

May 2018 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 - 14	15 - 29	30 - 39	40 - 50	51 - 61	62 - 72	73 - 100

Standard level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 9	10 - 20	21 - 35	36 - 47	48 - 59	60 - 72	73 - 100

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 second May session with e-marking and although procedures are fairly straightforward, it will probably take a few more sessions before all centres, teachers and moderators are comfortable.

Quite a few centres did not upload the articles used by the candidates for the internal assessment (IA), but just gave the URL link. This is not acceptable and centres should be aware that moderators are instructed not to search for any missing articles but to mark the material as it is. As such, candidates will be penalised for failing to meet the requirements.

The order of the three commentaries was sometimes uploaded in a different order to the 3/CSE form and the order in which marks awarded by the teachers were given. This makes it difficult for the moderator to match the marks given by the teacher for each commentary. It would be a good idea for candidates to label each commentary with a number that matches the 3/CSE form to help solve this problem.

Some centres still included individual and summary cover sheets, which is not necessary. The 3/CSE form has replaced these and sometimes it was incorrectly filled in. From May 2017 onwards, the 'commentary coversheet' and 'summary portfolio coversheet' were not required. These forms were replaced by the 3/CSE form, one of which is required for each candidate. The 3/CSE form is available on the PRC (http://xmltwo.ibo.org/publications/Assess_pro/forms/2018/3CSE_en.pdf).

Many teachers did not give reasons/comments as to why they awarded marks. Sometimes the comments were very short and did not assist the moderator in any way. There were noticeable signs that many centres do now apply the assessment criteria appropriately, but there are still quite a few centres where this is not the case and the marks awarded by the teacher were too harsh or, more generally, too generous. The majority of the candidates had written three commentaries and adhered to most of the rubric requirements. However, there were a few centres that were very generous and had not fully applied these, such as articles being older than one year when the commentary was written and a candidate using the same source more than once.

The range and suitability of the work submitted

The majority of candidates assessed had completed three commentaries and addressed three different syllabus areas using three different sources. The choice of articles was usually suitable, although it was a shame to see so few on economic development. Some candidates had produced their three commentaries in a very short period of time, which is not the intention of the IB and should be discouraged. Some candidates seemed to have searched for other articles related to the selected article to write their commentaries on and then used the extra information to write their analyses and evaluations, which again is not appropriate and the intention of the IB. Articles chosen should have enough content for a candidate to be able to write a commentary that addresses all the assessment criteria, especially an analysis and evaluation. There was a wide range of ability seen.

A few centres did not accurately complete the 3/CSE form. The maximum time lapse between the date the source article was published and the writing of the commentary is one year and this was sometimes not applied. Also, the maximum word count is 750 words, although there is no minimum word count and some teachers are penalizing their candidates if the word count is less than 650 words, which is not appropriate. 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 did not adhere to the requirement that footnotes are only to be used for references, but not definitions. If they are used for the latter, then words are counted and this may make the commentary exceed the 750-word limit. Specific, textbook definitions are unnecessary but an understanding of terms must be shown.

Articles should be complete, not provided in sections, and if the articles are long then the specific areas being written about in the commentary should be highlighted. If the articles are in a different language, a full translation of the article should be provided in addition to the original article.

A few centres had candidates only write commentaries based on articles about their own countries and this is not recommended as this is the International Baccalaureate so at least one article, if not all three selected should be about different countries.

Candidate performance against each criterion

Criterion A: Diagrams

Most candidates included at least one relevant diagram, although these were often not well explained. Too often diagrams had been copied from textbooks or websites and labelling of axes etc was generic. A few candidates had even pasted a photograph of a diagram taken from a textbook. Even though most were referenced it was hard to give full marks for such generic diagrams. It is preferable that candidates produce their own diagrams, either by hand or using computer skills. Neatly hand-drawn diagrams are very much preferable to copied ones. Although this criterion does say 'diagrams' in the plural, candidates can gain full marks if they use only one diagram. However, where the article lends itself to more than one it is usually the case that candidates do not attain full marks for this criterion. Also graphs that have been adapted to the article using the correct product and actual prices (if known) are preferable to generic graphs. Sometimes incorrect currencies were used when prices were given. Some candidates excessively labelled the diagrams and extra words to those allowed has to be included in the word count. Some candidates referred to colours on the graphs but were seen as only black and white.

Criterion B: Terminology

Correct terminology was used by the majority of candidates but not always used appropriately throughout the whole commentary. There was sometimes incorrect terminology used too, such as devaluation instead of correctly used depreciation. Some candidates avidly defined every single term they used and referenced the definitions with footnotes, which is unnecessary. If precise definitions are used they must be in quotation marks and referenced as to the source. Definitions must not be in footnotes, as they will be ignored. Some candidates gave a list of definitions of terms that they had used at the end of each commentary, which is inappropriate and unnecessary as this criterion's aim is an implication that the candidate understands the terms used. The majority of candidates did use appropriate terminology so it was rare to see 0 marks awarded for this criterion and the majority did score well.

Criterion C: Application

The application of relevant economic concepts usually was satisfactory but too often not throughout the whole commentary when candidates started to apply pure theory that was not relevant to the article. Links need to be made between the economic theories/concepts and the article itself. Some candidates wrote the commentaries using the correct economic theory but with little or no reference to the article. Some candidates had selected difficult articles where they really did not understand the theory present and therefore it was hard for them to score more than 1 mark in this criterion. Some articles chosen dealt with issues that are not in the IB

syllabus and again, they did not score well. However, the majority of candidates did score quite well in this criterion.

Criterion D: Analysis

Analyses were usually attempted and a range of marks was awarded but too often this was rather limited, especially for those candidates who described what was happening and wrote more of a précis than an analysis. The aim is for candidates to explain and develop the theories linked to the articles. Sometimes there was a description of the article, followed by a description of the relevant theory but the two were not linked together. Quite a large number of candidates just wrote about the theory, often giving advantages and disadvantages or alternatives to policies, seeing these as evaluation, that were irrelevant to the article. Many commentaries did have 'appropriate' analyses but were unable to achieve full marks as they were not 'effective'.

Criterion E: Evaluation

It was very pleasing to see that most candidates did attempt to evaluate, although quite frequently this was irrelevant, incorrect or unsupported. Quite a few candidates had researched other related articles and used these for their analyses and evaluations but they could not achieve top marks as the commentary must be written on the article selected. Extra material can only be used as a support, not as the basis of the evaluation. Some articles selected have already been analysed and evaluated, so the candidates are not actually synthesizing their own analysis and thus they could not attain top marks. Many just described what was happening and thus the evaluation was seen to be limited. Too many candidates used their own opinions as an evaluation, but this was too often unsupported. Also, to attain top marks the candidate must consider counter-arguments if relevant and give a balanced evaluation.

Criterion F: Rubric requirements

The majority of candidates did meet the rubric requirements, but some did exceed the word limit of 750 words and actually stated the word count as being over this. It is actually not required to state the word count. Some candidates stated they were addressing a section of the syllabus that was incorrect. Again some used the same media source twice, a few had selected articles older than one year when they wrote the commentary and finally several centres did not include the articles themselves, but just references to them, which is not acceptable. These are all areas addressed by this criterion and there is very little excuse not to adhere to these rubric requirements that do not address economic skills. Occasionally articles chosen were not appropriate, such as blogs, and 1 mark can be lost for this.

