

## November 2016 subject reports

### 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 - 36	37 - 49	50 - 61	62 - 75	76 - 100

##### Standard level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 11	12 - 22	23 - 33	34 - 47	48 - 59	60 - 73	74 - 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 - 6	7 - 12	13 - 20	21 - 26	27 - 31	32 - 37	38 - 45

### The range and suitability of the work submitted

There were still some candidates portfolios who did not include a summary portfolio coversheet with details of source, dates of articles and commentaries, syllabus sections and word counts. From May 2017 onwards, the 'commentary coversheet' and 'summary portfolio coversheet' will not be required. These forms will be replaced by a 3/CSE form, one of which will be required for each candidate. The 3/CSE form is available on the online curriculum centre (2017—Forms and cover sheets).

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

It is important to carefully follow the rubric requirements. Many candidates lost a mark under criterion F because they did not provide a summary portfolio sheet (which from May 2017 onwards will be replaced with the 3/CSE form) with details of the sources, syllabus sections, the date commentaries were written and word counts. It is advisable to give the full URL of the articles used. Articles should be complete, and the parts that the commentary is focusing on should be highlighted. If an article is in another language the candidate must provide a full translation that is comprehensible: Google translate is not always adequate. Most candidates followed the rubric requirements and submitted three commentaries from different sources and covering three syllabus sections, within the word count. When this does not happen, it is important that the teacher takes this into account when assessing the portfolio. Teachers and candidates should take special care that the commentaries and articles have been accurately organized before uploading them.

## Candidate performance against each criterion

### Criterion A: Diagrams

Most candidates included relevant diagrams but these were not always explained well. Too many copied generic graphs from textbooks or internet sources without making them specific to the commentary. For example a graph describing tariffs on Chinese steel entering the European union could be labelled with price and quantity of steel, and give the EU supply and the Chinese supply. It is preferable that candidates create their own graphs, either by hand or using computer skills. If candidates have copied graphs they must give the source. The criterion descriptor assesses whether the candidate “is able to construct and use diagrams” so copy/paste diagrams will not achieve maximum marks.

Candidates should avoid very lengthy descriptions of graphs. Some candidates made reference to colours on their graphs but then uploaded their portfolios in black and white.

### Criterion B: Terminology

Terminology needs to be used appropriately, but this does not mean every term must be defined. Terms like “tariff” could be briefly explained with a comment such as “a tax on imports”. If precise definitions are copied they must be in quotation marks and a source be given. They must not be in footnotes or they will be ignored. This criterion implies that the candidate displays understanding of the terms used. A number of candidates used an inappropriate dictionary definition for economic terms like deficit or depreciation. Most candidates scored well in this criterion.

### Criterion C: Application

This criterion tests whether the candidate has recognized the appropriate economic issues from the chosen article. It is important to make links to the article, and not simply present some economic theory that is faintly relevant. Some candidates made very little reference to the articles, and a few did not understand the articles. Some chose articles that were far too complex or dealt with issues not in the IB syllabus. Most candidates recognized the appropriate economic issues and scored well in this criterion.

### Criterion D: Analysis

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

### Criterion E: Evaluation

A key issue here was whether the candidate “synthesizes his or her analysis”. If candidates have simply paraphrased an article that has already done the analysis and evaluation of an issue it is not possible to get the top levels on this criterion: the evaluation is not of the candidate’s own analysis. Many simply explained an article, generally agreeing with the author.

Too many candidates gave opinions that were not backed up by appropriate economic reasoning. “I think” does not necessarily imply evaluation. It is not possible to reach the top level unless the candidate considers counter-arguments, and discusses advantages and disadvantages of a policy.

### Criterion F: Rubric requirements

It is important to carefully follow the rubric requirements. Many candidates lost one mark under criterion F because they did not provide a summary portfolio coversheet (which from May 2017 onwards will be replaced with the 3/CSE form) with details of the sources, syllabus sections, the date commentaries were written and word counts. The descriptor about “different and appropriate sources” was designed to avoid candidates choosing excerpts from books, tutorial guides, government reports or personal blogs. A number of online media now include opinion columns that are technically “blogs” but these are acceptable if they are in a recognized news media source.

## Recommendations for the teaching of future candidates

- The Internal Assessment (IA) should be an integral part of the IB course, not simply a set of assignments at the end of the course. The IA can be valuable to understanding the different parts of the syllabus and is especially important in providing examples that can be used in the externally assessed components. It is recommended that candidates read through their IA as part of their IB revision.
- It is recommended that the IA be spread across the teaching of the syllabus, with one or two of the commentaries completed in the first year of the IB course. This reduces stress on candidates in their second year and reduces the risk of incomplete portfolios being presented.
- Teachers should provide guidance in selection of suitable articles but the candidate must make the choice. Some centres used a very limited selection of sources and topics for their IA, which gave the impression that teachers had selected the articles. Teachers are reminded that they are allowed to give feedback on a first draft of the commentary but the second draft is considered final. A few centres, or candidates, did not appear to have produced a first and subsequent final draft of the commentaries.

