

## ECONOMICS

### Overall grade boundaries

#### Higher level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 12	13 - 26	27 - 38	39 - 50	51 - 63	64 - 76	77 - 100

#### Standard level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 12	13 - 26	27 - 40	41 - 52	53 - 65	66 - 76	77 - 100

### Higher and standard level internal assessment

#### Component grade boundaries

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

#### The range and suitability of work submitted

The internal assessment component reflects continued progress as schools become more familiar with the criteria. Many centres are preparing their candidates very well for this component and have refined the process over the course of the last few years.

The basic requirements on sources and word count were met by the vast majority of candidates. The centres followed the guidelines set by the IB and the rubric requirements were attained: if not, then most teachers marked the portfolios accordingly.

Most centres showed clear evidence of preparing their candidates well. Articles chosen were usually suitable. Students should be advised against using articles which have already done the analysis.

Teachers are encouraged to include comments on their candidates' work when they send this for moderation. Comments should only be used to explain decisions on the awarding of marks and should be done on a separate sheet. Please note that teacher comments will be obligatory for the new syllabus, for first examination in May 2013.

#### Candidate performance against each criterion

##### Criterion A

Most candidates achieved the maximum two marks for Criterion A and when this was not the case, most teachers had deducted a mark accordingly. As is often the case, a few candidates

provided a word count of below 750 words when in reality the commentary was longer than this. A few students seem to be unaware that all words are included, including footnotes and diagram labels. It is important to note that moderators do count words.

### **Criterion B**

There are still too many examples of candidates losing marks because their diagrams are poorly explained. However, the quality of diagrams continues to improve. The maxim that diagrams require full, relevant explanations still holds true. The diagrams should be adapted to the articles, giving, for example, “price per barrel of oil.”

There are a number of candidates who choose to cut and paste their diagrams from websites. This is to be discouraged, but is permitted assuming the diagrams are sourced fully. Candidates should be encouraged to draw the diagram themselves to illustrate that they fully understand them and so they can use them in their final examinations.

Some centres do not seem to be aware of the change in this criterion description (in 2006) that now states the use of diagrams be “highly effective” to achieve maximum marks.

### **Criterion C**

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

### **Criterion D**

As usual, this criterion was a good discriminator, allowing more able candidates to illustrate their economic knowledge and analysis. There were some very good examples, which gained full marks in this area. Those portfolios where analysis was considered superficial, either described rather than analyzed and/or included economic theory that was not related to the article.

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

### **Criterion E**

The quality of work produced by candidates in terms of evaluation was at approximately the same standard as previous years. Evaluation still remains the most difficult area to get full marks. Candidates need to evaluate the economic theory in the context of real-world examples, within their commentaries. It was a pleasure to see candidates not just evaluating at the end of each commentary, but throughout.

## **Recommendations and guidance for the teaching of future candidates**

The choice of article continues to be very significant. Better articles allowed candidates to explain the events within them using economic theory. It is important that teachers continue to include a front cover summary document (an example can be seen in the teacher support material) and a front cover for each commentary. Long articles should be highlighted. If an article is not in the working IB language of the centre then a translation should be provided. This need not be of the whole article, but simply the relevant sections.

Centres should be vigilant to make sure that a candidate does not do two commentaries on a very similar topic.

As always, diagrams are an area that often lets candidates down. Although not always the case, the more diagrams a candidate used, the better they performed in both Criterion B and Criterion D, as diagrams helped them to analyze and apply their knowledge well. Diagrams should be explained in detail and referred to directly. Teachers are encouraged to introduce the internal assessment within the second half of the first term of the course. By this time, candidates will have a basic grasp of economic principles and should be able to find a suitable article to comment on. The first one can be used as a “practice” if necessary. If possible, produce a small booklet/handout all about the coursework, containing the official IB guidelines, the marking criteria, sample articles (good and bad), and perhaps exemplar portfolios and possible “deadline dates for submission of extracts and commentaries to teachers for advice/comment. Encourage the reading of different possible sources from the start of the economics course, to get the candidates into the habit of “reading around” the subject and applying the knowledge they have gained to real life situations.

Teachers are reminded that students may submit a “first draft” and “final draft” of each commentary, but no more drafts.

It is vital that teachers carefully study the new syllabus, for first examination in May 2013, as the IA criteria are substantially different.

## Higher level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 3	4 - 6	7 - 8	9 - 11	12 - 15	16 - 18	19 - 25

### General comments

The paper was well received by centres that provided feedback via the G2 form. The vast majority of respondents felt that the degree of difficulty of the paper was at the appropriate level. The majority felt that the paper was of a similar standard to last year’s paper. However, a minority of centres felt that the paper was more difficult. In terms of the clarity of wording of the questions and the presentation of the paper, all respondents felt that the paper was at least satisfactory, with a large majority being of the opinion that it was good.

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

There were few obvious areas of general weakness amongst scripts. Some candidates find the multiplier concept challenging and are hard pressed to explain it using a numerical example. In question four there were a large number of responses which failed to tackle the question in adequate depth and which used the most basic references to examples. There was a tendency on the part of some students to confuse domestic monetary policy with measures aimed at influencing the external value of the currency in question three. Not all students can clearly illustrate exchange rate movements on a diagram. Some provide inadequate labels and are thus unable to fully utilize the diagram they draw.

