

May 2017 subject reports

Economics TZ1

(IB Latin America and IB North America)

Overall grade boundaries

Higher level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 12	13 - 26	27 - 37	38 - 48	49 - 59	60 - 70	71 - 100

Standard level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 11	12 - 24	25 - 39	40 - 51	52 - 62	63 - 73	74 - 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 2017 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 level 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

General comments

This was the fifth May session for this syllabus and the first to be done with emarking. Most centres adapted well to the change but a substantial number had problems.

Many centres did not upload the articles used by students for the IA, but instead gave a URL link. This is not acceptable as it involves the moderator having to find the articles in order to assess the portfolio. Students lose one mark under Criterion F, and might be treated more harshly, if the moderator is not able to find the article as it becomes difficult to judge analysis and evaluation in the context of the article.

Many centres also uploaded the commentaries in the wrong files, so that the commentary order did not match that on the 3/CSE form. This also makes it difficult to moderate as it is hard to be certain which marks relate to which commentary.

Some of the commentaries were not legible, especially the graphs. Teachers should try to ensure the portfolios have been correctly loaded before sending them. The 3/CSE form replaces the old individual and summary coversheets.

Many schools have continued to improve in terms of working with the assessment criteria. There were a few exceptions, described below. Overall the standard was good, and almost all students that completed three commentaries achieved a satisfactory level. Some schools produced excellent work. A few schools prepared their students poorly, and some were either unaware of the Assessment Criteria or were hugely generous in the marks given to their students.

The range and suitability of the work submitted

Most students 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 school.

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A few centres did not accurately complete the 3/CSE form. 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 so the student could lose marks from their analysis and evaluation.

Some schools 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.

Articles should be complete, and the parts that the commentary is focusing on should be highlighted. If an article is in another language the student must provide a full translation that is comprehensible: google translate is not always adequate.

It is recommended that teachers include comments on the portfolio, explaining the marks they have given. This can now be done either on a separate page or by annotations on the commentaries.

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 without making them specific to the commentary. It is preferable that students create their own graphs, either by hand or using computer skills. If students have copied graphs they must give the source. Please note that the criterion descriptor assesses whether the student “is able to construct and use diagrams” so copy/paste diagrams will not achieve maximum marks.

Graphs, which have been adapted to the article, using the correct product and actual prices, are preferable to generic graphs. A common error was prices given in a different currency to that used in the article.

Students should avoid very lengthy descriptions of graphs, especially where these are generic graphs that have been copied.

Some students 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 phrase 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 student displays understanding of the terms used. A number of students used an inappropriate dictionary definition for economic terms like deficit or depreciation.

Most students scored well here.

Criterion C: Application

This criterion tests whether the student 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 faintly relevant. Some students 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 students recognized the appropriate economic issues and scored well.

Criterion D: Analysis

This criterion deals with explaining and developing economic theories linked to the article. It is important that the commentary makes references to the article and integrates the theory. 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 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 here was whether the student “synthesizes his or her analysis.” If students paraphrase an article that has already done the analysis and evaluation of an issue it is not possible to get the top levels on this criterion: the evaluation is not of the student’s own analysis. Many simply explained an article, generally agreeing with the author.

Too many students gave opinions that were not backed up by appropriate economic reasoning. “I think” does not necessarily imply evaluation.

It is not possible to reach 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. The 3/CSE form should give details of the sources, syllabus sections, and the date commentaries were written. The descriptor about “different and appropriate sources” was designed to avoid students choosing excerpts from books, tutorial guides, government reports or personal blogs. A number of online media now include opinion columns that are technically “blogs” which are acceptable if they are in a recognized news media source.

Recommendations for the teaching of future candidates

The Internal Assessment 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.

I would also recommend that the IA be spread across the teaching of the syllabus, with one or two of the commentaries completed in the first year of their IB course. This reduces stress on students in their second year and reduces the risk of incomplete portfolios being presented.

Teachers should provide guidance in selection of suitable articles but the student must make the choice. Some schools 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 schools, or students, did not appear to have produced a first and subsequent final draft of the commentaries.

It is important to ensure that the articles and commentaries have been saved in a form that will make them easy to upload, and to check thoroughly that the portfolios sent for moderation are correct and complete.

Further comments

It is important to stress the potential consequences of intellectual dishonesty. Teachers should take care to verify the honesty of work presented, ensuring that the language and analysis presented is really that of the student.

It is also necessary to remind teachers against providing too much assistance to students. It is part of the students’ task to find and analyse the articles: the teacher should not do this. A number of schools presented samples where many students had used the same articles.

A small number of students attempted to “play the system” by producing three commentaries that were on almost identical topics: this should be strongly discouraged by schools as it could be considered intellectual dishonesty.

There were some cases where the student had completely misunderstood the article used: for example, an article on production quotas for fishing was read as an article on import quotas, in another case the article was about the price of gas for consumers and the word “tariff” was used to describe the price but the student confused this with import tariffs. In such cases it is important that the teacher inform the student and suggest they choose another article. If students do not do this they risk having the graphs,

analysis and evaluation being considered inappropriate or not relevant. It is vital that the teacher carefully read the article used by the student to ensure it has been properly understood.