Recommendations for the teaching of future candidates

Candidates should take at least 6 to 9 months to complete the portfolio of 3 commentaries, if not longer. The IA is an integral part of the IB course and should not be seen as a set of assignments to complete at the end, which it was by some candidates. Each assignment should be completed when different sections of the syllabus are being taught, so candidates may do

one or two commentaries in year 1 and the remainder in year 2. I would also recommend encouraging candidates to find articles on economic development and select articles about different countries other than their own.

Candidates should be discouraged from seeking other sources to add on to the information already provided in their selected article. If they select appropriate articles, of a length that gives them enough to write about, there should be no need for extra information.

Teachers are to guide candidates but not to choose articles for them to write their commentaries on. It was noticed in some centres that the sample of candidates had all written their three commentaries on very similar topics. Teachers may give one written feedback only on the first submission and the second submission must be final. I recommend calling them submissions rather than 'drafts' as this word may seem rather carefree.

It is recommended that candidates download and save articles directly with the source see-able as honesty is sometimes compromised if sources are just named. Also, the details of the sources in each file should match with the details given on the 3/CSE form. Highlighting the areas of long articles being commented on is recommended too.

Candidates should be informed that there is no need to fully define every economic term used but just use, apply and explain terms appropriately.

Teachers should make brief comments as to why they awarded marks. When teachers write no comments about why marks have been given, the moderator sometimes is unsure as to why marks have been or not been given, particularly for criterion F. These comments should not be addressed to the candidate or just comments about the candidate's ability but purely as to why marks have been given for each criterion.

It was obvious sometimes that the teacher had not checked the article and commentary submitted at all, such as when an electricity tariff being raised was seen as a trade tariff. It is the role of the teacher to check the article and the first submitted commentary. Referencing of the article itself should be on the 3/CSE and it is very helpful, as mentioned above, if the article is directly taken from the website, not a copy and pasted article or a Microsoft word document. Candidates MUST include the full article with the commentary even if only a section of the article is being used for the commentary. Diagrams need to be presented appropriately, carefully labelled as to the content of the article and be dynamic and not generic.

Further comments

It is very important to stress the importance of academic honesty in the portfolios. Teachers should ensure that all work presented is that of the candidate alone.

It is also necessary to remind teachers against providing too much help and there should only be one written feedback given on the first writing of the commentary and no more. Candidates are not permitted to continually re-draft their commentaries.

Teachers at times seem to misinterpret the criteria, especially Criterion F. Quite a few marks of 0 were given when only 1 rubric requirement was breached. There also seemed to be some

misunderstanding between Criterion C and D. Also, some teachers gave 1 mark only for Criterion B when definitions were not given for terms used. Teachers must ensure that they are fully aware of the marking criterion and also that the candidates themselves are aware of these. It can be quite obvious sometimes that either (or both) the candidate and teacher are not aware of these.

Higher level paper one

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 7	8 - 14	15 - 19	20 - 23	24 - 27	28 - 31	32 - 50

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

Definitions were sometimes missing, especially for stakeholders, consumer confidence and full employment or were vague, particularly for wealth, which was taken to be synonymous to income.

Diagrams were generally relevant and well-drawn, though a few candidates still had labelling issues, particularly with macroeconomics diagrams.

Perhaps the most challenging was question 1(a) where only a few candidates could identify the excess demand correctly. In question 2(a) diagrams showing long run average cost and economies of scale were not accurately drawn.

Explanation was generally good though in question 1(a) only a few could explain the mechanism to reach the new equilibrium. For question 1(b) market failure theory and diagrams were well applied though in others the externality was shown incorrectly. Also for question 4(b) only a few could relate the fiscal policy explicitly to long-run economic growth.

Examples were as always either largely missing or not well developed which made it difficult for the examiners to award higher achievement levels.

Evaluation was again limited and explanation dominated over evaluation for many.

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

Questions 1(b), 3(a) and 4(a) were perhaps the most straightforward and were well attempted. A few candidates provided real-world and current examples, particularly for question 1(b) showing awareness about the real-world scenario and its relationship with economics.

Candidates were very comfortable in explaining the concept of recessionary gap and expansionary fiscal policy. The impact on stakeholders was well explained by many with an effective use of diagram but explanation dominated over evaluation.

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

Question 1

(a) Many candidates were not able to identify the excess demand originating because of a decrease in supply. There were a few who digressed into a discussion of price ceilings and an increase in demand. Besides, the mechanism of reaching the new equilibrium was only attempted by a few. Hypothetical examples were seen but real-world examples were rare.

(b) Many candidates drew correct diagrams to represent the impact of a tax but many did not go beyond describing the impact on the stakeholders. The lowest achieving responses made errors in explaining the impact especially the areas of the burden and tax revenue. Most candidates approached the concept of unhealthy drinks by considering them as a demerit good but only a few could justify the same. A few candidates interpreted the question to be about the effectiveness of tax to correct the externality and compared it with other outcomes. A few candidates even cited the example of an indirect tax on cigarettes which was not relevant.

Question 2

(a) Most candidates focused on the reasons for the formation of monopoly rather than economies of scale. A few were even confused between increasing returns to scale and economies of scale as the two were treated to be the same. Diagrams showing long run average cost and economies of scale were drawn accurately by a few candidates only. Examples were rare.

(b) Most candidates were able to explain the monopoly power and its impact on price and quantity thereby justifying the need for government intervention but only a few good responses were able to provide a good discussion on legislation being the best way to deal with the problem of monopoly power. Many candidates suggested alternative ways to reduce monopoly power with limited discussion. Examples were rarely seen.

Question 3

(a) Candidates were able to explain the impact on aggregate demand quite well but failed to define the terms accurately. Many candidates considered wealth and income to be the same and only a few defined consumer confidence. Examples were given only by a few.

(b) Most candidates found this question part a little difficult. A few high achieving responses were able to explain the monetarist approach well but the Keynesian approach was not well developed. Besides the Keynesian AD/AS diagram was labelled as LRAS by many. The command term “examine” was also not well understood and hence many candidates failed to reach higher levels of achievement.

Question 4

(a) Many high achieving responses were seen with a clear understanding of the concept of expansionary fiscal policy and its use in closing a deflationary gap. Diagrams were appropriately drawn but examples were provided only by a few.

(b) Candidates were able to explain the impact of fiscal policy on economic growth but only a few were able to explicitly address their response to long-term economic growth. Alternate policies were well explained but evaluation was limited.

Recommendations and guidance for the teaching of future candidates

- Real-world examples are required and need to be incorporated in the responses. Teachers should encourage candidates to read appropriate news media and also incorporate the use of real-world examples in their teaching.
- Diagrams should be well labelled and dynamic in nature to show the sequence of the event.
- Centres should be reminded that the scripts are scanned in black and white, so coloured lines and coloured shaded areas are not visible to the examiners.
- Students should be encouraged to clearly and accurately define the key terms given in the question.
- The meaning of command terms needs to be strengthened as many candidates still seem to be unclear in this respect.
- Part (b) questions require candidates to produce an evaluative response. Lengthy explanations will not lead to higher achievement levels.