## Further comments

Centres need to ensure that the portfolios are complete and have been properly uploaded.

It is important to promote academic honesty and to stress the potential consequences of plagiarism. Teachers should take care to verify the authenticity of work presented, ensuring that the language and analysis presented is really that of the candidate.

It is also necessary to remind teachers that providing a candidate with undue assistance is unacceptable. It is part of the candidates' task to find and analyse the article: this should not be carried out by teachers. A number of centres presented samples where many candidates had used the same articles. Teachers could usefully approve the choice of article before candidates write the commentary, or have a system where candidates can ensure they are not choosing the same article.

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

## Higher level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 6	7 - 13	14 - 17	18 - 24	25 - 30	31 - 37	38 - 50

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

There is a significant divide between centres where candidates are beginning to effectively integrate the use of real-world examples into their responses and centres where no reference is made to real-world examples at all.

In question 1 some candidates struggled to explain the basic economic problem, it is perhaps worth noting that material on pages 13 and 14 of the subject guide for economics also constitute examinable subject matter.

A significant number of candidates were unable to clearly define what a public good is in question 2.

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

Candidates seemed to be well prepared for market failure and the understanding of externalities seemed to be secure.

Candidates were also able to show a sound understanding of the differing views regarding the use of macroeconomic policies among economists with regard to question 4.

The explanation and construction of a production possibility curve posed few problems.

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

### Question 1

- (a) Most candidates were able to draw and explain a simple production possibility diagram. Rather fewer were able to extend the response to consider the wider economic problem. However, most candidates produced a solid response.
- (b) A majority of candidates seemed to approach this question in terms of control of house prices rather than rent control as mentioned in the syllabus under maximum prices. Whilst theoretically possible and therefore not wrong it did suggest a lack of wider understanding. There are few examples of price controls for housing though examples of different forms of rent control are abundant. The tendency was for a discussion of the relative merits of different forms of control to take place. Very few candidates opted to avail themselves of the opportunity to consider intervention versus free market provision.

### Question 2

- (a) This was a very popular question and candidates were generally comfortable explaining why the under-consumption of merit goods causes market failure. The examples they used however tended to be rather generic and there were few effective attempts to develop examples in the context of the question. Areas of loss or potential gain in diagrams were often not correctly indicated.
- (b) High achieving responses were able to precisely define public goods and offer meaningful examples. However, a significant number of candidates were unable to clearly explain what they are. There was a tendency by some to describe merit goods instead. The higher achieving responses contained valid discussions of market failure, missing markets and the role of the state. This question proved to be a strong indicator of candidate achievement. There was no expectation that a diagram be provided for this question although there were some very imaginative efforts on display. Not all

questions automatically suggest an appropriate diagram.

### Question 3

- (a) This was the least popular of the two Section B questions. The use of diagrams in this question was generally good. However, the labels used were not always precise. It is better to indicate that the horizontal axes refers to the spending and output of the whole economy, many candidates just record quantity. Valid real-world examples were rare and, where they were offered they tended not to be adequately developed. In general candidates were aware of what monetary policy was and of the links its use might have to inflation.
- (b) Candidates were generally able to explain the impact of inflation on export competitiveness. However, it proved more challenging to decide whether it was the most significant impact. High achieving responses considered other impacts of a high rate of inflation and then considered which would likely be the more significant. Examples help to tackle a question like this, so considering countries that are more export dependent or less export dependent might serve as appropriate cases in point.

### Question 4

- (a) Although this is a relatively straightforward question not all candidates were able to identify that contractionary monetary policy was the issue. The usual route was to consider the impacts on consumption and investment to establish a link to employment levels however, many responses did not consider both. The highest achieving responses were able to address the international dimension with explanation of the possible impact on the exchange rate and how that in turn might impact employment.
- (b) Lower achieving responses could not always distinguish between fiscal policy, monetary policy and supply-side policy. A significant number of pre-learned answers appear to have been deployed and they did not really fit the question, so the result was an evaluation of fiscal policy that did not relate specifically to the reduction of unemployment. High achieving responses tended to consider different ideologies and therefore the merits of other policy options whilst maintaining the emphasis on fiscal policy. Others considered fiscal policy in the context of different types of unemployment. Real-world examples were more successfully introduced for this question.