Higher level paper one

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 6	7 - 13	14 - 19	20 - 23	24 - 28	29 - 32	33 - 50

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

Following the sequence of markscheme bullet points (definitions, diagrams, explanation, examples and evaluation/synthesis) the areas of difficulty were as follows. Definitions were sometimes missing or vague, particularly with common access resources (Q1) and the idea of shut down (Q2). Diagrams were generally well done, though a small minority of candidates offered no diagrams. Perhaps the most challenging was in Q2(a) where relatively few could accurately show shutdown for a firm facing imperfect competition. Explanation was again generally good, though in Q3(a) not all candidates made clear whether they were writing about an oil importing or an oil producing country. Examples were as always largely absent which made it difficult for examiners to award the higher achievement levels. This is the major shortcoming of the scripts seen. Evaluation seems to be left to the end of part (b) by many candidates. If, under time pressure, it is squeezed out, this again limits access to higher achievement levels.

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

Questions 2(b) and 4(a) were perhaps the most straightforward for candidates who had studied and revised well. Several part (b) questions asked candidates to distinguish a best approach, and those who were able to justify their choice and discount alternatives with evaluative content were able to score highly. Relatively few such scripts were seen but they were impressive and reflected good teaching, learning and engagement. A similarly small number of candidates provided real world and current examples, showing that for them the subject lives and breathes outside the classroom.

The topics which candidates seemed most pleased to elucidate were negative externalities and characteristics of perfect competition.

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

Question 1

1(a) responses often got the definition of common access resources wrong, confusing it with public goods. The wider context of market failure was better understood. Real world examples were rare.

1(b) subsidies were explained and illustrated quite well, but explanation sometimes dominated evaluation, and only the better scripts considered limitations and alternative policies leading to an evaluative conclusion. Examples were rare.

Question 2

2(a) responses often covered the characteristics of perfect competition and some defined long- and short-run. Rather than explain losses and the shut-down rule, many offered a prepared response on how abnormal profits were competed away in the long run.

2(b) there were a number of good responses, often with a focus on efficiencies, and the possible benefits of natural monopoly. Sadly, examples of monopoly were rare.

Question 3

3(a) responses were variable in how much depth was offered. The best responses considered the effects of a fall in oil prices on producing and consuming countries and were able to explain using AD/AS diagrams. Considering the recent falls in world oil prices, it was surprising that real world references were absent.

3(b) there were some good responses but weaker candidates seemed to forget this question was in the macroeconomics section and talked about specific markets.

Question 4

4(a) responses covered the effects of inflation on export competitiveness quite well, but struggled a little to explain the effects on the level of capital investment. Able candidates could see links to wider macroeconomic issues.

4(b) weaker candidates confused monetary and fiscal policy, and better responses distinguished between demand-pull and cost-push inflation in evaluating the effectiveness of monetary policy. Only the more able candidates were able to trade off alternative policies to reach a conclusion

Recommendations and guidance for the teaching of future candidates

As always in Timezone 1, a number of candidates presented scripts which seemed to imply little or no contact with IB Diploma Economics. Responses were based on everyday assumptions, a sort of vernacular and homespun view of the way the world is. This is distressing for examiners whose aim is to award marks, not to withhold them. The advice to teachers is to familiarise candidates with the Diploma Economics syllabus and the many appropriately written texts.

At the risk of repeating earlier reports, the omission of examples is serious. The mention of a single country, industry, firm or event can change an achievement level. Examples should be real world examples, not generic ones. Teaching should incorporate real world examples and encouragement to use them in exams. Surely the events taking place during the teaching of the course provide food for thought and possible application?

Some diagrams continue to show elementary errors, such as Marginal Cost crossing Average Cost not at the minimum point, and AD/AS diagrams labelled with P and Q, and output levels labelled q.

Further comments

A surprisingly large number of candidates seemed ill-prepared for extended responses in Economics, and exam practice is recommended. If meaningful real-world examples appeared more frequently, examiners would be delighted to award more marks.

Standard level paper one

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 6	7 - 12	13 - 19	20 - 24	25 - 30	31 - 35	36 - 50

General comments

There was a noticeable improvement in the quality of answers in this paper last year and this continued in May 2017. The candidates appear to have a much better understanding of what is expected of them and are able to structure their responses appropriately with accurate economic theory effectively applied.

In section A both questions proved popular but question 2 was found to be more accessible than question 1. In particular, candidates found difficulty in understanding question 1 b) and, for those that did focus on this question, the evaluation was relatively weak.

In section B question 3 proved to be the most popular question and was answered relatively well.

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

A common issue, which prevented even stronger candidates from advancing to the top of the marking criteria, was the inability to give effective examples (e.g. real-world, historical cases of the application and effects of specific macroeconomic policies or realistic real-world microeconomic examples that clearly support the theoretical explanations). Many candidates forget to give definitions or the definitions that are given are too casual. This is a clear discriminator between candidates and examiners are instructed to identify effective examples when considering where the response fits into the marking criteria.