Further comments

Sufficient exam practice is recommended with more focus on the effective use of command terms and real-life examples during teaching.

Standard level paper one

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 4	5 - 9	10 - 16	17 - 22	23 - 27	28 - 33	34 - 50

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

In Section 1 of the syllabus, the concept of demand and non-price determinants of demand was surprisingly not well-understood. Many confused an increase in quantity demanded with an increase in demand and confused the impact of a change in price with a change in the non-price determinants of demand. This was seen in question 2(a). Cross price elasticity of demand was also not widely understood, and candidates often explained PED rather than XED. This was seen in question 1(a). An examination of the significance of XED and YED to firms was often rather superficial with most candidates just explaining what XED and YED are, rather than examining their relevance to firms. In general, a majority of candidates were unable to offer any effective evaluation here. Also, many candidates failed to provide a diagram to show the significance of XED and YED. It was apparent that many candidates had little to no understanding of the concept of allocative efficiency. Many candidates attempted to discuss why competition is efficient but did not relate it to allocative efficiency. A common mistake was to confuse allocative efficiency with productive efficiency. Disappointingly few candidates were able to evaluate the role of competitive markets in achieving allocative efficiency in terms of different types of market failure. This was seen in question 2(b).

In Section 2 of the syllabus, the Gini coefficient and how it is derived was not completely understood in question 3(a) and often the Lorenz curve was inadequately explained, drawn and labelled. In question 3(b), candidates often struggled to introduce any economic theory into their discussion of progressive taxation, relying instead upon an overly descriptive, generalised approach. Deflationary/recessionary gaps were often not precisely explained with significant numbers of candidates not being able to provide a diagram to illustrate them or to discuss countries that have used expansionary fiscal policy. This was seen in question 4(a). The concept of long-term economic growth was not well understood as most candidates were only able to discuss fiscal policy in terms of how it influences the AD curve. Very few were able to discuss the supply-side effects of fiscal policy. This was evident in question 4(b).

In general, candidates often struggled to provide effective evaluation in each part (b) question and, in these cases, this made it difficult for candidates to progress beyond Level 2. Some candidates, eager to show their evaluative skills, went straight into evaluation mode without providing the necessary underpinning, supporting economic analysis. All too often, candidates did not provide precise definitions of key economic terms, appropriate diagrams and relevant examples.

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

Diagrammatic analysis was generally of a good standard, but the diagrams were not always effectively incorporated into the text of the answers. The labelling of axes was generally accurate, notwithstanding the usual mistakes on the X and Y axes. The increase of demand and aggregate demand were usually diagrammed correctly. There seemed to be an overall reasonable knowledge of economic concepts, but the skills of analysis and evaluation proved more difficult.

Where confusion between an increase in the quantity demanded and an increase in demand was avoided, there was some good application of demand and supply analysis using the non-price determinants of demand. Although cross price elasticity of demand was not always entirely accurately dealt with, there was some very good use of examples in relation to substitutes and complements.

Many were able to describe fiscal policy and show good knowledge of its demand-side functions but were unable to evaluate its effectiveness in achieving long-term growth. There were some very good answers in relation to deflationary gap which displayed a deep-rooted grasp of the concept. The concept of income inequality and how it is measured seems to be widely understood, although not always explained and illustrated entirely accurately.

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

Question 1

(a) This question was answered reasonably well by those candidates who understood what XED is. Many confused it with PED and therefore did not understand the demands of the question. Most could provide a formula for XED, although this was sometimes upside down or without the percentage signs. Most understood the concepts of substitutes and complements and their XED values but could not always provide a diagram to illustrate how the goods relate to one another. Most neglected to discuss the magnitude of the relationship or if there was no relationship at all. Many provided good examples to illustrate the concept, with peanut butter and jelly, and coke and pepsi being particularly popular. Some candidates did not effectively address the question as their answers did not focus on values.

(b) For those candidates who understood the demands of the question, they focussed primarily on both XED and YED and, regarding the latter, why it might be important for a firm to focus on either producing normal goods or luxury goods depending on the income level of the economy. Most simply explained XED and how it relates to substitutes and complementary goods, thus repeating what was written in question part (a), without discussing the significance of XED and YED to the firm. Very few were able to provide an appropriate diagram to show the significance

of the concepts or to provide examples of the significance in practice. Evaluation was generally weak here or non-existent.

Question 2

(a) On the positive side, many candidates understood that the question was about the non-price determinants of demand and were able to explain two factors with a diagram. However, it was discouraging to see how many candidates confused an increase in demand with an increase in the quantity demanded. Surprisingly, demand was often incompletely or incorrectly defined which represented a poor start to the answer. The most common diagram fault was to draw an incomplete diagram with no supply curve and no price and quantity co-ordinates. Many were not able to reach Level 2 due to an inability to discuss two distinct non-price determinants of demand. Often several factors were merged together with none being clearly and fully explained. Some candidates focused on advertising but did not link it to changing the tastes and preferences of consumers. Sometimes changes in the price of other goods was presented as two factors when it is only one.

(b) This question was very problematic for numerous candidates as they were not sure of the precise meaning of “allocative efficiency” or, indeed, “competitive markets”. Some answered the question using basic demand and supply analysis but could not provide diagrams to show how allocative efficiency is achieved. The concepts of consumer surplus, producer surplus and community surplus were rarely brought into use in addressing allocative efficiency. Productive efficiency was often confused with allocative efficiency. Only a minority of candidates could discuss where competitive markets do not achieve allocative efficiency due to the existence of market failure. However, several candidates who understood that market failure would lead to allocative inefficiency failed to prepare the foundation with relevant underpinning explanation of allocative efficiency. Here, even though evaluation was present, the candidates remained in Level 2 as valid evaluation must be supported by analysis. Thus, too many candidates answered this question with only very basic knowledge of what allocative efficiency actually is.

Question 3

(a) Many candidates seemed to be familiar with the Lorenz curve and could diagram it with relative ease. The labelling was not always precise, however. The Gini coefficient was less well-understood, and many candidates could neither provide a formula for it, nor show how it is derived from the Lorenz curve. Often, answers were too brief, with inadequate use of examples of countries with income equality/inequality. Although there were some very good, focussed and precise answers to this question, there were several common mistakes: not defining income inequality; conflating income with wealth and not recognising the difference; inaccurate labelling of the axes of the Lorenz curve; not explaining the Lorenz curve and Gini coefficient fully enough; and answering the question just with reference to the Lorenz curve or the Gini coefficient but not both.

(b) Most candidates had some understanding of how progressive taxation can reduce income inequality but could not always evaluate whether it was the best way to reduce it and did not always explain how progressive taxation reduces the disposable income gap between people

of lower and higher incomes. All too often, progressive taxation was not accurately defined in terms of taking an increasing percentage of income as income rises. As was the case in question 1(b), candidates often missed out the necessary supporting analysis and attempted to move straight to the evaluation, an approach which rarely led to a higher mark than the top of Level 2. Although several candidates did consider other methods to reduce income inequality, often these were not fully discussed, with candidates answering this question by solely evaluating progressive taxation to reduce income inequality rather than comparing it to other ways. There was very little discussion of where progressive taxation is being used to reduce income inequality, i.e. use of real-world examples. Too many of the answers were purely descriptive and very general in nature, lacked use of economic theory and diagrams and deployed an approach which merged several points together in one long paragraph, rather than developing each point separately and fully in a paragraph of its own.