## Recommendations and guidance for the teaching of future candidates

- Teachers should stress the need to employ real-world examples in order to access the higher-level descriptors more convincingly. Candidates should be encouraged to regularly read appropriate news media to enhance their capacity to integrate reference to real-world examples.
- Candidates should refrain from making up real-world examples. It is very easy to countercheck examples given where they look suspicious.
- Candidates will often provide quite lengthy responses to the part (a) of a question. Candidates should expect to distribute time available according to the marks offered for each part of the question.
- All areas of the syllabus are likely, ultimately, to be examined and it is unwise to avoid any topics.
- Candidates should ensure that they answer the specifics of the question posed. They often learn information and theory only to record it in their response without appropriate adaptation to the demands of the question.
- Candidates should be aware of what the command term is asking them to do.
- The macroeconomic questions frequently contain international implications and so it is quite relevant to apply such concepts as appropriate in responses.
- Diagrams should be carefully labelled and fully explained to establish their relevance to the question at hand.

## Standard level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 5	6 - 11	12 - 16	17 - 23	24 - 29	30 - 36	37 - 50

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

Question 2(b) which focused on common access resources proved challenging for some candidates who did not have a clear grasp of this topic. There were answers where candidates did not know what common access resources were and these responses scored very low marks.



Question 3(b) also proved quite challenging for candidates. This was the least popular question on the paper and many candidates struggled to clearly discuss the use of progressive taxation to improve equity.

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

Question 1(b) which covered government intervention in the housing market was generally well answered using maximum price theory.

Question 4 was the most popular question on the paper and it produced large numbers of good answers. Candidates were confident about explaining the link between interest rates and unemployment as well as the use of fiscal policy to reduce unemployment.

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

### Question 1

- (a) The highest achieving responses clearly focused on the question of scarcity at a country level using a two-good example to show how production of one good means foregoing the production of another. A definition and explanation of opportunity cost in this situation was a useful support to the answer. One disappointing aspect of some answers were poorly drawn and labelled PPC diagrams. It would be good to see future candidates using PPC diagrams more effectively to illustrate economic theory.
- (b) There were many effective answers that explained how maximum prices are applied in the rental market for housing and these were supported by clearly drawn graphical analysis. The discussion was developed by considering the problems of applying maximum prices (excess demand, parallel markets, reduced producer surplus) as reasons for non-intervention. The highest achieving responses also considered the advantages and disadvantages of alternative approaches such as housing subsidies. It was pleasing to see some candidates using effective real-world examples like rent controls in New York to illustrate their answers.

### Question 2

- (a) Effective answers used demand and supply diagrams to show how, for example, a rise in the price of a particular good caused by increased demand draws more resources into a market as entrepreneurs are attracted by increasing profits. High achieving answers used effective real-world examples to illustrate how this occurs.
- (b) While there were many very good answers to this question there were also some very lower achieving answers where candidates tried to answer the question without a clear understanding of what common access resources are. Effective responses focused on resources like forests and fish stocks and illustrated how their non-excludable nature leads to over-exploitation and threatens sustainability. High achieving answers

effectively illustrated the consequences of over-exploitation using market failure diagrams. The 'examine' command term made synthesis and evaluation challenging for some candidates but it was pleasing to see answers that considered the implications of government intervention and relative importance of the effects of over-consumption of common access resources on different stakeholders.

### Question 3

- (a) The highest achieving responses to this question clearly defined income inequality and explained the Lorenz curve and Gini coefficient using an effective diagram. Income inequality for a country was shown through the shape of the Lorenz curve and size of the Gini coefficient. It was also important to support this with a real-world example.
- (b) This question proved challenging to candidates and it may well have been the reason relatively few candidates chose to answer it. Effective answers focused on the concept of equity and how the use of progressive tax can achieve greater equity. This could be done, for example, by taxing those on high incomes at a higher rate and using the money raised to fund public services, like further education, which give people on lower incomes greater working opportunities. Responses with effective synthesis and evaluation involved, for example, looking at the problems collecting tax from the very richest people and making sure spending by governments is done efficiently.

### Question 4

- (a) This was the most popular question in the paper and it produced some very effective answers. The highest achieving responses had accurate definitions of interest rates and unemployment and clearly explained how a rise in interest rates often leads to a fall in aggregate demand and economic growth which in turn causes demand-deficient unemployment. Good answers were supported with an aggregate demand and supply diagram and a real-world example.
- (b) This question seemed to produce the highest achieving responses in the paper. Candidates seemed comfortable with the clear direction of the question and the way it lends itself to synthesis and evaluation. The highest achieving answers clearly explained how an expansionary fiscal policy leads to a rise in aggregate which in turn creates jobs and supported this with an effective aggregate demand and supply diagram. High achieving responses used effective synthesis and evaluation on this question by considering some of the issues relating to expansionary fiscal policy to reduce unemployment such as financing the policy, inflationary pressures and the problems of increasing aggregate demand in a recession.