Candidates also found difficulty understanding the specific demands of some of the questions or keeping focused on the question. For example, in question 1a) the question was about a fall in income leading to a fall in demand. There was no credit given to candidates who wrote about the effect of a rise in income, or candidates who wrote about a fall in income leading to a rise in demand. In addition, in question 1b) some candidates interpreted the question as meaning the incomes of the service sector and primary sector producers rising. Candidates should be aware that the questions will link directly to the subject guide and they need to make that connection before they attempt to answer the question. The wording of the question could be criticised for being slightly ambiguous but if candidates know their subject guide they would appreciate that this question is clearly referring to the 'application of income elasticity of demand'

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

The candidates had a good understanding of much of the general theory of economics. For example, they consistently demonstrated an in-depth appreciation of merit goods and the theory of externalities, fiscal and monetary policies, demand-pull and cost-push inflation and good and bad deflation. In addition, diagrams were drawn accurately and were well explained in the majority of scripts. In particular, AS/AD diagrams were used well, were accurate and provided a positive contribution to the response.

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

Question 1

1(a) This proved to be a difficult question for a number of reasons. Many of the candidates were not able to define demand correctly. They were able to explain, in common sense terms, that when people have less money they will spend less, but could not demonstrate knowledge of relevant theory. Too many candidates did not clarify that the question was linked to normal goods or make any reference to Income Elasticity of Demand. Some candidates tried to relate the question to Income Elasticity of Demand and types of goods, but became confused when applying the different terminology of normal goods, necessities and luxuries.

1(b) This was the most poorly answered of all the questions with the majority of candidates failing to get above L2. Candidates generally found it difficult to make evaluative points and, again, many answered in a very generalised way without using suitable economic analysis. Supply side responses, in which the demand side was completely ignored, were not uncommon. Some students took it as rising income of producers, with the whole discussion just focused on increasing workers' income and investment in capital goods based on the assumption that producers have a higher income. These responses tended to achieve a relatively low mark. Finally, some students confused Price Elasticity of Demand with Income Elasticity of Demand with most of the explanation about Price Elasticity of Demand, which was unhelpful.

Question 2

2(a) The candidates seemed well prepared theoretically this year, but too many failed to consider the specific demands of the question and just gave a pre-learned explanation of positive externalities. Many students gave excellent general answers, but failed to consider the specific effects of consuming healthy foods on the population. The definitions of merit goods were also rather vague much of the time.

2(b) Again, generally well done. The better scripts fully explained how advertising might work, provided some evaluation points and also considered alternative policies. Less successful scripts often jumped straight to the evaluation without providing the necessary analytical underpinning, giving an answer that was lacking in diagrams and application of economic theory. This year there were some pretty good real-life examples of advertising and publicity campaigns to stimulate consumption of merit goods.

Question 3

3(a) This was a question for which the students seemed well prepared. Most candidates were able to establish that an increase in interest rates is likely to reduce Aggregate Demand. The most common mistake was not to fully explain the mechanisms by which this would occur by referring to at least two components of Aggregate Demand. As usual, only the best students were able to give relevant historical examples.

3(b) The weakest scripts provided an answer to this question which showed no specific awareness of what fiscal policy actually is and some confused the use of fiscal policy with monetary policy. Others ignored the specific demands of the question and chose to focus only on supply-side policies and monetary policy. Better responses defined fiscal policy and recession clearly, used suitable diagrams, provided evaluation points and considered use of other policies such as monetary and supply side policies.

Question 4

4(a) A straightforward question which produced a diverse range of responses in terms of quality. Some candidates only had a vague notion of the two different types of inflation but did not explain them fully enough in terms of the specific factors contributing to each. A very common mistake was to answer the question in microeconomic terms, for example, referring to the demand for a product instead of Aggregate Demand. Good examples were rarely provided here.

4(b) Those candidates who appreciated that the question required a discussion on the consequences of deflation, generally answered the question well. Many candidates were well prepared in the area of good or bad deflation and were able to use this knowledge well in addressing the question. However, examples of deflation occurring were often not provided. Better scripts were able to focus in on the good or bad deflation analysis as well as providing a range of other reasons why deflation may be either a problem or something beneficial.

Recommendations and guidance for the teaching of future candidates

The candidate should understand that diagrams are models that are used to illustrate changes in the real-world and are only useful if the candidate understands the underlying economic phenomena that cause the shifts of the curves and the changes of equilibrium. They are not an end in themselves and should not be learned as an artifact that just needs to be memorized and reproduced for better grades.

Candidates should be encouraged to write evaluation answers in paragraphs in order to learn to distinguish between different arguments and elaborate more deeply on a specific argument. As much as half of the candidate's answer to part b) should be devoted to discussion points.

Candidates should be encouraged to discuss real-world examples that link textbook theory to contemporary economic events. The search for and selection of Internal Assessment articles presents ample opportunities for this and teachers should actively integrate this into their classroom teaching.