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

It was interesting to see that the most popular question was question three and it provided some of the best responses. Candidates had a good knowledge of exchange rates and the ways in which governments might influence their value.

There was some very good evaluation of the effectiveness of a change in a country's exchange rate as a means to correct a balance of payments deficit on current account. There was also evidence of a clear understanding of the relative merits of fiscal policy on display from many centres.

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

### Question 1

- a) Good candidates were able to identify alternate objectives that an oligopoly firm might have other than profit maximization, for example, revenue maximization, and sales maximization or to respond to the goals of their different stakeholders. Weaker candidates were unable to identify objectives other than profit maximization.
- b) Most candidates chose to approach the question from the perspective of a collusive oligopoly; such responses tended to work well and allowed candidates to approach the question from a monopoly type of perspective. Others chose to introduce another form of competition, usually perfect competition, as a benchmark against which to compare oligopoly.

### Question 2

- a) This was a relatively popular question. There were many very good responses with candidates providing precise and clearly worked numerical examples to show the multiplier principle. Some candidates, though they were a minority, confused the basic formula, or got lost in the calculations they attempted, but the majority handled the question well.
- b) Again, there were good responses to this part of the question. The most successful candidates tended to approach the question from a Keynesian versus Neoclassical angle, framed in terms of the shape of long run aggregate supply curve. Other good candidates had obviously studied the merits of fiscal policy in depth and were able to analyze its advantages and disadvantages in terms of, for example, crowding out, time lags and the financing of fiscal policy to good effect.

### Question 3

- a) The most popular question at this session, there were many very good responses, with candidates providing evidence of an area of the syllabus that is obviously well taught in schools.

The majority of candidates who attempted the question were able to provide a meaningful diagram in support of their answer and to identify how governments could alter the value of a currency. Many candidates opted to use numerical values rather than algebra for their diagrams which seemed to aid their descriptions. As always there were candidates who provide inadequately labelled diagrams or who make little

attempt to refer to what they have drawn. Some candidates tended to confuse domestic monetary policy with foreign exchange management.

- b) Good candidates made links beyond simply looking at the immediate theory implications and considered impacts on the wider economy. An alternative was to consider the relative merits of using a reduction in the value of a country's currency versus alternative policy measures to achieve a solution to a balance of payments deficit on the current account. Weaker candidates tended to be drawn into a discussion of the advantages and disadvantages of allowing a currency to fall in value without addressing the question in an effective manner. Presumably, such responses were learned answers, which were insufficiently adapted to provide a suitable response.

#### Question 4

- a) This was a relatively unpopular question which tended to be attempted by weaker candidates. At the onset, many responses failed to define the key terms. As a result they were inhibited in their efforts to construct an appropriate answer. Many responses offered only simplistic notions of what aid might be. When it came to foreign direct investment a significant minority confused it with non-foreign direct investment flows, for example money bound for higher interest earning bank accounts overseas.
- b) There were few good responses, with the majority of students offering a very basic and shallow understanding of the subject matter. Many candidates did not provide a clear definition of economic growth or economic development and thus could not effectively respond to the question. Good responses tended to make good use of examples and were able to develop evaluation through a detailed knowledge of the issues that surround the provision of aid; it was usually clear which candidates made a habit of regularly accessing appropriate news media.

### Recommendations and guidance for the teaching of future candidates

- Many responses employed diagrams very effectively but there remain a significant number who do not do so. Diagrams must be clearly drawn and fully labelled. Their relevance must be established and their meaning must be explained in the text of the answer. The candidates that provide numbers for their diagrams are frequently the ones that can most easily explain what the diagram shows.
- The use of examples is greatly enhanced when facts or figures are provided to accompany them. Candidates who have a background understanding of current economic events tend to provide more convincing responses. Students should be encouraged to regularly access appropriate news media.
- Provide definitions of key terms. A failure to do so disadvantages a response as it is more difficult to address the specific demands of the question.
- Some students seem to arrive at the examination with pre-prepared answers which they seem unwilling to modify to accommodate the demands of the question. It is important that candidates carefully read and respond to the specific command terms employed in the question and that they keep a clear focus on what the question is asking them to do.

## Higher level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 4	5 - 8	9 - 11	12 - 15	16 - 18	19 - 22	23 - 30

### General comments

97% of the respondents to the G2 form thought that the paper was of an appropriate level. About 15% found it to be a little more difficult than last year's. It is noteworthy that only 34 teachers completed the G2 form.

Teachers are encouraged to offer feedback via the G2 forms following the examinations because it is considered at grade award and provides information, which helps in the writing of the subject report. It also helps influence how exam papers evolve in the future.

Some candidates continue to give rehearsed answers to general topics as opposed to answering the specific questions asked. This behaviour is especially noted when candidates do not know or understand the economic concept being tested. When economic concepts and theories are not identified or understood, students tend to delve into very general explanations that hardly address the demands of the question.

Candidates should also be advised to define relevant terms as well as explain the economic theory underlying the topic instead of listing points.

Coordinators should continue to remind candidates not to use colours in diagrams, as scanning for e-marking is done in black and white.

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

While many economic concepts like subsidies, perfect competition and negative externalities were thoroughly explained by many candidates, there were some areas of the programme that proved difficult for many: In particular, economies in transition, the short-run diagram for a firm in perfect competition, and the poverty cycle appeared to be difficult for many.