## Recommendations and guidance for the teaching of future candidates

Teachers should encourage candidates to:

- Precisely answer the question being asked
- Write clear, accurate definitions
- Use theory to precisely answer the question being asked
- Draw well-presented, clearly labelled diagrams to support an answer
- Always include a real-world example to support an answer
- Include synthesis and evaluation in their responses to part (b) questions by, for example, considering advantages and disadvantages of the point made or the short and long term implications of an issue.

## Higher level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 6	7 - 12	13 - 14	15 - 19	20 - 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 more 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 forms. It was considered to be a well-balanced paper, with appropriate syllabus coverage. The texts were considered to be accessible to the majority. There seemed to be very few problems with time management.

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

Once again, the performance of candidates seemed to be better in the International Economics section than in the Development Economics section. This may suggest that centres should spend more time covering development topics than they are doing at the moment.

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

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

This will be addressed in the context of individual questions.

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

### Section A

The number of responses to each of the two questions in this section seemed to be quite balanced. This was rather a surprise, as it had been anticipated that many more candidates would choose the traditionally more favourable tariff discussion. Some candidates may have avoided answering question 1 due to the two sub-questions on the theory of the firm.

#### Question 1

- (a) (i) Almost all candidates were able to define this term.
- (ii) This question was not well-answered by the majority. Most candidates were able to access at least one mark, for a vague response, but clarity was lacking.
- (b) This was well-answered by most candidates, suggesting that candidates are comfortable with the free trade diagram. Lower achieving responses showed a shift of the upward-sloping domestic supply curve.
- (c) A lot of information is given in this question, so that candidates familiar with this section of the theory of the firm were able to perform well. However, there were a lot of poor variants of the model. Many candidates seemed to remember parts of the theory, but were unable to apply it accurately. Common errors included not showing a price on the y-axis, mixing up fixed and variable costs, and labelling the AVC curve as the ATC curve.
- (d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

This is a standard AO3 question, and most candidates were able to gain at least three marks by presenting the standard tariff diagram with basic analysis. In order to access higher marks, there had to be a reasonable contextualisation of the market for shrimp in the US. There was a lot of information in the text that could be used to make an argument. Typically, candidates would provide a list of advantages and disadvantages of protectionism. As always, to access level 3, candidates needed to provide some synthesis/evaluation, and this was not often present. Very good answers would develop some theory in addition to the standard tariff analysis. (e.g. structural unemployment,

comparative advantage, higher costs of production for producers using shrimp, consumer surplus).

### Question 2

- (a) (i) Almost all candidates were able to earn at least one mark for this question. Lower achieving responses explained what interest is, without honing in on the accurate definition of interest rate.
- (ii) This term can be defined in a number of different ways, as indicated in the markscheme and most candidates earned at least one mark here. The most common shortcoming was a failure to refer to the implicit costs of production.
- (b) Many candidates were able to explain that speculators were expecting the British pound to increase in value in the future, and were thus buying British pounds now, increasing the demand for the currency and so raising its value. Some candidates explained that the speculators might be anticipating an increase in interest rates, with a higher return on savings, and so were demanding more British pounds now. Lower achieving responses seemed to suggest that buying British pounds would have some sort of supply-side effect and became very confused in both their diagrams and explanations.
- (c) There were mixed responses to this question. Higher achieving responses drew a relatively inelastic demand curve, with revenue boxes, and explained that an increase in price for goods that had relatively inelastic demand, because of the existence of few substitutes, would lead to an increase in total (export) revenue. Some explained that PED must be unitary and so the increase in price would lead to total revenue remaining the same. In some cases, the explanation correctly explained the relationship between elasticity and total revenue, but the change in price was not shown in the inelastic region of the demand curve.
- (d) "Discuss" requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Good responses defined an appreciation of a currency, and then considered the advantages and disadvantages for the British economy, using examples from the text to support the theory that they applied.

Higher achieving responses discussed the possible consequences and reached a considered conclusion regarding the overall impact. In top answers, candidates were able to analyse the consequences with reference to price elasticities of demand for exports and imports.

Lower achieving responses tended to attempt to explain one consequence, often in very vague terms, and did not use the text provided.

## Section B

It appeared as though the lower achieving responses were from candidates who attempted question 3. One possible reason for this is that the part (b) and part (c) questions in Q3 did not require the use of diagrams, and might have appealed more to candidates less familiar with economic models.