Question 4

(a) Candidates seem to understand the two components of fiscal policy and that expansionary fiscal policy can be used to increase AD. There was also some good use of diagrams to answer the question. However, many candidates did not adequately explain the term “deflationary/recessionary gap” and related their answer to reducing it, and some failed to provide definitions of the key terms. Some good examples of expansionary fiscal policy in practice were provided. While there was often good appreciation of how expansionary fiscal policy increases AD in general, the specific mechanisms by which fiscal policy increases AD through the impact on the separate components was less in evidence.

(b) This question was not answered particularly well by most of the candidates who attempted it. The concept of fiscal policy seems to be understood, but the term “long-term economic growth” clearly is not. Definitions of long-term economic growth were often not provided and the difference between actual and potential growth was usually not understood. Those who did show appreciation of the supply-side effects of fiscal policy were able to answer the question well with an emphasis on shifting the LRAS curve to the right. Some good examples of supply-side fiscal policy were provided. However, all too many candidates answered this question with no clear knowledge of the potential supply-side impact of fiscal policy and focussed their answers completely on the demand side. Some drifted into a comparison of monetary and fiscal policy and thus never actually got to the heart of the matter. Once again, there was a tendency to progress straight to the evaluation without providing supporting analysis. Other common mistakes included just repeating what had been written in part (a), explaining long-term growth in terms of an outward shift of SRAS instead of LRAS and just regurgitating pre-learnt notes on the general advantages and disadvantages of fiscal policy, not directed at the actual question.

Recommendations and guidance for the teaching of future candidates

Candidates should be encouraged to use diagrams wherever possible and to incorporate their diagrams into the text, typically with the use of such words as “with reference to the diagram, it can be seen that...”. This provides a fuller response to the question set and also greater

academic rigour. It is also essential to fully label the diagrams that are provided.

Candidates should be encouraged to illustrate their answers with real-world examples, to show that they really can apply their economic theory. They will not be able to reach Level 4 without an example.

When writing essays, students should be taught to use evaluation in part (b) questions. This may be comparing the advantages and disadvantages, looking at an issue from another perspective or different stakeholders or considering the difference in short-run and long-run outcomes. By doing this, they will be much more likely to reach the highest levels of response. It should also be pointed out that supporting analysis must first be provided before progressing to evaluation.

Teachers should encourage candidates to write their essay questions in two distinct parts, labelling each as (a) and (b). There were many candidates that wrote them as one answer.

Teachers should place more emphasis on the supply-side effects of fiscal policy.

Higher level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 7	8 - 15	16 - 18	19 - 22	23 - 27	28 - 31	32 - 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 examining team. Since the markscheme outlines the most appropriate responses, this report focuses on the more common errors made by candidates and clarifies how the examiners discriminated between lower and higher achieving responses.

The examination was well-received by those centres that completed the feedback forms. The top markbands were accessible to the well-prepared candidates. The great majority of candidates chose question 1 in Section A and question 3 in Section B. Those two questions were also somewhat better answered.

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

Many candidates continue to struggle with questions that are related to the balance of payments and, in this particular session, with the consequences of running a persistent current account deficit. Even though the understanding of economies of scale is improving, many candidates are not able to illustrate them with a dynamic diagram. Another area of concern is the application of concepts from welfare economics to a monopoly – many candidates are unable to identify the socially optimal level of output on a monopoly diagram and/or to explain why the profit maximizing choices of a monopoly firm lead to allocative inefficiency (welfare loss). As in previous sessions, candidates seemed less prepared in Development Economics than in International Economics – even candidates who demonstrated good understanding of the market-oriented and/or interventionist policies often failed to link them to economic development. Similarly, even candidates who seemed to understand import substitution policies and economic development had difficulty making the link between the two concepts.

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

The majority of the candidates were able to provide well-drawn and well-explained tariff diagrams. Even candidates whose answers in general were somewhat lower achieving than average were able to draw a correct tariff diagram and use it to explain/analyse the effects of the imposition of a tariff on different stakeholders as well as to provide some (generic) evaluative arguments. The exchange rate diagrams were also well done with many cases of correct labelling, correct shifts of the curves and appropriate explanations of the reasons for the shifts.

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

Question 1

- (a) (i) Generally answered well. The lower achieving responses had the correct idea but expressed it too vaguely.
- (ii) Many of the lower achieving responses lacked a valid reason for granting of subsidies or the candidates failed to mention that they are provided to the firms by the government.
- (b) Two different approaches (increase of demand or decrease in supply) were offered by candidates with a variety of reasons for each shift. Some lower achieving responses constructed an exchange rate diagram to analyse the foreign exchange market for USD and shifted the curves appropriately but labelled the vertical axis “USD per Canadian dollar” (or similar). This was considered incorrect, because it implied that an increase

of the demand for USD (or a decrease in the supply of USD) would lead to depreciation of the USD.

- (c) Many candidates either gave an adequate explanation for the falling demand for paper or adequate explanation about the changes in the two factors that affect revenue (price and quantity), but not both. A cause of concern was that too many candidates labelled the horizontal axis “Quantity demanded” instead of “Quantity of paper” or just “Quantity”.
- (d) Many candidates gave a generic explanation of the effect of tariffs on different stakeholders which was based upon a reasonably well-drawn tariff diagram. The candidates need to learn how to apply the generic model to the stimulus text and how to use the analysis to reach useful conclusions which would support evaluative judgements specific to the situation.

Question 2

- (a) (i) Generally answered well.
 - (ii) Many candidates failed to identify two of the points in the markscheme when defining foreign direct investment (FDI).
- (b) Generally answered well. Some candidates constructed an exchange rate diagram to analyse the foreign exchange market for the pound and shifted the curves appropriately but labelled the vertical axis “Pounds per Euro”. This was considered incorrect, because it implied that a decrease of the demand for pounds (or an increase in the supply of pounds) would lead to appreciation of the pound.
- (c) Many candidates correctly drew a Keynesian AD/AS diagram but did not clearly indicate spare capacity in the diagram or failed to explain it in the written response. The lower achieving responses failed on both fronts.
- (d) Generally answered poorly. Candidates tend to have only vague understanding of balance of payments and too many focused on the impact of a current account deficit on the exchange rate which then tended to dominate the analysis and the evaluation. Another common mistake was to lean towards the macroeconomic part of the syllabus.

Question 3

- (a) (i) Many candidates offered a vague definition in terms of people who earn less than others in their country, only a small minority linked relative poverty with the median income of the country. Some lower achieving responses defined absolute poverty instead of relative poverty.
 - (ii) The majority of candidates were able to distinguish between unemployment and underemployment. Some lower achieving responses missed the point that workers who

are employed part-time would be classified as underemployed only if they would like to work full-time.