Specific difficulties in this paper included:

- defining an economy in transition
- drawing an accurately labelled diagram illustrating the profit-maximizing level of output in the short run for a firm in perfect condition
- defining comparative advantage and explaining the underlying assumptions of the theory
- explaining the poverty cycle

As mentioned in previous reports, the use of accurately labelled diagrams is important to assist in economic analysis. Diagrams need to be relevant to the question and have to be fully explained. Relevant economic concepts have to be accurately defined. In more broad terms, it is suggested that candidates be taught to understand the focus of the question and to integrate the following elements in their response:

- definitions
- explanations of relevant economic theory
- examples
- diagrams (where appropriate)

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

Most candidates could explain concepts of subsidies, negative externality, and perfect competition. Candidates were well prepared to answer questions on these topics.

The overwhelming majority of candidates have allocated time appropriately between the three questions and were able to complete the paper.

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

### Question 1

This was not a popular question and was mostly attempted by weaker candidates. Many of the candidates who have attempted this question were not sure what an economy in transition was, and based their answer on the problems that are likely to face a free market economy. Such answers did not go beyond talking about market failures in the form of demerit goods, the insufficiency of merit goods etc, and have failed to address the question being asked.

Few candidates however, properly defined an economy in transition as an economy in the process of moving from a centrally planned economic system towards a more market-oriented economic system. Stronger responses correctly identified many problems facing such economies and gave appropriate real-world examples to support their answers.

### Question 2

Question two was generally well answered. Most candidates could define both negative externalities and subsidies. Weaker candidates have only used a subsidy diagram to explain the effect of removing a subsidy in terms of a higher price and a lower quantity demanded. Most candidates were able to explain the positive effect of removing the subsidy, in terms of a smaller external cost on society.

Stronger candidates have incorporated the subsidy into the negative externality diagram and were able to show and explain the effect of removing the subsidy. Some candidates were able to give real-world examples, in particular many candidates have used Indonesia as an example of a country where fossil fuels are subsidized.

Few candidates have made the erroneous assumption that removing the subsidy would entirely eliminate the negative externality.

### Question 3

Question three was well answered by most candidates. Candidates were able to outline the main characteristics of perfect competition, and many were able to give examples of such markets. Most candidates were also able to explain how the absence of barriers to entry would entail only normal profit in the long run.

Most candidates have stated that the firm will produce where  $MR=MC$ , but many have incorrectly shown the relevant quantity on the diagram and only few have explained the theory behind the perfectly competitive model. Many candidates have also failed to define relevant economic terms like short run, long run, abnormal profit, and normal profit.

Few candidates have explained diagrams and many candidates could not distinguish between short-run and long-run profit-maximizing quantities on the diagram. Many candidates seemed to believe that the quantity will always be at  $MC=AC$ , the lowest point of the AC curve, in both the short and long-run.

#### **Question 4**

Question four was generally well-answered with most candidates accurately drawing and explaining the Laffer curve.

The explanation of economic theory was in some cases superficial and some candidates were under the impression that maximum tax revenues would be reached at a tax rate of 50%. Candidates who made this assumption did not realize that the theory assumes the optimal tax rate to vary between countries and that it would be difficult to determine this optimal rate with accuracy.

#### **Question 5**

While many candidates choosing question five could identify the main underlying assumptions behind the theory of comparative advantage, few could explain how these assumptions would represent limitations to the theory in question. Many candidates have also given elaborate examples calculating hypothetical comparative advantage for a 2-country, 2-good model, when this was not necessary to answer the question. However, some candidates did use these constructed examples to show how the underlying assumptions would weaken the theory. These tended to be very good answers.

#### **Question 6**

Question six was not very well answered as many candidates talked about development and poverty in very general terms, without addressing the question asked. Some candidates drew a poverty cycle but did not explain how/why the various links were related.

## **Recommendations and guidance for the teaching of future candidates**

The recommendations and guidance remains largely as in previous reports.

Candidates must be able to apply their knowledge of economics to the questions being asked. It is important that candidates learn to read the question carefully before beginning answering it. They need to learn to identify the main economic theory/concept being tested and focus their response around an explanation of this theory/concept.

In preparing candidates for examinations the following are key points:

- Defining key terms or concepts: an implicit understanding of a concept is not enough. An explicit definition or explanation is required to effectively answer a question. This session the concepts of economies in transition, comparative advantage and poverty cycle proved difficult for a number of candidates



- Cover the whole syllabus: candidates often use past papers as a guide to what will appear on current papers. When something appears that has not been questioned for a long time they are at a loss.
- Emphasis must be placed on the effective use of diagrams and examples. Diagrams are used to illustrate and explain the economic theory or concept being discussed. There must be in the response an explanation of the diagram used and how it is helping to explain the theory/concept presented in the question. Candidates are also encouraged to give relevant examples whenever possible.
- Practice is required to effectively answer these short answer questions. This will entail the development of candidate ability to read the question carefully, analyse what it requires and then to respond to this question in the given time. Candidates need to be taught to answer the questions, not just discuss comparative advantage, development etc. because the concept is in the question. Also, candidates should remain focussed on the question and not go off on tangents simply to fill space.

## Higher level paper three

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 8	9 - 16	17 - 23	24 - 31	32 - 38	39 - 46	47 - 60

### 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 best responses, this report focuses more on more common errors made by candidates. General comments about exam-writing techniques are similar to, if not exactly the same as in previous reports.

