

## ECONOMICS

### TZ1 (IB Latin America & IB North America)

#### Overall grade boundaries

##### Higher level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 12	13 - 27	28 - 38	39 - 50	51 - 62	63 - 74	75 - 100

##### Standard level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 11	12 - 25	26 - 39	40 - 51	52 - 63	64 - 75	76 - 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 the work submitted

The internal assessment component reflects continued progress as centres 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 quality of the assessment is also improving. There are still some centres where very serious differences exist between teacher and moderator, but this is becoming less and less common.

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.

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

There was a heavy reliance on internet sources reflecting the international nature of the course. Nevertheless there were too many portfolios which focused solely on American or British issues. It is suggested that teachers encourage candidates to write commentaries on articles from different regions.

It is important to do some basic research to put the articles in context, for example to know that Greece uses the euro, or that Japan has had interest rates close to zero for some years.

Teachers are encouraged to include comments on their candidates work when they send it for moderation. Comments should only be used to explain decisions on the awarding of marks and should be done on a separate sheet.

When comments are made on the candidates' work, it is important that they are not written in red, as this is the colour used by moderators.

## Candidate performance against each criterion

### Criterion A

Most candidates achieved the maximum two marks for Criterion A and when this was not the case, the teachers had deducted a mark accordingly. As is often the case, some candidates provided a word count of below 750 words when in reality the commentary was longer than this. At least one centre had almost all candidates exceeding the word counts: this might imply that the candidates were not aware that all words are included, including footnotes and diagram labels. It is important to note that moderators do count words. Far too many candidates lost marks for exceeding the word count. Centres are also reminded that the portfolio should be written throughout the duration of the two year course.

### 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".

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

Some centres do not seem to be aware of the change in this criterion description 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. Terms need to be defined, either as footnotes or in the text. 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 which were superficial either described instead of analysed 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. However, as this is a higher order thinking skill, this is to be expected. Candidates need to evaluate the economic theory in the context of real world examples, within their commentaries. This continues to be the least natural skill for candidates and it was a pleasure to see some not just evaluating at the end of each commentary, but throughout. Evaluation should look at the impact on different groups in society, the “stakeholders”, but also look at the degree to which economic theory is useful in understanding the issues and developing policies.

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

These remain the same as for previous years. The choice of article continues to be very significant. Better articles allowed candidates to explain the events within them using economic theory. While candidates should not avoid local issues, they should also be encouraged to explore issues from an international perspective.

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. For long articles, relevant sections should be highlighted. If the article is not in English, 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 there are not two commentaries in a portfolio on a very similar topic. It is the candidate’s responsibility to find the articles; teachers should not allow candidates to submit work that was done jointly with others in the class.

As always, the use of diagrams 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 analyse 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 about the coursework, containing the official IB guidelines, the marking criteria, sample articles (good and bad), and perhaps exemplar portfolios. Include “deadline” dates for submission of extracts and commentaries to teachers for advice/comment. Remember that candidates are allowed to submit a first draft then the final draft of each commentary.

Encourage candidates to read from a variety of different sources from the start of the economics course, and perhaps to “adopt” a few countries that they can study in more depth and use in their commentaries.

## Higher level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 3	4 - 7	8 - 9	10 - 12	13 - 15	16 - 18	19 - 25

### General comments

The general consensus on the G2 feedback forms from centres indicated that the paper was appropriate in terms of syllabus coverage, clarity of wording and overall presentation. A majority of respondents felt that the paper was of a similar standard to last year, and all felt that the level of difficulty was appropriate

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

If choice of question is a form of revealed preference, the small number of responses to question 3 might indicate that candidates avoided it, believing it to be difficult when it was not. Candidates often found it difficult to identify the point of the question, often preferring to provide narrative evidence of their learning of the subject matter or topic. Also, candidates who did not provide definitions at the outset often lost focus later in their responses. This was particularly true in both parts of question 4, where definitions were of considerable importance.

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

Candidates revealed good understanding and learning in their responses to question 1 a) on elasticity, question 2 b) on inflation and question 3 a) on trade blocs. Although this material was not always geared directly to the needs of the question, it was clear from the register of the scripts that underlying understanding was strong.

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

#### Question 1

- a) This question proved very popular, perhaps because most candidates were familiar with explaining price and cross elasticity of demand. There was a tendency to ignore the importance for business decision making among weaker responses, (missing the point of the question). The best responses were those which considered the effects of a change in price on total revenue, and the implications of that change for business decision making. Nearly all candidates seemed to assume that prices could be reduced without regard for costs, and while knowledge of market structures was not required for this question, it did leave even good responses in something of a vacuum. Some weaker candidates made direct but erroneous connections between price and profit levels without explaining any assumptions.