- (b) The highest achieving responses were written by candidates who correctly used the information from the stimulus text to infer that aggregate demand should increase and that would lead to economic growth in the short run. The highest achieving responses showed awareness that public investment is part of government spending (G) while private investment is part of investment (I). Candidates who chose a supply-side explanation often struggled to distinguish between factors that shift the aggregate supply curve in the short run (SRAS) and factors that can shift the aggregate supply curve over the long term (LRAS) even though those factors are clearly delineated in the relevant learning outcomes in the Diploma Programme Economics Guide.
- (c) A number of candidates incorrectly considered the increase in the Gini coefficient to be an indication for a decrease in income inequality. Another cause of concern was the drawing of a rather incomplete Lorenz curve diagram by some candidates.
- (d) Some lower achieving responses offered a few generic development strategies without distinguishing between interventionist and market-oriented policies. Others focused on only one of the policies (most often interventionist policy) and completely ignored the other policy. Some of those who did distinguish between the two policies did not link them clearly to development or only stressed their positive outcomes/strengths.

Question 4

- (a) (i) Some lower achieving responses defined recession as “decreasing gross domestic product” without clarifying that the output should decrease for at least two consecutive quarters.

(ii) Generally answered well.
- (b) Many lower achieving responses failed to explain how (price) competitiveness was affected by falling average costs and many confused falling average (per unit) costs with falling total costs. The diagrams were often not dynamic – the candidates did not compare the average (per unit) costs with and without economies of scale.
- (c) There were many candidates that failed to identify both profit maximizing output and the socially efficient level of output on the diagram and compare the two outcomes in the written response.
- (d) As with question 3(d) many candidates did not link the policies consistently to development. Another common mistake was for candidates not to distinguish between import-substitution and diversification and other interventionist policies or to only consider the positive outcomes of the policies.

Recommendations and guidance for the teaching of future candidates

Teachers should be aware that the highest achieving responses are provided by candidates who have not only learned the textbook theory, but also possess some metacognitive skills such as the ability to distinguish between the requirements of the different assessment objectives and to manage their time to complete most efficiently the task in hand. It is important to develop understanding of what constitutes proper analysis and what constitutes proper evaluation/discussion. Often repetition of textbook learning is thought to be sufficient and this prevents the candidates from reaching top marks in question part (d). Teachers might try to devote more time to developing metacognitive skills rather than just teaching theory (which is accessible to candidates in the textbook anyway).

Teachers are reminded that IA commentaries are similar in structure to the externally assessed data response paper. They present excellent opportunity for teachers to clarify to the candidates the four assessment objectives, to show candidates how assessment objectives relate to writing a good data response paper and to develop metacognitive skills in their candidates. IA commentaries are a valuable pedagogical device and the time allocated for work on them should be used not only for improving the commentaries, but also for developing the skills that are required for successful performance on the external exams.

Teachers are also reminded to consult regularly with the syllabus as outlined in the official Diploma Programme Economics guide to make sure they cover all learning outcomes (at the appropriate level) in their teaching.

Below is provided a short overview of the four assessment objectives with comments regarding their relevance to the different question items of the data response paper.

AO1 – knowledge and understanding

This assessment objective is emphasised in question part (a) of the data response paper, but candidates should be reminded that the knowledge and understanding of economic terms and concepts is examined in all question items of the paper. Incomplete knowledge and understanding of economic terms and concepts would prevent candidates from even comprehending the requirements of each question part and will put them in a very disadvantaged position. If the candidates are confident in their knowledge of definitions, they can proceed efficiently through question part (a) of each data response question, explain precisely and accurately the diagrams in question parts (b) and (c) and quickly recognize economic concepts to develop in question part (d). To help candidates improve their knowledge and understanding of economic terms and concepts, teachers might encourage them to prepare their own glossaries and flashcards. Furthermore, in question parts (a)(i) and (a)(ii), candidates should be encouraged to write no more than two sentences – the first sentences should usually be the definition and the second should be an appropriate example (if applicable). The use of example is not required for full marks and not suitable for all AO1 question parts, but the experience shows that it can help candidates to demonstrate their understanding when the definition they have given is somewhat vague and the examiners are trying to decide whether Level 1 or Level 2 marks should be awarded.

AO2 – application and analysis

This assessment objective is examined in question parts (b), (c) and (d) of the data response paper. Mastery of this objective can be demonstrated by the accurate use of relevant economic models and the ability to explain the application of the models in detail. The economic models are usually expressed in mathematical form, but in the context of paper 2, they tend to be developed with the use of suitable diagrams. The diagrams allow the candidates to structure their economic analysis and to reach conclusions that are not immediately obvious from looking at the data. The candidates should be able to explain why the particular diagram is relevant to the analysed situation by appropriate references to the stimulus text. The candidates should also be able to explain the application of the diagram in details. For example, when a candidate points out that a particular curve shifts to the left or right, he or she should be able to explain the reasons for the shift. Candidates would thus benefit if they compiled a glossary of all the diagrams for which there are specific learning outcomes in the syllabus. The diagram and the explanation must be integrated with each other. Candidates should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram. To ensure that the diagram they are applying is appropriate the candidates are advised to read very carefully question parts (b) and (c). Candidates are strongly advised to label their diagrams in a way that corresponds to the stimulus text to demonstrate that they are applying the general economic theory to the particular situation. To give a specific example from the current session, in question part 1(c) the axes in the highest achieving diagrams were labelled “Price of specialty paper” and “Quantity of specialty paper” instead of the generic “P” and “Q”. Such labelling demonstrates that the candidates were able to apply the general theory to the data in the stimulus text. Another example of labelling that indicates good application of economic theory was when candidates used exchange rate values from the stimulus text when constructing the diagram of the exchange rate market for British pounds. A strong analysis and application can be used to support evaluation and move the answer to the highest markband in question part (d).

AO3 – synthesis and evaluation

This assessment objective is emphasised in question part (d) of the data response paper. However, candidates need to keep in mind that to achieve the highest markband in question part (d) they should also demonstrate clear knowledge and understanding of the relevant economic terms (AO1) and support their evaluative arguments with appropriate analysis (AO2). The synthesis and evaluation in question part (d) responses can be supported by the analysis (diagrams) in question parts (b) and (c) and/or by analysis (diagrams) specific to the requirements of the particular question part. Whenever candidates support their evaluative arguments with conclusions from the analysis of the diagrams in question parts (b) and (c) they should refer to them explicitly to ensure that their analysis is sound and will be considered effective.

Similarly, the synthesis and evaluation in question part (d) should rely heavily on references to the stimulus material to ensure that the recommendations and conclusions are relevant to the particular situation. Candidates should be encouraged to think critically about the information in the text/tables/figures and fully ‘engage’ with it, in order to be able to apply the theory and develop strong evaluative arguments. Teachers should encourage candidates to support the relevance of their arguments by referring to specific paragraphs or using quotes from the text.

At the same time, the lower achieving responses tend to uncritically paraphrase or repeat arguments of the text and add little value to what is already known. Teachers should emphasise to their candidates that the information from the stimulus material should be considered only a starting point for the analysis and arguments from the text should not be accepted uncritically. This is especially important when some arguments from the text are made by a stakeholder that has vested interest in the given issue (such as the governor of Maine in question 1).