### Question 3

- (a) (i) Some candidates simply gave examples of market-oriented policies for this question.
- (ii) In order to earn full marks, candidates needed to give an accurate definition of GDP and state that per capita meant that this value was divided by the population. Many failed to give an accurate definition of GDP – most commonly neglecting to use the term ‘value’ in the definition.
- (b) This was a very easy question, and most candidates earned at least three marks. Many candidates whose performance was weak elsewhere were able to pick up four marks on this question. Weaknesses occurred where candidates were unable to specifically identify the components of the HDI to be able to accurately identify reasons why it is a better indicator (at least two were required). Some candidates simply did not read the question carefully and explained the difference between GDP per capita and GNI per capita.
- (c) This higher level extension topic was not well understood by lower achieving candidates, who wrote about many things other than the multiplier. Given the information in the text, it was a very easy question for candidates with mathematical understanding of the multiplier.
- (d) “To what extent” requires candidates to consider the merits or otherwise of an argument or concept. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

This was clearly the most difficult question on the paper. Many responses simply quoted repeatedly from the text without applying economic theory. There were some excellent answers that made very good use of the text to develop a good argument. Given that it was a ‘to what extent’ question, it was necessary to consider alternate views, and it was pleasing to see some candidates capably argue that some unequal income distribution could contribute to economic growth (through incentives) and that this could contribute to economic development.

**Question 4**

- (a) (i) Although this is an easy term to define, a considerable number of candidates defined a current account or trade deficit rather than a budget deficit.
- (ii) This is quite a common question, and was answered well by the vast majority of candidates.
- (b) Most candidates were able to earn at least two marks for this question, by drawing a demand and supply diagram with an increase in supply of the Ghanaian cedi, and explaining that a current account deficit implies an increase in the supply of the Ghanaian cedi. Many were able to earn full marks for an accurate explanation of the reason for the increase in the supply. Many went off topic in the explanation. As always, there were examples of imprecise labelling on the y-axis.
- (c) This was a very straightforward question, and the majority of candidates performed well. Inaccuracies included incorrect labelling (lower achieving responses not distinguishing microeconomic and macroeconomic labels). Teachers should note that there were two approaches to this question (cost-push and demand-pull inflation), both of which were acceptable.
- (d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

A large number of candidates defined aid, economic growth and economic development and then wrote quite generic essays on the advantages and disadvantages of aid in general. In order to earn more than four marks, candidates needed to be familiar with the particular nature of financial aid from the IMF. Higher achieving responses recognised the consequences of the conditions imposed as part of an IMF package, and the implications of these conditions on growth and development. Many candidates failed to distinguish between economic growth and development.

**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, students 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 students 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.

## Standard 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 - 17	18 - 22	23 - 28	29 - 40

### General comments

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The examination seems to have been well-received by those centres that completed the feedback forms. It was considered to have appropriate syllabus coverage. The texts were considered to be accessible to the majority. 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 the International Economics section than in the Development Economics section. This may imply that centres should spend more time covering development topics than they are doing at the moment.

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

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

This will be addressed in the context of individual questions.

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

### Section A

Question 1 seemed to be a little more popular than question 2.

#### Question 1

- (a) (i) The majority of candidates found this to be a straightforward question. Lower achieving responses explained that it was a decrease in the value of one currency, but omitted to explain that it was in a floating exchange rate system, or due to changes in market forces. The lowest achieving responses confused the term with deflation and thought that it was falling prices in the economy.
- (ii) The majority of candidates were able to explain that it is a demand-side policy, relating to changes in interest rates (or changes in the money supply). Lower achieving responses confused monetary and fiscal policies.
- (b) The majority of candidates drew an exchange rate diagram, with a shift of the demand curve for the New Zealand dollar to the right and an increase in the exchange rate. They then explained that people abroad would want to take advantage of the higher interest rate by saving in New Zealand financial institutions, increasing demand for the currency and so increasing its value. Others wrote about 'hot money' inflows and were also fully rewarded. Lower achieving candidates clearly did not understand the question and provided all sorts of incorrect diagrams, many not related to exchange rates.
- (c) This was generally a well answered question. The majority of candidates provided an AD/AS diagram, with a shift of the AD curve to the left, and a fall in the average price level. They then explained that monetary policy tightening, increasing interest rates, should reduce components of AD, such as consumption and/or investment, lowering inflationary pressure in New Zealand. Lower achieving candidates were not aware that

monetary policy related to interest rates (and money supply), and so were unable to provide a relevant diagram or explanation.

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

Higher achieving responses explained the meaning of an overvalued currency and then went on to consider the consequences of the high exchange rate for different macroeconomic indicators, such as the inflation rate, employment, economic growth, and the current account balance. They used information from the text to support their opinions. They discussed the possible outcomes and reached a considered conclusion regarding the overall impact. Lower achieving responses ignored the text and were very vague about the consequences of an overvalued currency. Some persisted with the idea that an overvalued New Zealand dollar was another way of saying that there was inflation in the economy.

