded to show workings, use appropriate units and round correctly. It would be helpful if teachers could insist on rounding to 2 decimal places throughout the course, not just in assessment activities.
- Candidates should be reminded that answers must be written in the spaces provided, or on additional sheets. Several candidates this examination session provided their answers with a portion written outside of the boxes provided, contrary to the instructions.
- Teachers should make candidates aware of the need for clear explanation of more complex concepts such as the terms of trade and price rigidities under oligopoly.
- Teachers should be mindful that any of the learning outcomes stated in the subject guide may be examined. Candidates should be able to define terms used in the guide, such as “satisficing” and should be prepared for all learning outcomes, such as “Explain why the AD curve has a negative slope”.
- Candidates should be reminded to refer to a diagram/data directly when asked to do so in the question.
- Candidates should be made aware of the requirements of addressing the command term “explain” when attempting the 4-mark questions.
- Candidates should be given practice in reading questions carefully. For example, when required to calculate a change or an increase, a subtraction of the initial value from the new value must be performed. There remains a tendency for candidates to omit this part of the question, or to provide a positive number when the correct response is a negative number.