AO4 – selection, use and application of a variety of appropriate skills and techniques

This assessment objective is examined in question parts (b) and (c) of the data response paper. However, candidates should be aware that the labelling of the axes and curves is closely related to the performance with regard to AO1. Furthermore, the ability to draw and annotate diagrams is crucial prerequisite for successful analysis and, therefore, significantly affects the performance of the candidates with regards to AO2 and AO3. Experience has shown that failure to annotate diagrams correctly often leads to confused (or irrelevant) analysis and incorrect conclusions. As a consequence, the analysis is not considered effective, the conclusions cannot be used to support the synthesis and evaluation and candidates are denied access to the top markbands.

To demonstrate mastery with regard to this assessment objective, candidates must be able to distinguish between macroeconomic and microeconomic labelling and need to pay closer attention to the labelling of exchange rate diagrams. Candidates should also use notation such as (Q1 to Q2) or (AD1 to AD2), arrows and dotted lines from the equilibrium points to the axes to illustrate the changes in the relevant variables or the effects of changes in factors that determine them. Candidates should also be aware that the horizontal axis of the supply and demand diagram measures both the quantity demanded and the quantity supplied and therefore shouldn't label this axis "Quantity demanded".

The diagrams should also be drawn in a way that clearly indicates knowledge and understanding of the underlying theory (economic model). For example, a Lorenz curve diagram that only has two of the four sides of the square box drawn, with missing scales and axes that resemble the axes of a supply and demand diagram (but with different labels) hardly does justice to the underlying theory and does not demonstrate that the candidate understands clearly why a shift of the Lorenz curve indicates changes in the Gini coefficient and in the distribution of income.

Standard level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
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Mark range: 0 - 3 4 - 7 8 - 13 14 - 18 19 - 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 examining team. Since the markscheme outlines the most appropriate responses, this report focuses on the more common errors made by candidates. General comments about examination-writing techniques are similar, if not exactly the same as in previous reports.

The examination seems to have been well-received by those centres that completed the feedback form. It was considered to have appropriate syllabus coverage. The texts were considered to be accessible to the majority. Some centres expressed concerns that questions 3 and 4 did not test sufficiently on economic development. As stated in the economics subject guide, the principal focus of the questions in section A and B is on section 3 and 4 respectively but candidates may be required to draw on other sections of the syllabus. There seemed to be few problems with time management.

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

The performance of candidates seemed to be better in Section A (International Economics) than Section B (Development Economics). In particular, many candidates had difficulties linking their answers to part (d) questions to the concept of economic development. It was not uncommon to see scripts with good responses to part (b) and (c) questions for questions 3 and 4 but with noticeable difference in quality for part (d) questions for the same question. This suggests that candidates understand Section 2 and 3 concepts a lot more than Section 4 theory. This may imply that centres should spend more time covering development topics than they are at the moment. A minority of candidates were also rather careless in the labelling of the diagrams, leading to the loss of marks.

This will be further addressed in the context of individual questions.

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

While there was a slight preference for Question 2 and Question 3, there was a relatively good spread of questions for both sections. Exception made of the part (d) questions in Section B, the majority of answers reflected a sound understanding of the concepts tested. It is therefore clear that candidates were quite comfortable with Sections 1–3 of the syllabus. Moreover, the diagrams drawn in parts (b) and (c) were properly referenced and explained, especially for those which showed a degree of similarity to past IB papers.

This will be further addressed in the context of individual questions.

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

Question 1

This question was a little less popular than question 2 but on the whole appeared to get higher marks. Answers to most of the sub-questions reflect sound economic analysis and application, especially for (d) where there was often evidence of good synthesis with support from the text. Some of the lower achieving responses to this question confused exchange rates and interest rates.

- (a) (i) Many candidates found distinguishing between deflation and disinflation difficult. Most candidates could correctly define disinflation as a fall in the rate of inflation, but relatively few included the second part of the required definition with a reference to lower rates in the increase in average price level.
- (ii) Generally good definitions offered but again, many candidates could achieve L1 but relatively few realised that, to be an MNC, the firm needed to have productive facilities in several nations.
- (b) The majority of responses reflected a good understanding of the workings of exchange rate mechanisms. Most candidates could get full marks and drew properly labelled diagrams. Some clearly did not understand what currency speculation meant but understood that it led to an increase in demand. Some, however, focused on the change in interest rate rather than speculation. The biggest issue was labelling of the y-axis.
- (c) This was generally a well-answered question. The majority of candidates opted for the alternative explanation with an increase in AD due to a rise in the price of imports leading to lower net exports.
- (d) Some candidates did not understand what was meant by "overvalued" in this context and thought that the NZD was under a fixed exchange rate regime. Those who did could usually discuss the effect on imports and exports but did not move beyond that limited analysis and evaluation. Some candidates struggled to make significant inroads beyond the text e.g. they would state that the overvalued currency was causing MNCs to leave but not explaining why. Fortunately, a high number of candidates could provide a balanced answer with appropriate synthesis and even some value judgments regarding the future of manufacturing in New Zealand.

Question 2

This question was a little more popular than question 1, but a number of candidates struggled with some of the sub-questions and in particular many confused actual and potential output in 2(c).

- (a) (i) Many answers described the purpose/role of the WTO - to promote free trade - but failed to correctly formulate its functions. Few could succinctly and clearly state two full functions.

- (ii) Some candidates could provide very precise definitions but the majority could only reach L1 by identifying FDI as investment between countries.
- (b) Most candidates could illustrate the diagram correctly and demonstrate the revenue was lost but a large number of candidates wasted time describing the imposition of tariffs in detail and the impacts on quantity supplied by domestic and international producers rather than focusing on the demands of the question. A few did not label the world supply appropriately.
- (c) Some candidates zoomed in on the word investment and missed the fact that the focus of the question was the impact on the 'full employment level of income (output)' and instead shifted the aggregate demand curve and examined the impact on the actual output instead. Labelling errors were quite common with many candidates failing to identify the full-employment level of income/output on their diagrams.
- (d) Most candidates could weigh up the various impacts of the ITA on China's economy in terms of cheaper inputs, and increased competition leading to increased efficiency. Higher achieving responses would discuss the impact of the gradual removal of the tariff and the increased FDI that would be likely to follow. There was often an over-emphasis on the tariff revenue which many explained could be used for development purposes.

Lower achieving responses tended to merely repeat what was in the text with no/limited explanation or evaluation.

Question 3

This question was a little more popular than the other Section 4 question and often displayed a good understanding of the concepts covered. While many struggled with part (d), most candidates could show some understanding of the distinction between market oriented and interventionist policies by minimally providing adequate examples for each type of policy.

- (a) (i) Unfortunately, this question was poorly answered with very few candidates giving a complete definition of relative poverty. However, most had a general sense that it is a level of poverty that is determined within the context of a given society. The concept was often confused with absolute poverty.
- (ii) On the other hand, this was a well-answered question. A small number of candidates confused underemployment with unemployment. But on the whole, most candidates achieved full marks for this definition.
- (b) Most candidates identified that AD would shift right although not all answers were precise enough to explain which components of AD are affected by public and private investment (I and/or G). Generally, most questions on shift of AD require candidates to identify the component(s) of AD involved and this should be taught in class.
- (c) The majority of candidates achieved full L2, displaying a good understanding of the Gini coefficient and how the concept is linked to the Lorenz curve. There were the usual issues around axis labels and some – but few – candidates were confused about the

meaning of the Gini coefficient (for example, some said zero meant total inequality and one meant total equality). A few candidates saw wealth and income as synonymous.