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

Effective evaluation in the final part (d) questions was often lacking; there is a tendency for candidates to provide pre-learned mini essays without adequate attention to the case study.

The examining team noted that there seems to have been an improvement in the labelling of axes. This may well be because teachers are using the markschemes as teaching tools, which is obviously a desirable outcome.

It is now the policy that students are not allowed to use coloured pens/pencils on their exams. It seems that some centres are not aware of this change in policy, as students continue to refer to different coloured areas in their diagrams. Since the exams are now scanned in black and white and electronically marked, the colours do not appear on the examinations.

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

This will be addressed in the context of individual questions.

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

This will be addressed in the context of individual questions.

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

### Question 1

This was by far the most popular question, with the vast majority of candidates choosing it.

- a) (i) Most students were able to provide an appropriate definition of this term  
(ii) Although most students could provide a vague explanation of the term, less were able to secure full marks for this question by giving an accurate definition. Most candidates recognised that people with lower incomes pay higher taxes, but a majority of candidates failed to recognise that a regressive tax means that the tax rate or percentage of tax paid falls as income rises.
- b) This was well-handled by the majority of students. Mistakes included mixing up the numerator and the denominator in the equation, calculating only one PED value for the general population and failing to comment on the values.
- c) Where candidates were familiar with the theory of tax incidence, the question was well answered. However, a great many simply showed and explained the effect of a tax as a decrease in supply, rather than address the incidence of the tax. Another common error was to confuse the producer and the consumer areas.
- d) It is clear that candidates are very comfortable in discussing the advantages and disadvantages of taxes on cigarettes, but a great many students presented what appeared to be pre-learned essays on the topic and failed to demonstrate effective evaluation in the context of the actual smoking in West Virginia. Very few students seemed to look critically at the text. For example, hardly any students made reference to the extent of the tax increase (the tax was doubled), suggesting perhaps that students do not consider actual values very important when they are reading.

### Question 2

- a) Both parts were well handled by the majority of candidates
- b) Relatively few candidates earned full marks on this question. There was a tendency for candidates to explain economies of scale without applying their knowledge to the actual question. A great many students explained economies of scale as a fall in costs, rather than a fall in average costs. A very common error was to illustrate economies of scale with a fall in marginal costs.
- c) For students comfortable with the theory of the firm, this question was a straightforward one, and most candidates were reasonably successful. Common errors occurred in the drawing of the diagram - with MC curves not crossing at the minimum of AC, and/or the relationship between MR and AR not accurately shown.

Some students only showed Coca-Cola earning abnormal profits without addressing the ability to sustain these profits in the long run.

- d) There seemed to be a great tendency with this question for candidates to deliver a pre-learned essay on the problems associated with monopolies, with scant attention to the details in the case study. There was a tendency to uncritically compare outcomes in a monopoly with outcomes in perfect competition, even though perfect competition is not a possible scenario in the juice market. Again, this suggested that the students were not paying close attention to the details in the case study. Very few candidates discussed the point that Coca-Cola would have only 20% of the market share in the juice market, but seemed to assume that since the Chinese government was blocking the purchase by Coca-Cola then this meant that Coca Cola would be a monopoly. Again, it is possible to conclude that students are not paying close attention to actual values in the text. Those who did challenge this assumption were able to demonstrate effective evaluation. There were many clearly good candidates who were well-versed in economic theory, but failed to reach the top mark band because they were unsuccessful in making reasoned judgments/conclusions.

### Question 3

- a) (i) This question was not well answered, with most candidates seeming to equate capital flight with 'hot money'.
- (ii) Many students were able to earn full marks on this question. A common error was to neglect to note that appreciation occurs in a floating exchange rate system.
- b) This was generally well done. One shortcoming in the diagram was to neglect to show an original equilibrium at a point where the economy would be in recession ( $Y_e < Y_f$ ). However, most students had little difficulty in securing both marks for the explanation.
- c) Most students were able to show that the value of the real would appreciate due to higher demand for the currency. However, the answer often failed to explain why the demand would rise.
- d) To be successful, candidates needed to understand that there was a conflict among Brazilian objectives - whether or not the authorities should raise interest rates to slow down the growth of the economy, or lower interest rates to prevent the appreciation of the *real* in order to support exporters. Those students who did understand and could use the data from the charts to support their use of this theory were able to do well. Weaker responses wrote simply about the consequences of rising interest rates without applying these to the actual case study. Only those students who were able to make a reasoned judgment about the relative merits of raising interest rates in the context of the Brazilian economy were able to reach the top mark band. A disappointingly small proportion of students made references to the actual values from the charts.

### Question 4

- a) (i) A very straightforward term to define
- (ii) Most students were able to explain sustainable development with some reference to the ability of future generations to meet their needs. Some students simply defined it as development that could be maintained. Some students defined 'development' rather than sustainable development.

- b) This was generally reasonably well done. However, some students failed to show the surplus on the diagram, or failed to say why there would be a surplus. Some students incorrectly drew the minimum price below the equilibrium.
- c) Students seem very comfortable drawing the tariff diagram, and the majority were able to secure both marks for the diagram. One error was to fail to label the supply curves accurately. In terms of the explanations, far too many students wrote at length about the effects of the tariff, rather than simply looking at the effect on the level of imports, thereby wasting valuable time.
- d) Evaluation most often took the form of weighing up the positive and negative impacts of the FTA and coming to a supported decision as to which had the greater weight in terms of growth and development. The most common weakness was candidates who ignored the concept of economic development and wrote about the effects on economic growth only. There was a strong tendency to assume uncritically that what was happening in the garlic market was happening or would happen in all markets. Again, it is possible that students are not reading the text carefully – very few candidates referred to the point that the free trade agreement had been negotiated for 188 types of fruit and vegetables.