Candidates should be reminded that they need to understand the specific demands of questions to achieve high marks. Rote learning can often only take a candidate to the L2 markband.

At the very least teachers need to ensure that candidates have the basic structure correct. They should ensure that when answering questions candidates include:

- Definitions

- Diagrams
- analysis/explanation
- real-world examples
- evaluation (for part b questions).

Higher level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 6	7 - 12	13 - 15	16 - 19	20 - 24	25 - 28	29 - 40

General comments

This subject report, used in conjunction with the markscheme, is designed to help teachers prepare their students for future exams by clarifying the expectations of the IB examining team. Since the markscheme outlines the most appropriate responses, this report focuses more on the 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.

In Section A, the vast majority of students attempted Question 1. In Section B, there was more of a balance, with perhaps slightly more students doing Question 3.

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

SECTION A

Question 1

1(a)(i) Virtually all students who attempted this question earned full marks.

1(a)(ii) Most students defined the term accurately. Some students neglected to include the term “real” when referring to growth in the value of GDP. Some students erroneously thought that economic growth is an increase in per capita GDP.

1(b) As is usually the case, tariff analysis is a popular area for IB students and the majority of students drew a mostly accurate tariff diagram. Errors included not correctly labelling all the curves. Many students provided the textbook diagram with (unnecessarily) all areas labelled with letters and then at

some length explained every area on the diagram (e.g. welfare loss, change in imports, change in producer revenue, change in consumer expenditure, government revenue). This was unnecessary, as the only response required was a reference to the tariff revenue. However, what was striking was that amidst this analysis, a great many students did not even refer to the government revenue.

1(c) This was a straightforward question and most students accurately showed an increase in Aggregate Demand for Kenya as a result of rising demand for its exports. It was pleasing to see students using accurate terminology such as “net exports are a component of aggregate demand”. One not infrequent error was to show an increase in Kenyan Short Run Aggregate Supply as a result of increased demand for exports.

1(d) “Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Weaker responses consisted of a very generic tariff analysis with no links to growth. This may have been due to careless reading of the question. Answers scoring in the middle of the range used standard tariff analysis with a one-sided assessment of the effects on economic growth. There were some very good answers where students really put the tariff analysis into the Kenyan context and then critically evaluated the way in which protectionism could impact economic growth.

Question 2

Very few candidates attempted this question and those who did clearly struggled with the Terms of trade topic.

2(a)(i) Most students were able to note that a Current Account Deficit involved more spending on imports than revenue from exports, but struggled to include any of the other areas (investment income or transfers).

2(a)(ii) Some students remembered that Gross National Income includes income from abroad, but neglected to include income sent abroad.

2(b) Although it wasn't required in the question, some students used a demand curve to show how a fall in price when demand is inelastic results in a fall in revenue. As always, there was sloppy language when writing about elasticity; students often refer to 'big' and 'small' changes, rather than proportionately larger or smaller changes.

2(c) This was very weakly done by most students who simply did not understand the term and could not interpret the data.

2(d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Since the topic was so badly understood, there were few examples of good answers here. It is hard to know whether this is a poorly understood topic worldwide since the first question was so attractive to the majority of students.

SECTION B

Question 3

3(a)(i) Despite the fact that this term comes up quite frequently, many students continue to struggle with an accurate definition, and many still resort to a list of examples.

3(a)(ii) Most students scored full marks on this question.

3(b) This was generally very well done, with most students achieving at least three marks for a diagram showing a fall in supply. Many students neglected to give a reason for the fall in supply in the explanation. Some students drew an international trade diagram incorporating a subsidy, which revealed a lack of understanding.

3(c) This was generally well done, with most students achieving at least three marks for a diagram showing an outward shift in the Production Possibility Curve (PPC). Some students neglected to give an accurate reason for the shift in the explanation. When discussing shifts of the PPC, students should be encouraged to consider the effect on the quantity and quality of factors of production.

3(d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

The full range of marks was awarded on this question. Near the bottom end, students either had no understanding that market-oriented policies and interventionist policies are two different types of policies or they made no attempt to link the policies to economic development. In good answers, students showed a good awareness of the two types of policies, and made appropriate links to economic development. At the top end, this was accompanied by critical awareness of the effect of the different supply side policies on economic development. Essential to this was putting the response in the context of Indonesian economic development, rather than providing a generic response.

Question 4

4(a)(i) This was generally very well done.

4(a)(ii) Many students were unable to provide an accurate definition, with a notable number of students defining average costs rather than marginal costs.

4(b) Students need to be aware that they need to use the information in the text to answer the question. In this case, the text made it clear that the depreciation of the kwacha had resulted in rising import costs. Therefore, it was necessary to make the link to a fall in short run aggregate supply. Most students were able to illustrate this, but some faltered in the explanation.

4(c) This was generally very well handled, and most students seem very comfortable with this theory. Errors included inaccurate labels or mixing up the meaning of the values.

4(d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Many students were able to explain how overdependence on a commodity export may be damaging to an economy. Obviously, to do well, there needed to be appropriate links to economic development, and many were not able to do this successfully.