- (d) Higher achieving responses could identify relevant policies and link them to economic development. The highest achieving evaluated the effectiveness of the policies in breaking barriers to economic development.

Lower achieving responses were those with a lack of clarity on the distinction between the different types of policies. Those often repeated points from the text without adding explanation or discussion. Generic responses to development issues would suggest policies such as reducing unemployment benefits when there were none to start with. It is critical that IB educators remind their candidates that section B is on economic development and as such, section (d) should be answered with the concept in mind.

Question 4

Responses to this question reflected good answers to parts (a), (b) and (c) but many candidates responded outside of the question asked for part (d).

- (a) (i) This is quite a common question and was answered well by the majority of candidates. Some thought the current account only includes the balance of imports-exports of goods and services and as such could not get L2 without the four components listed. A small minority of candidates confused the concept with a budget deficit.
- (ii) This is another common and hence well-attempted question. The answers capped to Level 1 missed the idea of a 'sustained' increase.
- (b) Subsidy questions continue to be answered fairly easily by candidates. The main error was forgetting to mention the impact on the cost of production. Similar to question 2(b), many candidates did not focus on the requirements of the question and drew/explained the imposition of a subsidy, rather than its removal. It is critical that candidates be taught to read the question attentively rather than answer a familiar (similar) question.
- (c) This was a generally well-answered question. Most candidates used the alternative answer of an increase in AD due to exports becoming relatively more attractive and imports relatively less so.
- (d) This was probably the section of the paper that candidates had most difficulties with. The analysis and evaluation needed to be continuously linked to Angola's dependence on oil but in most cases, responses were general essays on barriers to development. Few candidates explored the price elasticity of demand and supply of primary commodities. Many candidates veered towards suggesting solutions and in particular the need for diversification, which was not necessarily relevant. It remains a concern that so many candidates did not link the analysis back to the concept of economic development and tended to focus on wider macroeconomic issues such as inflation.

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.

- While the main focus of this paper is on International and Development Economics, it is essential that teachers and candidates are aware that questions on this paper may come from every area of the syllabus.
- Teachers should really encourage their candidates to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the candidates are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help candidates to develop this important skill, candidates might be encouraged to compile a glossary of terms. Candidates must be taught to include appropriate economic terms 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 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 examination. 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.
- 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 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.
- 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 questions (d), they must make reference to the text. Encourage candidates to use quotation marks, or make references to the paragraphs or texts.
- Part (d) answers also require candidates to apply and develop the economic theory that is relevant to the text. 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. One of the best ways to develop economic theory is to use and illustrate an economic model. Wherever possible, diagrams should be used in part (d) responses. If candidates have drawn a diagram in part (b) or (c) that is relevant, candidates may refer back to the diagram.
- 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 candidates and teachers need to be aware of these.
- Theory provided in part (d) questions must be directly linked to the text provided to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to fully 'engage' with the text, in order to be able to **apply** the theory.
- Examiners are concerned at the extent to which candidates are uncritically paraphrasing/repeating the texts in their part (d) answers. Candidates 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

This subject report, along with the markscheme, is specifically designed to assist the teachers in preparing the learners for future examinations by clarifying the expectations of the IB examining team. Since the markscheme summarizes the most appropriate responses, this report focuses more on the recurring inaccuracies and mistakes made by candidates.

Although perceived as challenging by most of the candidates, the May 2018 Economic HL Paper 3 was useful in clearly discriminating between candidates who have only a superficial understanding of economics and those who can use economic models to reason and analyse. It is clear that many candidates lost marks due to a lack of considered reading of the questions to comprehend what is explicitly expected or required as a response to the question. Often the question needed the candidates to 'use an example,' 'use the data/graph,' or 'identify a specific outcome,' etc., which were often not followed through in answers. Many candidates lost marks in what appear to be minor points of the syllabus, such as unit elastic demand, competitive supply, absolute advantage. Although most of the candidates were able to perform the calculations (except for balance of payments missed by a large number) correctly, their ability to analyse and explain was limited.

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

Question 1

- Explanation/application of basic terms from the syllabus – unit elastic demand, competitive supply, negative XED, ceteris paribus.
- Slightly more complex manipulation of demand and supply functions, e.g. calculation of the price at which a given shortage would occur.
- Theory of the firm – applying concepts to “real” situations – the football world cup in this case. Many candidates appear to be “learning” conditions/diagrams rather than understanding and applying. The profit-maximizing price and output were very poorly understood. Very few candidates grasped that marginal cost was equal to zero and that they needed to identify maximum profit when $MR = 0$.

Question 2

- Calculation of the unemployment rate.
- Calculation of the real growth rate.
- The difference between a movement along the SRPC and its shift.
- The impact of the leakages in an open or a closed economy on the multiplier and GDP.

Question 3

- Definition of absolute advantage.
- Reasons why specialization in a narrow range of primary products might not benefit an ELDC. Many reasons identified but rarely related back to how the development would be hindered.
- Definitions of direct investment and portfolio investment.
- Components and structure of the balance of payments.
- The balance of payments calculations proved challenging through all parts.

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

Question 1

- Calculation of equilibrium price and quantity.
- Basic supply and demand analysis, and calculation of excess supply.
- Determinants of price elasticity of demand (although often stated rather than explained).
- Far fewer candidates are being penalized for missing units, rounding errors, etc.

Question 2

- Reading numbers from the SRPC graph.
- Effect of reducing income taxes on the inflation rate and unemployment rate.
- Calculation of a missing component of GDP, i.e. investment.
- Reasons for increased investment in an economy.
- Shifts in the AD, LRAS. Many candidates know the AS/AD model and its use in demonstrating how investment affects both AD and LRAS.

Question 3

- Calculation of opportunity cost.
- Definition of comparative advantage.
- Effect of inflation on the current account.
- Method of correcting a current account deficit.
- Understand the impact of exchange rate depreciation on trade and J-curve effect.

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

Question 1

(a) Generally well attempted, but some candidates failed to read the question correctly and omitted to calculate equilibrium quantity.

(b) Generally well attempted. Many candidates achieved full marks but a number of them incorrectly used the equilibrium quantity from the previous question in the calculation.

(c) This question was generally poorly attempted. Many candidates were confused. An excess was often misconstrued as being Q_s less the equilibrium Q , instead of Q_s minus Q_d .

(d) Most could define. Some candidates failed to offer an example of a non-price determinant of demand.

(e) A surprising proportion of candidates indicated that they did not understand the meaning of a negative XED, referring to substitutes. Only a relatively small number referred to a lower value for the intercept. Many candidates correctly identified that demand for widgets would decrease (L1) but few stated that the constant would decrease.

(f) Almost all candidates recognized that $PED = 1$. Most candidates were able to achieve Level 1, but many did not state that there would be a proportional change. Occasional

confusion from the command term "outline" leading to an answer of $PED = 1$ rather than explaining the meaning.