## Question 2

- (a) (i) This question was generally well answered, with the majority of candidates able to explain that it is the cost of borrowed money and/or the price (percentage paid) for credit and/or the reward for saving.
- (ii) This question was well answered. The majority explained that inflation is a sustained increase in the average (general) price level in an economy. Lower achieving responses omitted ‘sustained’ and/or ‘average/general’.
- (b) Many candidates were able to explain that speculators were expecting the British pound to increase in value in the future, and were thus buying British pounds now, increasing the demand for the currency and so raising its value. Some candidates used the same diagram, but explained that the speculators might be anticipating an increase in interest rates, with a higher return on savings, and so were demanding more British pounds now. This approach was also fully rewarded. Lower achieving responses seemed to suggest that buying British pounds would have some sort of supply-side effect and became very confused in both their diagrams and explanations.
- (c) There were mixed responses to this question. Higher achieving responses drew a relatively inelastic demand curve, with revenue boxes, and explained that an increase in price for goods that had relatively inelastic demand, because of the existence of few substitutes, would lead to an increase in total (export) revenue. They used the revenue boxes, or in some cases total revenue curves, to illustrate this. Others explained that PED must be unitary and so the increase in price would lead to total revenue remaining the same. Lower achieving responses did not realise the importance of elasticity.
- (d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Higher achieving responses defined an appreciation of a currency, and then considered the consequences for the British macroeconomy, using examples from the text to support the theory that they applied. Positive consequences included the lower costs of imports of all sorts, and so lower inflationary pressure; the impact for British tourists; sustained or increased revenue for firms in non-competitive export industries; and the impact of cheaper fuel upon British household budgets. Negative consequences included effects on employment in domestic and export industries; the impact on tourism in the UK; a possible fall in net exports, leading to reduced AD and so a fall in growth rates; and the impact on British firms' profits. The candidates then discussed the possible consequences and reached a considered conclusion regarding the overall impact.

Lower achieving responses tended to attempt to explain one consequence, often in very vague terms, and did not use the text provided.

## Section B

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

### Question 3

- (a) (i) This question was surprisingly poorly answered. It would seem that a significant number of candidates had not come across the term before. Although some candidates were able to explain that they are new industries that do not benefit from economies of scale and/or are in need of protection in order to compete with foreign imports, they were in the minority.
- (ii) This question was well answered, although lower achieving responses simply gave examples of complementary goods, rather than explaining what the relationship was between them.
- (b) Many candidates correctly drew an AD/AS diagram, with AD shifting to the right, and an increase in real GDP. They then went on to explain that the move from a deficit to a surplus would increase net exports, a component of aggregate demand, thus increasing real GDP. A number of candidates drew a correct diagram, but did not explain the effect of the change on real GDP, as requested.
- (c) Most candidates were able to define the term *ceteris paribus*, but a significant number then found it difficult to explain why it was necessary to include it in part (b). They did not understand that AD has a number of components and that, without the rider of *ceteris paribus*, any of the other components may have changed and also affected Ecuador's AD.
- (d) "Evaluate" requires candidates to make an appraisal by weighing up the strengths and limitations.

Higher achieving responses started by explaining import-substitution, economic growth, and economic development. They then identified strengths and weaknesses of the

policy, tying them to economic growth and development, and using the text and data from the question to support their claims. Evaluation usually took the form of weighing up the overall effects of the policy on growth and development in a final, concluding paragraph. However, a number of candidates took an evaluative approach throughout the response.

Lower achieving responses wrote vaguely about import-substitution and ignored the effects on economic growth or development.

#### Question 4

- (a) (i) Although this is an easy term to define, a considerable number of candidates defined a current account or trade deficit rather than a budget deficit.
- (ii) This is quite a common question, and was answered well by the vast majority of candidates.
- (b) Most candidates were able to earn at least two marks for this question, by drawing a demand and supply diagram with an increase in supply of the Ghanaian cedi, and explaining that a current account deficit implies an increase in the supply of the Ghanaian cedi. Many were able to earn full marks for an accurate explanation of the reason for the increase in the supply. Many went off topic in the explanation. As always, there were examples of imprecise labelling on the y-axis.
- (c) This was a very straightforward question, and the majority of candidates performed well. Inaccuracies included incorrect labelling (lower achieving responses not distinguishing between microeconomic and macroeconomic labels). Teachers should note that there were two approaches to this question (cost-push and demand-pull inflation), both of which were acceptable.
- (d) “Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

A large number of candidates defined aid, economic growth and economic development and then wrote quite generic essays on the advantages and disadvantages of aid in general. In order to earn more than four marks, candidates needed to be familiar with the particular nature of financial aid from the IMF. Higher achieving responses recognised the consequences of the conditions imposed as part of an IMF package, and the implications of these conditions on economic growth and development. Many candidates failed to distinguish between economic growth and development.

## 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, students 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 students 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

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 4	5 - 9	10 - 15	16 - 22	23 - 29	30 - 36	37 - 50

### General comments

The November 2016 examination paper was considered to be more challenging than that of November 2015, but of a similar level of difficulty to that of May 2016. As in previous examination papers, candidates were generally able to perform basic quantitative techniques but the ability to recognize and explain the significance of results was variable.