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. Since the structure of the questions and the expectations have not changed, but the same issues *still* persist, the advice remains largely the same:

- Teachers should really encourage their students to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the students are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help students in this important skill, candidates might be encouraged to compile a glossary of terms. Students 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.
- Given the importance of infrastructure to economic development, teachers are advised to stress that students need to be able to define it accurately.
- Terms of trade is a topic that may be tested on Paper 2 and on Paper 3. This seems to be an area where students struggle. At the very least, students need to be able to define the terms and interpret the data, even if they might struggle on an extended part (d) response.
- In part (a) questions, students should be encouraged to write no more than two sentences, for defining, listing, stating, or describing. Some candidates write far too much and then suffer time problems later in the paper.
- Many questions (b) and (c) 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), students 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. Students 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.
- If at all possible, diagrams should not be placed at the end of the exam. They should be drawn exactly where the accompanying explanation is written.
- Students 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 students are not allowed to use coloured pens/pencils on their exams. Therefore, there should not be references to different coloured lines in the diagram, as these will not show up when the papers are scanned. 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.
- Students must be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents students from achieving full marks. Some students seem to indiscriminately label all diagrams with price and quantity, even the Production Possibility Curve or Lorenz curve diagrams.
- Students 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. In Question 1b on this paper, there were a remarkable number of students who explained everything about the tariff diagram. This

- illustrates a poor allocation of scarce time.
- Where a diagram is required, the questions stipulate which diagram is to be used. Despite this, students often draw different ones. This is yet another reason why it is so important to read the question carefully.
 - Students 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, students come very close, but don't 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. This might have helped in Question 1b on this paper.
 - Students must be reminded that to achieve top marks in questions (d), they must make reference to the text. Encourage students to use quotation marks, or make references to the relevant paragraphs or texts.
 - Part (d) answers also require students 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 that reach the top band must illustrate that the student can clearly use/apply that theory. Students 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. Students should also be encouraged to draw a diagram in part (d) as the basis for economic analysis.
 - In Section B, the part (d) answers are inevitably linked to economic development, and so the students must be very explicit in making this link. Too often, the students reveal a lack of awareness of the difference between economic growth and economic development.
 - 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 of the depth required in the response given by the IB in the syllabus guide and students and teachers need to be aware of these.
 - Theory provided in part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Students should be encouraged to fully 'engage' with the case study, in order to be able to apply the theory.
 - Examiners are concerned at the extent to which students are uncritically paraphrasing the texts in their part (d) answers. Students should be encouraged to think critically about the information in the text.

Standard 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 students for future exams by clarifying the expectations of the IB examining team. Since the mark scheme 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 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

SECTION A

Question 1 seemed to be far more popular than question 2, presumably because it related to trade protection, a popular topic with candidates and teachers.

Question 1

1(a)(i) Virtually all students who attempted this question earned full marks.

1(a)(ii) Most students defined the term accurately. Some students neglected to include the term “real” when referring to growth in the value of GDP. Some students erroneously thought that economic growth is an increase in per capita GDP.

1(b) As is usually the case, tariff analysis is a popular area for IB students and the majority of students drew a mostly accurate tariff diagram. Errors included not correctly labelling all the curves. Many students provided the textbook diagram with (unnecessarily) all areas labelled with letters and then at

some length explained every area on the diagram (e.g. welfare loss, change in imports, change in producer revenue, change in consumer expenditure, government revenue). This was unnecessary, as the only response required was a reference to the tariff revenue. However, what was striking was that amidst this analysis, a great many students did not even refer to the government revenue.

1(c) No comment.

1(d) "Evaluate" requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Weaker responses consisted of a very generic tariff analysis with no links to growth. This may have been due to careless reading of the question. Answers scoring in the middle of the range used standard tariff analysis, with a one-sided assessment of the effects on economic growth. There were some very good answers where candidates really put the tariff analysis into the Kenyan context, and then critically evaluated the way in which protectionism could impact economic growth.

Question 2

2(a)(i) Most candidates were aware that it was a fall in the exchange rate of a currency, but many did not state that it was in a floating exchange rate system, or caused as a result of market forces (supply and demand).

2(a)(ii) This was not, on the whole, well answered. Many candidates seemed to be unaware of the components of the balance of payments. Better responses explained that it was a measure of the net flow of funds from trade in goods and services, net incomes, and transfers, but they were few and far between.

2(b) Most candidates explained that the slowing growth in China would lead to a fall in demand for Australian exports, and so a fall in demand for the Australian dollar, thus reducing the exchange rate. They also drew a suitable diagram. Weaker candidates labelled the diagram poorly and did not link the fall in demand for exports with the fall in demand for the Australian dollar. Some candidates were confused between depreciation and recession and drew AD/AS diagrams.

2(c) This was generally very well answered. Most candidates drew a demand and supply diagram, with a fall in demand and an increase in supply, and indicated falling prices of iron ore. They then explained the situation. Weaker candidates only showed one of the effects, i.e. the fall in demand or the increase in supply.