### Question 5

- a) (i) Some candidates gave a basic definition of economic growth but failed to identify any of the welfare elements of economic development.  
(ii) This was generally well answered. Candidates mostly realised that subsidies were money given to firms, but some did not explain that they had the effect of lowering production costs (or increasing output or lowering price).
- b) This question was poorly answered by the majority of those candidates who attempted it. The concept of quotas seemed to be poorly understood and the ability to draw an appropriate diagram to illustrate the concept was very often lacking. There are a number of ways to illustrate a quota, and its removal, but many candidates failed to do so. A significant number drew a tariff diagram and tried to adapt it in some way. This is an area of the syllabus on which centres may wish to spend some extra time.
- c) This was generally well answered. Weaker candidates did not realise that the provision of health care insurance and pensions would increase government expenditure or consumption (either approach was acceptable) and so shift AD to the right, and tended to show an increase in SRAS. However, they were in the minority.
- d) This question was generally poorly answered. Better candidates were able to make reference to the text and to evaluate the future effectiveness of China's strategy, in the light of the information given. However, many candidates were clearly unaware of the elements of export-oriented growth and also failed to distinguish between growth and development. Weaker responses tended to repeat information from the text in an ad hoc manner, avoiding the main topic of the question.

## Recommendations and guidance for the teaching of future candidates

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

- It may seem like obvious advice, but the full syllabus needs to be taught. Incomplete teaching of some sections of the syllabus will disadvantage students when they come to choosing their data response questions.
- 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.
- In responding to part (a) questions, students should be encouraged to write no more than two sentences.
- Candidates will also benefit if they compile a glossary of all the diagrams. Most part (b) and (c) questions require the use of a diagram, and these are generally all standard diagrams from the syllabus. Where diagrams are used in parts (b) and (c), students should be sure to use/explain the diagram by making references to the diagram in the response.
- Diagrams should not be placed at the end of the exam. They should be drawn exactly where the accompanying explanation is written.
- All too often, students will use a correct diagram, but then fail to make use of the diagram in their explanation. The diagram and the explanation must be integrated with each other. 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.
- 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.
- On diagrams, candidates 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. For example, a question about the market for the Brazilian *real* should have as its y-axis label, *price of the real in another currency*.
- Students must also 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 carefully identify what a question is asking for in parts (b) and (c). They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.

- While examiners are observing much improvement, students must be reminded that to achieve top marks in part (d) questions, they must make reference to the text. Encourage students to use quotation marks, or make references to the paragraphs or texts.
- Responses to part (d) questions 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. Teachers should instruct their students to take a few sentences to explain concepts that they bring up in their analysis for part (d). Often, students look as though they have simply memorized a set list of issues, but do not demonstrate any depth of understanding of the topic. Another problem occurs if candidates use terms, but don't really understand them
- Candidates must be aware of the different ways that they can carry out the skill of evaluation. To start, students can be encouraged to discuss advantages and disadvantages of a particular economic event or policy; they can look at an issue from the perspective of different stakeholders or they can consider the differences between short run and long run consequences. But it is not sufficient to just list advantages or disadvantages or to distinguish between the short run or the long run. For evaluation to be effective, it is necessary to make a reasoned and justified judgment regarding the information. To do this, candidates must really read the text carefully, noting points that can be used to defend a critical judgment of the situation.
- Theory provided in answers to part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Students should be encouraged to really engage with the case study, in order to be able to apply the theory.

## Standard level paper one

### Component grade boundaries

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

### General comments

This paper proved to be a good all round test for the candidates who sat it in this session. The paper was well received by centres with all saying that the paper was set at an appropriate level. It was particularly pleasing to see a very even distribution of students attempting questions 1, 2 and 3, although, as in previous sessions, very few students chose question 4.

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

The quality of responses to questions 1, 2 and 3 suggested that most candidates were comfortable with the micro, macro and international topics covered by these questions. It is

difficult to say that candidates find the Economic Development section of the syllabus hard, but students are reluctant to answer questions on it and the responses produced by candidates were generally weak.

There are two areas of approach which candidates found quite difficult:

- Too many answers lacked developed examples to support the points being made
- Whilst there was often evidence of attempted evaluation, most candidates failed to fully evaluate the points made in response to part (b) questions.

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

It was pleasing to read some very good answers to questions one, two and three. Many candidates were well prepared for the first three questions and produced answers which had accurate definitions, clearly applied theory and well-drawn diagrams.