(g) This question was generally well attempted, but many candidates did not explain the determinants accurately enough to gain full marks. While most candidates know the determinants of elasticity, they often did not provide a proper explanation regarding what happens to quantity demanded when the price rises (it is not enough to state "elastic"). Some discussed demand shifters, such as changes in income, rather than determinants of PED.

(h) This question was very poorly attempted. Most candidates incorrectly stated that goods were substitutes. Almost all the candidates mistakenly thought that competitive supply (sharing resources) was about substitutes in demand (sharing markets).

(i) Generally well attempted but some candidates incorrectly stated that the PES = infinity.

(j) Where question part (i) was correctly stated the vast majority of candidates drew the supply curve accurately.

(k) Higher achieving responses drew the MR curve accurately. Most candidates drew a downward sloping MR curve below the demand curve – but many did not ensure that it cut the horizontal axis at 60 000 tickets. Candidates need to recognize that a single supplier (of a soccer stadium) is a monopolist. Many mistakenly adopted the (rare in reality) perfect competition model with a horizontal $MR = P$ line. In the case of imperfect competition, which characterizes most markets, MC is not equal to supply.

(l) This question was very poorly attempted. The vast majority of candidates correctly stated the profit maximizing condition, but most did not indicate that, because $MC = 0$, that point would be where $MR = 0$. Therefore, most candidates did not score higher than 1 mark.

Question 2

(a) Fairly poor. Miscalculated by many candidates, as the denominator was incorrect. Many did not calculate the labour force.

(b)(i) Very well attempted.

(ii) Many explained quite well, but the supply-side approach (tax cutting as a market-orientated policy) led many astray from the necessary response. Most candidates achieved L1 by identifying the increase in disposable income; C & AD would increase leading to higher inflation and lower unemployment. However, many did not use the graph or explain **why** unemployment would fall. Quite a few candidates wrongly thought that lowering income taxes would increase the incentive to work and thus lower unemployment. But that would depend upon there being jobs available because of higher output. Many did not make a direct reference to the information on the graph (i.e. the actual data).

(c) Very well attempted.

(d)(i) Generally well attempted.

(ii) Many candidates identified that COP would rise, but a large number did not link their answer to either the SRPC or the SRAS curve.

(e)(i) Many correct responses. Some candidates struggled.

(ii) Mostly good. However, the question invited responses, which stated the purpose, rather than the stimulus, and some candidates responded accordingly.

(iii) Generally well attempted.

(f) Not well attempted. Many candidates completed only partial calculations. Few candidates who correctly calculated the growth rate missed the mark due to incorrect rounding. For a growth rate, real GDP must be calculated in both years (without rounding to one decimal place), and then the difference must be expressed as a percentage of the original amount.

(g)(i) Accessible to many candidates but a number of them divided 1 by MPC (rather than $1 - MPC$). The multiplier formula was either not learned or else incorrectly used by the majority of candidates.

(ii) Fairly poorly attempted – many candidates simply assumed that the open economy would expand more quickly and did not refer to/recognize the significance of withdrawals. A significant number of candidates incorrectly stated that G would rise and, therefore, the multiplier would be bigger for Delta. The size of the multiplier *per se* does not depend upon the amount of government spending, but income tax and import leakages reduce it. Many candidates got no marks as a result of choosing the wrong country. Those that understood that the multiplier is also $1/mpw$ and that leakages mean a smaller multiplier did well in this question.

Question 3

(a) Generally well attempted.

(b) Most candidates correctly identified country B but many did not provide evidence to support their answer.

(c) The majority of candidates accurately defined comparative advantage. However, the definition of absolute advantage was often too vague.

(d) Generally well attempted, but many referred to over-specialization (of any product). While a good number of candidates could explain why specialization might not succeed, others missed the point of the question, and either wrote about the general assumptions of comparative advantage or even suggested that the ELDCs might have “high” opportunity costs. Many reasons identified but rarely related back to how the development would be hindered.

(e) Many correct answers, but the question was a little tricky and caught out many. Some candidates omitted net income and/or net current transfers.

(f) Some sound (learned) answers, and much confusion. Portfolio investment was usually well defined, but direct investment proved more problematic.

(g)(i) Very poorly attempted. It reveals a poor grasp of the structure of the balance of payments. Most of the candidates failed to use the concept that a balance of payments must sum to zero.

(ii) Poorly attempted – even with the application of own-figure rule (OFR).

(h) Poorly attempted. Most candidates had no idea how to answer this question. They were unclear about how a positive sign for reserve assets would mean that the actual level of reserves at the end of the year would have been depleted.

(i) Generally well attempted.

(j) Generally well attempted.

(k) Generally well attempted (well learned) although lower achieving responses described the process rather than explaining the impact of increased competitiveness. Many of the candidates simply repeated the M-L condition without explaining how depreciation would affect global prices and without indicating how contracts and habits would result in a short-term worsening of the deficit on the current or trade account. The question was reasonably well understood, but some candidates thought that the J-curve shows the relationship between exchange rates and time.

Recommendations and guidance for the teaching of future candidates

- Candidates should be encouraged to dedicate more time to the numerical work regarding the balance of payments. Few candidates lost marks because they did not explain **why** something happened; instead, they just stated that it did. For example, in question 1(g), many indicated that necessity goods have inelastic demand and luxuries have elastic demand, without explaining the reasons.
- Candidates should be instructed to use greater application/discussion if needed. Many seem to have relied heavily on rote learning of diagrams/conditions. The same should be discouraged.
Candidates must not rely **only** on past questions but on the syllabus. Anything from the syllabus may feature on an examination.
- Teachers should ensure that candidates can differentiate between a change in demand (with a shift due to non-price determinants) and a change in quantity demanded (with a movement along the demand curve).
- Similarly, candidates should understand that there is a movement along a short-run Phillips curve due to a shift in the AD, and in the long run a shift in SRPC due to a shift in SRAS.
- Candidates should be advised to go beyond a superficial understanding of the models to be able to apply the theory to different situations such as profit maximization when there are no variable costs or $MC = 0$. Moreover, they need to distinguish between the imperfect (monopoly) model and perfect competition. In most markets, marginal cost is not equal to supply, and marginal revenue is twice as steep as the demand curve.
- Candidates must know that “investment” is the purchasing of capital stock (buildings and machinery) for which firms need to borrow at low-interest rates. It is only “financial investment” which is attracted overseas by high-interest rates.
- More specifically, candidates should be reminded that the original value calculates a percentage change and they must include units at the end of a calculation, such as the \$ sign. They should also be asked to write legibly.
- When adding curves to a graph, Candidates should make a reasonably thick line with a prominent label so that it is visible when scanned.
- Teachers should spend more time on calculations, which are required by the syllabus, such as on the balance of payments, an area where candidates may perform poorly.
- Candidates should pay more attention to the requirement of examples or the use of data in the answer. Not doing so frequently means half the marks are lost.
Teachers should engage candidates in the discussion of unfamiliar profit maximization

scenarios, leakages, the multiplier and the financial account.

- It is imperative that all the HL content is covered. It is disheartening to see a candidate do incredibly well on all parts and then struggle with profit maximization/ J curve/Marshall Lerner/Multiplier.