2(d) "Discuss" requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Weaker responses consisted of a simple, usually short, list of possible consequences of a fall in the value of a currency. Answers scoring in the middle of the range identified consequences and explained them in relation to the Australian economy, but they tended to be one-sided. There were some very good answers, where candidates explained a number of consequences, both positive and negative, in the context of the Australian economy, and then critically evaluated their impact in a balanced manner.

SECTION B

Question 3 seemed to be a little more popular than Question 4, although it was not necessarily better answered.

Question 3

3(a)(i) Although it has been asked before, this was not well answered. Many candidates seem to be under the misapprehension that giving examples of infrastructure is the same as defining it.

3(a)(ii) Again, this was not well answered by many candidates. They seemed to be unaware that it is a form of integration where member countries trade freely among themselves, while adopting common trade policies towards non-member countries. It tended to be the treatment of non-member countries that was not understood.

3(b) Most candidates drew a suitable Lorenz curve diagram, with two curves, and the curve closer to the line of equality labelled as Angola. However, many were unable to label the axes correctly. Explanations were normally correct, although some failed to use the diagram to help the explanation.

3(c) Many candidates drew a subsidy diagram and then explained that a removal of the subsidy would increase firms' costs, leading to a fall in supply, with a higher price and a lower quantity demanded and supplied. Weaker candidates were not able to draw an appropriate diagram and so were unable to answer the question effectively.

3(d) "Compare and contrast" requires candidates to give an account of similarities and differences between two (or more) items or situations, referring to both (all) of them throughout.

Candidates seemed to like the 'compare and contrast' command term and many wrote at length. However, weaker responses were often purely descriptive, simply restating information about Angola and Namibia from the extracts and data. Very few considered how likely the factors were to promote economic development.

Better candidates defined the concept of economic development. They then identified the similarities and differences between the data for the two countries, evaluating them in terms of their relevance for the countries to achieve, or be blocked from, economic development.

Question 4

4(a)(i) Virtually all students who attempted this question earned full marks.

4(a)(ii) Most candidates realised that it was a movement of ownership of companies from the state to the private sector. Weaker candidates simply did not recognise the term.

4(b) Better responses drew a Production Possibilities Curve diagram, with an outward shift of the Production Possibilities Curve, and explained that China's investment in infrastructure would improve the quantity and/or quality of capital, increasing potential output (production possibilities). Weaker candidates were unable to draw an appropriate diagram and wrote vaguely about increased infrastructure causing economic growth.

4(c) This was generally well answered. Most candidates could define opportunity cost and then explain that money spent on debt-servicing had an opportunity cost that was the reduction of the ability of the Sri Lankan government to spend on achieving development objectives, such as infrastructure spending, or reducing youth unemployment. Weaker candidates defined opportunity cost, but could not apply the concept to the Sri Lankan economy.

4(d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Stronger candidates introduced market-oriented reforms, such as investing in infrastructure, opening up the financial system, trade liberalization, and liberalizing the currency. They then explained the possible outcomes of the reforms, in the context of the text, and their possible relevance/effectiveness for Sri Lanka’s economic development.

A significant number of weaker candidates were not really aware of the meaning of market-oriented reforms and wrote in very general terms about economic development and how it might be achieved.

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. However, since the structure of the questions and the expectations have not changed, the advice remains largely the same.

- Teachers should encourage their students to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the students are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help students in this important skill, candidates might be encouraged to compile a glossary of terms. Students 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. Examples are not definitions.
- In part (a) questions, students should be encouraged to write no more than two sentences, for defining, listing, stating, or describing. Some candidates write far too much and then suffer time problems later in the paper.
- Many questions (b) and (c) 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), students 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. Students 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.
- If at all possible, diagrams should not be placed at the end of the exam. They should be drawn exactly where the accompanying explanation is written.
- Students 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.
- Diagrams should be made appropriate to the question and/or the market in the question.
- Students must be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents students from achieving full marks.
- Students must be taught to 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, such as in the tariff question, 1(b).

- Where a diagram is required, the questions now always stipulate which diagram is to be used. Despite this, students often draw different ones. This is yet another reason why it is so important to read the question carefully.
- Students 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, students come very close, but don't 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.
- Students must be reminded that to achieve top marks in questions (d), they must make reference to the text. Encourage students to use quotation marks, or make references to the relevant paragraphs or texts.
- Part (d) answers also require students 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 student can clearly use/apply that theory. Students 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 of the depth required in the response given by the IB in the syllabus guide and students and teachers need to be aware of these.
- Theory provided in part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Students should be encouraged to fully 'engage' with the case study, in order to be able to apply the theory.
- Examiners are concerned at the extent to which students are uncritically paraphrasing the texts in their part (d) answers. Students should be encouraged to think critically about the information in the text.