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

### Question 1

- a) This question was generally well answered by the students who showed good knowledge of price and cross elasticity of demand. The best answers defined both concepts accurately and used effective numerical examples to illustrate them. The interpretation of the different values generated by the equations was done quite well, although some candidates mixed up the positive and negative values for cross elasticity. A common weakness was the lack of real examples to illustrate the points made. Examples are needed to reach level 4 and many students ignored the point that would have got them very high marks.
- b) The aim of this question was to try and get candidates to consider some of the possible applications of price and cross elasticity of demand. Students were good at explaining how reducing the price of a good with price elastic demand will lead to a rise in revenue and increasing the price of goods with inelastic demand will also increase revenue; this was generally well illustrated with demand and supply diagrams. Students struggled when applying cross elasticity of demand. There were some good answers, however, with examples of how firms might exploit the complementary relationship by reducing, for example, the price of computer consoles to sell more of the complementary games or where, for example, train operating companies plan to increase capacity as the price of petrol and subsequent cost of car use (a substitute) increases.

Students struggled with evaluation on this question. Some effective evaluative points would have included: the problems of measuring elasticities, how elasticity changes over time and fact that any change in one determinant of demand assumes other things remain constant which does not occur in the real world.

### Question 2

- a) This question was, in many cases, well done. The best answers defined and explained the term recession accurately and then considered 3 reasons why an economy might go into recession. Effective current examples on the demand side included: falling business and consumer confidence, tight fiscal policy, falling export

revenue and reduced bank lending. Some students also considered the supply side by looking at rising commodity prices. The current global economic conditions should have provided students with a plethora of effective examples, but too many candidates failed to use them.

- b) This was generally well done by candidates who found the nature of the question led them towards evaluative answers. Good responses provided a clear theoretical explanation of the application of fiscal monetary policy to raise the level of aggregate demand and take an economy out of recession. This was supported with clear aggregate demand and supply diagrams. The best candidates went on to evaluate the use of demand side policies by considering: the financial implications of expansionary fiscal policy for governments, the effectiveness of the transmission mechanism with monetary policy and the problem of high inflation for expansionary demand side policies generally. Very few candidates used examples to illustrate their points when answering this question.

### Question 3

- a) The best answers to this question were ones that explored the benefits of international trade using theory and examples to illustrate the points being made. A good answer could, for example, explain the benefits of increased competition in markets that are open to foreign as well as domestic producers by using a demand and supply diagram to illustrate how increasing supply leads to lower prices and higher output in the domestic market. This could be supported by an example such as the mobile phone market in a country where fierce competition between Apple, HTC, RM and Samsung has led to lower prices for consumers and greater choice than would be the case in a domestic market made up solely of domestic producers. Good answers also considered: foreign goods that could not be produced domestically being available to domestic consumers, the efficiency advantage gained from producers being able to specialise and trade (detailed explanations of comparative and absolute advantage were not required); foreign markets open to domestic producers, economies of scale from increased production and the political benefits associated with trade.
- b) Many candidates made a crucial error when answering this question. They wanted to discuss the costs and benefits of protectionism rather than evaluate the reasons for protectionism. Answers that, for example, focused on the higher prices and lower output resulting from tariffs and quotas struggled to achieve the highest level marks. The best responses evaluated how, for example, a government's desire to protect a declining industry like steel might save jobs in the short run but in the long run a protracted contraction only leads to inefficiency and puts off an inevitable decline. A good response here could also have evaluated: the infant industry argument, health and safety standards, protection of domestic culture, anti-dumping strategy, collection of tariff revenue, protection of strategic industries and political reasons. There was, once again, a good opportunity to draw on examples to support the points made here.

### Question 4

- a) As in previous sessions, very few candidates chose to do the question on the economic development section of the syllabus. The students who did choose the question did not perform particularly well on it and produced answers which lacked the theoretical content needed to achieve the highest level of response. The question was looking for students to explain how FDI is where multinational companies set up



production in foreign countries and produce and export from those countries. Aid, on the other hand, is money given or loaned (at favourable rates of interest) from one country to another. There are many different types of aid: bilateral, multilateral, tied and humanitarian could have been looked at in an answer. Whilst both aid and FDI have a role to play in economic development the key difference is that aid is a deliberate act on the part of MEDCs to facilitate development in LEDCs and FDI is something that might facilitate development but is primarily MNCs exploiting favourable production conditions in LEDCs to make profits.

- b) Similarly to part (a), the answers to part (b) lacked the theoretical foundation needed to score well. The use of examples is also crucial in this type of question because of the applied nature of the material.

Candidates needed to start this answer with accurate definitions of economic growth and economic development. Candidates then needed to explain how aid might facilitate development by, for example, filling the savings gap that many LEDCs suffer from and provide the funds for major investment projects. This is particularly important with infrastructure which provides the conditions for further business investment. China, for example, has offered billions of dollars of aid to African countries to fund investment in infrastructure. Answers then needed to say how this might lead to economic growth and, in turn, economic development. The building of new roads, for example, will help business operate and lead to growth, which reduces unemployment and increases average incomes, which leads to development. This could be evaluated by considering the environmental problems caused by this type of project and how the construction contracts might go to companies from the donor country rather than local firms.

It is important that students use theory to support their answers to this type of questions and the use of aggregate demand and supply analysis could be a useful way of illustrating the effects of aid on economic growth. The use of social cost and benefit analysis could be used to show the implications of aid for economic development.

## Recommendations and guidance for the teaching of future candidates

Candidates should be taught to:

- use accurate definitions of the key economic terms in the question and any other economic terms used to answer the question
- support answers with well explained and relevant economic theory
- draw clear, accurate, well labelled diagrams that illustrate the points they are making in an answer. Students must also refer to the diagrams they use in the text of their answer
- use relevant examples to support the points made
- fully evaluate. Consider the short-term versus long-term consequences, impact on different stakeholders, advantages and disadvantages and the priorities of the arguments put forward.