- b) Weaker candidates did not show the imposition of the tax diagrammatically but simply assumed a price increase. More typical candidates produced good diagrams illustrating the incidence of a tax, showing that consumers bore the greatest share due to inelasticity. The higher scoring responses did all of this and were distinguished by engagement with the phrase “best reduce”. This led to consideration of other measures to reduce demand for cigarettes, though effectiveness was rarely assessed with reference to real world examples. Surprisingly, some candidates suggested measures to reduce AD in order to discourage smoking, including increased income taxes.

### Question 2

- a) This also was a relatively popular question. There was a tendency for candidates to identify types of inflation, particularly cost push and demand pull with diagrams in which the causes of inflation became mixed up with the best means to depict it with AD and AS curves. Thus there were signs of pre-prepared responses. This was not the question; candidates were expected to identify features of inflation which would make a government keen to reduce it. However, an AD/AS approach was possible if made relevant. The relatively few candidates who recognised the needs of the question scored well, considering the costs of inflation to different stakeholders and relating the level of inflation to the severity of its effects.
- b) Many candidates successfully identified interest rates as part of monetary policy which lives on the demand side. Thus diagrams appeared showing AD reducing with various linkages explained. Surprisingly, few candidates saw higher interest rates having effects through the exchange rate (hence competitiveness) and current account. Candidates who focused on the question asked were able to score well, but less successful responses usually tried to evaluate all demand and supply side policies as a means to reduce inflation, again reflecting a pre-prepared response rather broader than the question set. The very best responses engaged the question set with sophisticated evaluative content and references to the currently prevailing low interest rates in developed countries.

### Question 3

- a) Very few candidates attempted this question. Although those that did tended to do so quite effectively. Almost all responses observed seemed able to identify the different types of trading bloc that might be formed. The main weakness was that few candidates could produce accurate examples and relate their features to the trade bloc types described. This was a surprising lack of real world economic awareness.
- b) This question was done rather less well than part a). There was a determination to present material on protectionism (clearly well taught and learned) even though it was not very relevant to the question. There was also a tendency to list advantages and disadvantages of trade blocs but not to evaluate the decision, *i.e.* trade them off. Again, there was little knowledge of real world cases. Given that both parts of the question are relatively straightforward, it was surprising that so few candidates responded to it.

**Question 4**

- a) Part a) examined subject matter that has been tested many times before. It was surprising to see that there are still many candidates who cannot accurately explain the differences between economic growth and economic development. There was further confusion over measurement: some candidates defined growth as change in Aggregate Demand and others presented Production Possibility Curves as measurement rather than a way of depicting growth or development. A surprisingly large number identified the components of HDI wrongly. Some explained growth with reference to the three methods of National Income Accounting, and few referred to the experience of any real world countries.
- b) There were many disappointing responses to this part of the question. Few candidates attempted to explain what a very poor, highly indebted country was. A consequence of this was that candidates then had difficulty maintaining suitable focus. A lot of simplistic statements were written containing unsubstantiated opinion, with little attempt to provide appropriate reasoning. Few candidates could provide suitable examples for their responses. The question did produce a small number of very good responses, candidates who had obviously studied the topic in some depth and, who had acquired good background knowledge of the relevant issues, presumably through reading appropriate news media on a regular basis.

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

- Candidates should carefully read what questions are asking before they embark on their response. Many candidates write the answer they have prepared on the subject they want to answer, with limited reference to what is actually asked. Questions are carefully phrased to ask the candidate to shed a particular light on a topic. If this means taking time and writing a little less, the benefit in higher achievement levels will more than compensate.
- Diagrams are meaningful only if labelled and drawn clearly and at a decent size (a third of a page is good), and most importantly if they are commented on or explained in the text. Diagrams which are presented gratuitously and without explanation are of little or no value. Many candidates are doing this well, but there are others who are not. It is also important to show change in diagrams.
- All responses should begin with definitions of key terms in the question. This allows the candidate to set the agenda for the response and to have stable foundations for subsequent reasoning. A surprising number of candidates fail to define the pertinent key economic terms in their answers.
- Candidates should be encouraged to read widely using suitable news media in order to attain improved background knowledge of the subject. This will enable them to more effectively address questions which are linked to current issues. Many candidates continue to evidence a very poor knowledge of the world around them.

**Further Comments**

Teachers should be 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.