Higher level paper three

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 4	5 - 9	10 - 14	15 - 21	22 - 27	28 - 34	35 - 50

General comments

Candidates' ability to perform quantitative techniques was mixed. It is clear that many candidates have been well prepared to apply those techniques which have appeared in previous examinations, while they struggled to apply those which have been examined for the first time. In particular, only a minority of candidates were able to apply data to the concept of "returns to scale". When required to outline or explain economic concepts and relationships many candidates demonstrated a general understanding but were not able to explain ideas with the expected degree of precision.

Candidates were able to demonstrate the ability to explain economic concepts, although weaker responses consisted of statements rather than explanations. For example, although many candidates recognised and stated the J-Curve effect, explanations were often limited.

The trend of fewer rounding errors and missing units continues, although far too many candidates forfeit marks for simple oversights in the presentation of their work. Marks were also lost because percentages were not calculated based on original values.

The volume of work expected in the time allowed for HP3 has increased steadily in recent years, but there was little evidence that the work of candidates suffered from the time constraint.

Although the quantitative techniques examined have become a little more challenging in recent sessions, the level of mathematical ability required for this component is still at a very basic level. This component is accessible to all IB Diploma students.

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

Section One - microeconomics

- Returns to scale
- Interpretation of a total revenue curve
- Calculation of marginal revenue
- Explanation of why a profit-maximising monopolist would never choose to operate on the inelastic portion of its demand curve.
- Non-achievement of allocative efficiency in monopolistic competition
- Calculation of social surplus
- Calculation of consumer surplus following the imposition of a price ceiling

Section Two - macroeconomics

- Recognition of disinflation from given/produced data
- Recognition of the reason for using a *weighted* price index
- Understanding of a price index – with 100 as the base year index number
- The potential usefulness of a producer price index

Section Three – international economics

- Calculation of the current account balance – many candidates were not able to determine which items from the table should be excluded.

Section Four – development economics

- Inequality as a barrier to development

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

Section One - microeconomics

- Calculation of average revenue from a total revenue graph
- Calculation of price elasticity of demand
- Analysis of monopolistic competition – profits and movement to long run equilibrium

Section Two - macroeconomics

- Inflation and disinflation
- Calculation of the rate of inflation from given CPI data
- Recognition of degrees of inequality from given data
- Lorenz curves and Gini coefficient
- Poverty traps

Section Three - international economics

- Definition of comparative advantage
- Calculation of government revenue from a tariff
- The relationship between the current account balance and the exchange rate

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

Question 1

1(a) Few candidates were able to provide a precise definition, with the majority confusing returns to scale with returns to a variable factor.

1(b) The majority of candidates did not appear to recognize that all inputs were increasing at the same rate, while this rate (the percentage increase) changed as the level of inputs increased. Most of the students who attempted to use the data to illustrate the concept referred to the absolute increases in output rather than the percentage increases.

1(c)(i) Although a significant minority of candidates recognized that marginal revenue is zero when total revenue is maximized, the majority did not.

1(c)(ii) Generally answered well, although a significant proportion of candidates gave the total revenue figure rather than the marginal revenue, or omitted the dollar sign and so were penalized.

1(c)(iii) Although stronger candidates coped well with this question, a large number of scripts multiplied the total revenue (300) by the level of output (2) to arrive at an incorrect total revenue. Several candidates provided an answer of \$20, that is, a “per unit profit” rather than simply profit.

1(d) Many candidates provided an answer of \$24, neglecting to divide by the change in quantity. Weaker candidates struggled to provide or apply a formula.

1(e) A significant number of candidates made simple errors with elasticity calculations, such as inverting the formula, miscalculating percentages or expressing their answer as a percentage.

1(f) Responses to this question were almost without exception very weak. Some candidates explained that a fall in price would reduce revenue if demand is price inelastic, but offered little else. It was rare to see a response which explained why profit can always be increased by raising price when demand is price inelastic. A very small number of candidates were correct in explaining that if marginal revenue is negative, and since marginal cost cannot be negative, profit cannot be maximized.

1(g) Generally well-answered, although some candidates referred to “different products” rather than “differentiated products”. A small number of candidates confused monopolistic competition with monopoly.

1(h) Generally well answered. A common error was to provide a “per unit” answer of \$4.

1(i) The majority of candidates were able to explain the exit of some loss-making firms. However, many scripts then referred to “a fall in average cost” as the reason why $AR = AC$ in the long run. A small number of candidates wrote that the firm would need to eliminate losses by the application of appropriate marketing strategies.

1(j) Most candidates were able to state the condition for allocative efficiency, but struggled to show that since MR must equal MC for maximum profit and $P > MR$, since demand is negatively sloped, then $P > MC$, so allocative efficiency cannot be achieved.

Question 2

2(a) A significant number of students were able to produce the correct answer, although many only calculated consumer surplus or selected different areas of the graph. Others simply multiplied price by quantity. Marks were forfeited due to incorrect use of units, for example, dollars or thousands.

2(b)(i) Generally well-answered, with “unit errors” as above

2(b)(ii) The majority of candidates struggled with this question, calculating the new CS as \$40 500, neglecting the fact that output falls to 6 000 units since consumer surplus refers to units of the good actually purchased – quantity supplied has fallen with the imposition of a price ceiling, and so consumers are unable to purchase more than the new market supply.