## Standard level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 8	9 - 16	17 - 24	25 - 31	32 - 39	40 - 46	47 - 60

### 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 best responses, this report focuses more on common errors made by candidates. General comments about exam-writing techniques are similar, if not exactly the same as in previous reports.

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

As is often the case, evaluation in the final part (d) questions was often lacking; there is a tendency for candidates to provide lists of advantages and disadvantages without coming to reasoned conclusions or making a judgment. Examiners do not expect a particular number of specified points to be made in responses to part (d) questions and are instructed to reward all plausible points, but to reach the top band, there must be direct reference to the text/data that has been provided in the question and effective evaluation must be in evidence.

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

This will be addressed in the context of individual questions.

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

This will be addressed in the context of individual questions.

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

#### Question 1

- a) (i) This question was generally well answered. However, a significant number of candidates omitted the term 'real' and wrote about growth of output in an economy as opposed to growth in real output
- (ii) This was a very well answered question, with the vast majority of candidates able to define the term. Weaker candidates tended to be vague and say that it was the value or price of a currency, omitting to add that it was measured in terms of another currency.

- b) This question seemed to discriminate very well between stronger and weaker candidates. Stronger candidates drew an AD/AS diagram, with a shift of AD to the left, and explained that the 'weak' economy and reduced investment would lead to lower output and so lower demand for labour, thus demand-deficient unemployment/cyclical unemployment. (Some gave the same explanation, using a labour market diagram, with  $AD_L$  shifting to the left, and were also fully rewarded.) Weaker answers offered frictional unemployment as the type, but seemed to have no real reason for doing so, other than awareness of the term.
- c) Candidates seem to find the concept of exchange rates to be difficult. However, the majority were aware that a strong exchange rate would make exports more expensive and imports less expensive, thus reducing aggregate demand through a fall in  $(X-M)$ , and drew an appropriate diagram. (A discussion of the importance of the role of price elasticities was not expected here, although a number of candidates did mention it.) Weaker candidates struggled, often stating that a strong exchange rate would lead to strong demand in the economy, but with no reasons to support the claim.
- d) This was a reasonably well answered question, with a good amount of material from the text on which to draw. A significant number of the candidates seemed to be able to explain the effects of a falling interest rate, but were not aware of the concept of fiscal stimulus. Many of the responses simply explained different effects of lower interest rates, without any effective evaluation. Stronger responses tended to identify the effects and weigh up their relative impacts or to look at the short-run and long-run implications, for example, a fall in unemployment, but the threat of inflation and its effect upon the economy in the future.

## Question 2

- a) (i) This was a very well answered question, with only a few candidates unaware that they are costs imposed on a third party when a good or service is produced or consumed. The most common mistake was to ignore the third party aspect.
- (ii) Many candidates gave a basic definition stating that they are taxes on goods. Many improved this by then giving real examples of indirect taxes. Stronger candidates stated that the indirect taxes were taxes on expenditure, or that they were taxes added to the selling price of a good or service.
- b) This was a very well answered question, with the majority of candidates able to draw and explain a diagram showing negative externalities of production. Market failure is obviously a topic that is being well understood in schools at this level.
- c) The text clearly explains that local residents claim that the dumping of chemicals "have caused an increase in cancer-related deaths". Most candidates read this and then explained that this would cause a shift in the demand for carrots to the left, lowering the price and the quantity of carrots being demanded. Some candidates did not read the text clearly and shifted the supply curve, which is not suggested in the text. A few candidates shifted both curves and, if the explanation for the demand shift was correct, positive marking was followed and full credit was given
- d) This was another case where many candidates reached the top of level 2 in the markscheme, 5 out of 8, but failed to go further because of a lack of effective evaluation. Solutions were identified from the text, such as indirect taxes, direct regulation, and new legislation. They were explained, but there was rarely evaluation of their effectiveness. Stronger responses compared the different solutions and then attempted to weigh their likely relative success.

**Question 3**

- a) (i) This was surprisingly poorly answered. Many candidates gave a basic definition of economic growth and failed to identify any of the welfare elements of economic development.
- (ii) This was generally well answered. Weaker candidates mostly realised that subsidies were money given to firms, but did not explain that they were usually from the government and had the effect of lowering production costs (or increasing output or lowering price).
- b) This question was very poorly answered by the majority of those candidates who attempted it. The concept of quotas seemed to be very poorly understood and the ability to draw an appropriate diagram to illustrate the concept was very often lacking. There are a number of ways to illustrate a quota, and its removal, but many candidates failed to do so. A significant number drew a tariff diagram and tried to adapt it in some way. This is an area of the syllabus on which centres may wish to spend some extra time.
- c) This was generally well answered. Weaker candidates did not realise that the provision of health care insurance and pensions would increase government expenditure or consumption (either approach was acceptable) and so shift AD to the right, and tended to show an increase in SRAS. However, they were in the minority.
- d) This question was generally very poorly answered. Better candidates were able to make reference to the text and to evaluate the future effectiveness of China's strategy, in the light of the information given. However, many candidates were clearly unaware of the elements of export-oriented growth and also failed to distinguish between growth and development. Weaker responses tended to repeat information from the text in an ad hoc manner, avoiding the main topic of the question.