Candidates were required to explain concepts and conditions rather than merely describe them. In Question 1, it was clear that many candidates had been well-prepared in learning relationships between variables such as MC, MR, AC, AR, but that they could not explain the reasons for these relationships, nor could they analyse the outcome if relationships changed. For example, in 1(d), it was clear that most candidates were familiar with the condition for the achievement of allocative efficiency ( $P(AR) = MC$ ), but few were able to explain why this is so.

A minority of responses provided evidence that candidates had been well prepared via discussion of such relationships throughout Section 1.5 of the subject guide, while the majority appeared to rely on learning to describe and illustrate such concepts. It is important that candidates acquire a conceptual understanding of terms, issues and conditions. For example, candidates should know why  $MC = MR$  is the condition for profit maximization rather than merely being aware of the condition. Those candidates who were able to demonstrate a sound analytical grasp of concepts performed well throughout the paper, while those who relied on knowledge, understanding and skills (achievement objectives AO1 and AO4) did not.

A significant number of candidates did not use the data as required in question 3, forfeiting marks as a result.

Fewer candidates were penalized this examination session for incorrect rounding and omission of appropriate units, although it is clear that candidates in some centres are still not aware of the need for precision in this regard.



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

- Analysis of relationships between variables in a theory of the firm scenario.
- Sketching a monopoly diagram from given data.
- Explanation of the condition for allocative efficiency.
- Explanation of strategic interdependence using a game theory model.
- Calculation of an individual's average rate of tax from given data.
- Application of tax rates to calculate a marginal tax rate following a change in income.
- In question 2, many candidates appeared to sketch a new domestic supply curve based on a quota of 100 000kg per month, rather than the 150 000kg given. Although a sketch was not required, responses indicated that this error was common.
- Many candidates struggled to recognize the essential difference(s) between forms of protectionism – quotas and tariffs.
- Although candidates were able to calculate an exchange rate from given functions, a significant number could not convert one currency into another by using the exchange rate.
- Calculation of the current account balance – many candidates were not able to determine which items from the table should be excluded.

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

- Description of concepts, relationships and conditions from the theory of the firm.
- Description of a payoff matrix in a game theory model.
- Calculation of direct taxation.
- The relationship between indirect taxation and equity.
- Illustration and measurement of inequality.
- Calculation of exchange rates.
- Identification of import and production levels.
- Implications of a current account surplus.
- The poverty cycle.

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

### Question 1

- (a) The majority of candidates were able to identify that monopoly power refers to the ability to be a price-setter, although some merely described monopoly as a situation in which one firm dominates the market, earning 1 mark only.
- (b) The calculation was performed successfully by the majority of candidates.
- (c) (i) The accurate response, that the firm cannot be a perfect competitor because  $AR \neq MR$ , was provided by a significant proportion of the cohort. However, it was common to see responses such as “the firm is making abnormal profit” or “ $P \neq$

MC”, both of which are possible for a perfectly competitive firm (the former in the short run, the latter if the firm is not producing at the profit-maximizing level of output) but not as a defining characteristic of the model.

- (ii) The majority of candidates were able to realise that increasing output would move output closer to the profit-maximizing level. Higher achieving responses used marginal analysis to support this.
  - (iii) Many candidates were unable to explain that total revenue would increase if output increased because MR was positive and thus producing an additional unit would increase total revenue.
  - (iv) There was a wide range of responses to this question. Lower achieving responses argued that costs would increase as output expands, thus increasing average costs. Many candidates who recognized that AC would decrease explained by writing that economies of scale would operate, or that fixed costs would be spread over an increased quantity. Higher achieving responses explained that as  $MC < AC$ , an increase in output must lead to a decrease in AC.
  - (v) Most candidates recognized that, at the current level of output,  $MC \neq AC$ , and thus productive efficiency is not achieved.
- (d) This question was generally answered poorly. Some candidates focused on externalities and market failure, while the majority described the condition for allocative efficiency. Few responses included an explanation which incorporated the idea that, as output increases and approaches the allocative efficient position, the addition to benefit (marginal benefit) exceeds the addition to cost (marginal cost) and hence community surplus increases.
- (e) The majority of candidates were able to sketch the four relevant curves (AC, MC, AR, MR) with appropriate shapes, but a common error was to indicate Q' as the profit-maximizing level of output, hence failing to meet the relationship specified.
- (f) Although the majority of candidates were able to explain the payoff matrix, few were able to apply effectively to the concept of strategic interdependence. A large proportion of responses explained that if one firm cut price then it would be in the interests of the other firm to cut price also, and so the firm would react in this manner. A small number of candidates explained that, whatever Firm B decides to do, it is in the interests of Firm A to cut price (and vice-versa) given the assumption that there is no communication between the firms.