2(b)(iii) Many provided an answer of $(9\,000 - 6\,000)/2 = \$1\,500$. Candidates who answered correctly appeared to recognize the appropriate area of the graph and calculated correctly.

2(c) Generally well answered.

2(d)(i) Well answered. Weaker candidates referred to “greater efficiency” or did not refer to the idea that opportunity cost is lower in comparison to another country. A significant minority confused absolute advantage with comparative advantage.

2(d)(ii) Stronger candidates referred to the existence of transport costs and protectionism, the static nature of the model and the potential disadvantages of over-specialisation. However, many scripts relied simply on the assumption of two products, two countries, whereas the principle of comparative advantage is a model which can be generalized, and the simplifying assumptions are not limitations of the model.

2(e) Generally well done. A surprising number of scripts contained a calculation showing $2 \times 3 = 5$.

2(f)(i) It was disappointing to see so many candidates calculate incorrectly, either by including all items provided in the calculation or by failing to recognize that net current transfers and net investment income should be included.

2(f)(ii) The majority of candidates recognized that a current account deficit would lead to a currency depreciation, but many neglected to provide an outline which referred to demand/supply of the currency. It was also common for candidates to suggest that depreciation would be the result of a government policy to correct the deficit.

2(g)(i) Well answered.

2(g)(ii) It was pleasing to note that many candidates recognized the significance of the Marshall-Lerner condition and/or the J-Curve effect. Weaker candidates stated that elasticities would change, causing improvement in the current balance, while stronger candidates explained that the relative prices of exports and imports would change, leading to different effects on the value of $(X-M)$ in the short and long run.

Question 3

3(a) Generally well-answered. Weaker candidates confused disinflation with deflation.

3(b)(i) Weaker candidates struggled, but the majority were able to calculate correctly, although some rounding errors were in evidence.

3(b)(ii) It was very surprising to see how many students provided correct calculations in (b)i but then selected “2015” as the year of disinflation. This suggests that they learned the definition but did not understand the concept.

3(c)(i) Stronger candidates were able to outline why weights are used for a Consumer Price Index, but many simply stated that they represented the proportion of income spent on a product, therefore not directly answering the question. Some candidates suggested that the use of weights allowed statisticians to exclude price-volatile products. Many others suggested that it allows year on year comparisons to be made.

3(c)(ii) Surprisingly, the vast majority of candidates simply calculated the year on year rate of inflation, not recognizing that the Consumer Price Index in the base year would have been 100.

3(d) Weaker candidates were clearly unaware of the existence of a producer price index. Many, however, were able to relate the Producer Price Index to production costs, thus indicating potential future inflation.

3(e) Stronger candidates were able to explain that deflation is typically caused by a decrease in aggregate demand, with its associated effects. However, many candidates simply stated a list of effects, such as unemployment, falling GDP, low growth, bankruptcies, without explanation. Stronger candidates added balance to their answers by referring to the cause of a deflationary spiral or the effects of increasing real debt levels.

3(f) Generally very well done. Weaker candidates did not use the data.

3(g)(i) The majority of students were able to sketch appropriate Lorenz curves and label axes. However, it is not appropriate to draw two curves in different colours and label as such – with the advent of emarking, examiners read scripts in black and white.

3(g)(ii) Generally well-answered.

3(h) Weaker students provided a vague definition which related to persistent poverty without accurate elaboration. Those who identified the linked elements of a cycle, with several possible versions, were rewarded.

3(i) A large proportion of students simply repeated their previous answer here, describing the poverty trap and failing to relate to development. It was common to see scripts which simply referred to poor people being unable to afford goods, so living standards would fall. Responses which referred to the opportunity costs of welfare payments or to the link between inequality, corruption and power, while relating specifically to economic development, were rewarded.

Recommendations and guidance for the teaching of future candidates

Students should be introduced carefully to the mathematical concepts inherent in the course, particularly relating to the theory of the firm. For example, the distinction between returns to scale and the law of diminishing returns can be illustrated effectively with figures and such illustration acts as an aid to learning.

Such relationships can also be used effectively when explaining concepts. For example, if demand is price inelastic and therefore Marginal Revenue (MR) is negative, while Marginal Cost (MC) must be positive, then it is impossible to maximise profit ($MC = MR$) when demand is price inelastic.

Student should be prepared to explain concepts/reasons/limitations rather than simply to state them. For example, it is not sufficient to merely state that the assumption of zero transport costs is a limitation of the theory of comparative advantage.

Candidates should be reminded to read questions carefully, and use the data provided in their answer if required.

Candidates should be instructed to write within the boxes provided only, and to use additional sheets if required. Colours should not be used/referred to as examiners are unable to distinguish between different colours.

Candidates should be reminded to show workings and to use the correct units and round to 2 decimal places.

Students should focus on the question being asked. For example, the two key points of the final question were “highly unequal” and “barrier to economic development”, which are not explained merely with a description of poverty.