**Question 4**

- a) (i) Generally, this was a well answered question. Weaker candidates realised that it was related to the number of unemployed, but failed to identify that it was a rate, i.e. expressed in terms of the labour force.
- (ii) This question was generally very well answered. A small number of candidates omitted either the term sustained, relating to the increase, or the term general (average), relating to the price level. Some omitted both.
- b) This was generally very well answered, both in terms of diagrams and explanations. The most common error was to use an AD/AS diagram to attempt the answer, instead of a microeconomic model showing the petrol market. The confusion between the use of microeconomic models or macroeconomic models is a recurring problem for weaker candidates.
- c) This was not a well answered question. Many candidates did not realise that increasing wage costs are an increase in the cost of a factor of production and so will shift the SRAS curve to the left. Many drew diagrams showing a shift of the LRAS curve, often to the right. Interestingly, a significant number of the candidates were not able to draw an appropriate diagram and yet still managed to explain that an increase in wage costs would lead to increased inflationary pressure and a fall in output.
- d) Weaker candidates tended to ignore the question asked and wrote instead about how the South African government could improve the economy, thus benefitting everyone.

Many candidates did not seem to be aware of the concept of reducing income inequality and, whilst just about understanding what income inequality was, were very unsure as to how it might be reduced by a government. Policies offered tended to be very general, such as reducing taxes or paying lots of benefits, so the ability to develop and evaluate policies was rarely shown. This is another obvious area where centres might wish to spend more time.

### Question 5

- a) (i) This question was generally very poorly answered, with the majority of candidates seemingly unaware of the meaning of the term. There was much confusion between the terms of trade and the balance of trade. Also, a significant number of candidates simply thought that it related to the conditions under which countries traded with each other.
- (ii) This was generally well answered. Weaker candidate failed to state that depreciation occurs in a floating exchange rate system.
- b) The majority of candidates showed the demand for oil falling on their diagrams, indicated a fall in price, and explained that the global recession led to falls in income (or business or consumer confidence), so causing the demand for oil to fall. The most common error was for candidates to offer a macroeconomic diagram, with shifts of the AD curve (or sometimes AS), although the explanation was still often correct.
- c) Answers to this question seemed to be polarised. Better candidates were aware that holders would sell the naira if they were expecting the exchange rate to fall in the future, thus increasing its supply and reducing the exchange rate. Weaker candidates either showed a fall in the demand for the currency or, more often, had no real idea at all how to answer the question. Possibly another area for attention by centres?
- d) This question was generally well answered in that many candidates reached the top of Level 2 (5 marks out of 8). However, there were still not that many who achieved evaluation and use of the text, and thus reached Level 3. The better candidates highlighted Nigeria's dependence on oil and then identified consequences of the fall in oil prices. They then evaluated the relative impact of the consequences that stemmed from the falling oil price. Some candidates also identified benefits that might arise and then evaluated the costs and the benefits. There were also some answers that considered the short term implications against the long term implications.

## Recommendations and guidance for the teaching of future candidates

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

- It may seem like obvious advice, but the full syllabus needs to be taught. Incomplete teaching of some sections of the syllabus will disadvantage students when they come to choosing their data response questions. This is especially true in the case of development economics.
- 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.

- In responding to part (a) questions, students should be encouraged to write no more than two sentences.
- Candidates will also benefit if they compile a glossary of all the diagrams. Most part (b) and (c) questions require the use of a diagram, and these are generally all standard diagrams from the syllabus. Where diagrams are used in parts (b) and (c), students should be sure to use/explain the diagram by making references to it in the response.
- Diagrams should not be placed at the end of the exam. They should be drawn exactly where the accompanying explanation is written.
- All too often, students will use a correct diagram, but then fail to make use of the diagram in their explanation. The diagram and the explanation must be integrated with each other. Students 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.
- 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 to the examiner.
- It is now the policy that students are not allowed to use coloured pens/pencils on their exams, so this should no longer be encouraged. However, they should be sure to use arrows to indicate the direction of change of any variables.
- Diagrams should be made appropriate to the question and/or the market in the question. For example, a question about the market for the Nigerian naira should have as its y-axis label, *price of the naira in another currency*.
- Students must also 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 carefully identify what a question is asking for in part (b) and (c) questions. They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- While examiners are observing much improvement, students must be reminded that to achieve top marks in part (d) questions, they must make reference to the text. Encourage students to use quotation marks, or make references to the specific paragraphs or tables.
- Responses to part (d) questions 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. Teachers should instruct their students to take a few sentences to explain concepts that they bring up in their analysis for answers to part (d) questions.

- Another problem occurs if candidates use terms, but don't really understand them. For example, in question 2(d), where students were asked to evaluate the solutions to reduce negative externalities, many students brought up concepts like welfare loss, consumer and producer surplus, and consumer welfare, but had clearly just memorized this terminology with little understanding as to how to apply or explain it.
- Candidates must be aware of the different ways that they can carry out the skill of evaluation. To start, students can be encouraged to discuss advantages and disadvantages of a particular economic event or policy; they can look at an issue from the perspective of different stakeholders or they can consider the differences between short run and long run consequences. But it is not sufficient to just list advantages or disadvantages or to distinguish between the short run and the long run. For evaluation to be effective, it is necessary to make a reasoned and justified judgment regarding the information.
- Theory provided in answers to part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Students should be encouraged to really engage with the case study, in order to be able to apply the theory.