## Question 2

- (a) (i) This question was generally answered very well, although with some responses omitting the relevant units (kg).
- (ii) This question was generally well-answered, although a significant proportion of candidates ignored the word “imported” in the question and provided total

spending on bananas ( $\$3 \times 400\,000 = \$1.2$  million).

- (iii) This question was generally well-answered, with a range of errors, most notably incorrect calculation of the area of the triangle providing an answer of \$50 000.
- (b) (i) The majority of candidates identified \$5 as the correct response, although a significant proportion gave \$5.50 as the answer, presumably the result of placing the new domestic supply curve in the incorrect position.
- (ii) This question was generally well-answered, with a large number of OFR (Own Figure Rule) marks awarded.
- (iii) The majority of candidates correctly identified the initial revenue earned by domestic producers while the calculation of the new revenue proved troublesome. However, there were again many OFR marks awarded, taking account of errors in part (b)(ii).
- (c) The majority of candidates were able to identify the welfare loss resulting from a tariff of \$2 per kg. Lower achieving responses then relied on the diagram, indicating relevant areas, to explain, while higher achieving responses addressed the key issue – that tariff revenue is received by the domestic government while the revenue resulting from a higher price resulting from a quota (“quota revenue”) typically does not.
- (d) (i) A significant number of candidates relied simply on the law of demand for the answer to this question. In the context of exchange rates, the idea that goods/services priced in the depreciating currency would become cheaper was necessary.
- (ii) The vast majority of candidates were able to calculate the exchange rate accurately, although a surprising number then multiplied the ¥/\$ rate of 44 by the ¥ price, with the result that the motorbike would cost more than \$24 million!
- (e) (i) The majority of candidates were able to discriminate between debit and credit items, but many failed to relate these terms to the direction of currency flows.
- (ii) Although there were many correct answers, it was concerning that so many responses indicated a lack of awareness regarding which items should not appear in the current account.
- (iii) This question was generally very well-answered.

### Question 3

- (a) (i) Lower achieving candidates struggled to calculate the correct amount of tax to be paid (\$4000) but the majority of candidates succeeded. Most of the latter were then able to calculate the average tax rate successfully.

- (ii) The majority of candidates demonstrated an understanding of the nature of the tax system provided (progressive) but it was common for candidates to neglect to use the data provided or to refer to the concepts of average and marginal tax rates.
  - (iii) This question was well-answered.
  - (iv) Higher achieving responses demonstrated a sound grasp of tax calculations by applying the appropriate rates to the additional \$8000, calculating the additional tax \$2200 and converting to a percentage. The majority calculated the new level of tax (\$6200) but there were many errors. It was somewhat surprising to see that many candidates who had earned full marks for part (i) could not do so again in this question part.
- (b) The vast majority of candidates were able to recognize that a sales tax may be inequitable, and while most attempted to explain why, explanation was limited in many cases. Although the term “regressive” was not required, the idea that indirect taxes are regressive needed to be explained.
- (c)
- (i) This question was well-answered.
  - (ii) Although many candidates neglected to use the data provided or to use this data to compare Country X and Country Y, understanding of the relationship between inequality and the Gini coefficient was evident in most responses. Several responses mixed equality with equity, though.
  - (iii) This question was generally well-answered. Most candidates were clearly aware of a Lorenz curve and its derivation. Some careless errors were seen, such as incorrect plotting, mixing the axes and numbering axes incorrectly. The use of “quintile” as a label on the horizontal axes was not rewarded.
  - (iv) This question was generally well-answered. The majority of candidates referred to the formula and showed that the result could not lie outside the limits given.
- (d) There were many good answers to this question. Candidates recognized that households who spent transfer payments on health and education, or on better food/cleaner water, could lift themselves out of the poverty cycle. Candidates were also rewarded for explaining that greater income could lead to more saving and thus investment, again breaking the cycle. There was some confusion among lower achieving candidates regarding the nature of transfer payments, together with some repetition in the two reasons given.

## Recommendations and guidance for the teaching of future candidates

- Candidates should be provided with regular opportunities to discuss the significance of concepts, relationships and conditions encountered during the course. They should examine why relationships and conditions hold and how concepts may be applied. For higher level paper 3 there may be a temptation to focus solely on knowledge, understanding and skills, but this is neither appropriate nor sufficient.
- Teachers are encouraged to use real data, such as that from the World Bank, to support learning in class.
- Candidates should be reminded to show units and round correctly. It would be helpful if teachers could insist on rounding to 2 decimal places throughout the course, not just in assessment activities.
- Candidates should be reminded that answers must be written in the spaces provided, or on additional sheets.
- When candidates are taught to perform quantitative techniques such as “calculate”, it is important that the significance of the result is also addressed. A significant number of candidates appear to focus on providing an accurate theoretical or numerical response without sufficient attention to its meaning or significance.
- Candidates should be reminded to refer to a diagram/data directly when asked to do so in the question.