## 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 - 10	11 - 14	15 - 17	18 - 21	22 - 30

### General comments

As written in previous reports, learning to answer the question asked is an important aspect to effectively writing an examination response. While many candidates have this skill, equally many candidate responses reflect the need to prepare for examinations with this in mind. Part of examination preparation requires knowledge of economic definitions, with a well defined concept or idea giving the basis for a response that will more closely reflect what the question requires.

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

The paper gave opportunity to candidates to demonstrate their knowledge with questions that were clear and understandable. However there were areas of the programme that appeared difficult for candidates. In broad terms it is suggested that candidates need to be taught to understand the focus of the question and craft a response around the question. This response needs to have integrated into it:

- Definitions
- Explanations
- Examples
- Diagrams (where possible)

More specific difficulties included:

- Explanation of why price discrimination is practiced
- Drawing an accurate diagram to illustrate the Lorenz curve
- Explanation of how the Gini coefficient is measured
- Explanation of how a fixed exchange rate is maintained at a fixed level

The use of graphs remains central to economic analysis at this level. Graphs have to be accurately labelled and drawn and in particular they have to be very carefully and fully explained, with their relevance to the argument clearly demonstrated. Whilst many candidates have recognized these needs there are still too many who have not. There were too many untidy, inadequately and wrongly labelled, unexplained graphs.

Candidates should be aware that diagrams are expected in answers and it is in candidates' interest that diagrams are given the closest attention.

It is equally necessary that economic concepts be technically defined. The application, analysis and evaluation of economic concepts cannot proceed unless central economic terms are properly defined.

The question paper gave the candidates many opportunities to deploy and explain a range of concepts. The concepts of price discrimination, the Lorenz curve and the Gini coefficient proved quite difficult for a number of candidates. By the same token candidates seemed quite familiar with notions of deflationary gaps and floating exchange rates.

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

Questions 1, 3 and 4 were the most popular questions.

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

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

### Question 1

This was one of the most popular questions on the paper and it was quite well done. Candidates in the main were able to define elasticity of supply technically and were able to explain the concept. Candidates were a little more vague when it came to explaining why elasticity may change over time and some candidates illustrated the idea of change over time by shifts in the supply curve rather than changes in the slope of the curve. These candidates were in the minority however; most candidates fared quite well on this straightforward question.

### Question 2

Candidates answered this question quite well. On balance they were able to define price discrimination accurately. They were able to explain in some detail the conditions for price discrimination and given those conditions were able to explain how an airline might discriminate between different classes of passengers. Candidates tended not to provide any graphical explanation of why an airline might discriminate – they tended to say that price discrimination was practiced in order to increase revenue and not expand on this. The notion of different elasticities of demand could have been usefully deployed to provide a supporting graphical treatment. To that extent the issue of “why do firms practice price discrimination” was rather under-developed.

A number of candidates explained price discrimination in terms of the different classes of airline travel: first class, business class and economy class. These differences in the quality of travel do not represent price discrimination.

### Question 3

This was a very popular question that was done well by a large proportion of those attempting it. Most candidates were able to provide a very satisfactory graph, well labelled and well explained. Most candidates found no difficulty in explaining how a deflationary graph might be explained. Standard treatments of methods of shifting the aggregate demand curve were in many cases supported by reference to such relevant notions as the multiplier and crowding-out. On balance a very competently answered question.



**Question 4**

This was one of the most popular questions on the paper. It was quite a technical question and although tackled with enthusiasm a number of candidates failed to deal with one or more of the finer points.

- A number of candidates had only a vague idea of the meaning of transfer payments
- The Lorenz diagram attracted some very odd depictions; labelling tended to be incomplete and several candidates labelled axes wrongly
- Candidates knew what the Gini coefficient was meant to do but found difficulty defining and explaining it and relatively few could precisely measure it.

It was satisfying to see how many candidates had studied this area of the syllabus

**Question 5**

Candidates knew that floating exchange rates were determined by the market force of demand and supply.

Candidates knew what fixed exchange rates were but were unsure of how fixed exchange rates were maintained – there were some convoluted explanations.

In explaining the difference between fixed and floating rates most candidates offered an explanation of how fixed rates were adjusted through the buying and selling of currencies from the reserves and compared this to how floating rates adjusted. Most candidates explained the adjustment of floating rates in terms of changes in demand and supply of currencies and left it at that. Better answers explained why supply and demand changed: changes in relative prices between countries, changes in relative interest rates, changes in trade and speculation were the main points made.

Some candidates explained the differences between fixed and floating exchange rate in terms of their advantages and disadvantages. This approach was accepted.

**Question 6**

Candidates performed quite well on this question. On balance they knew that outward-oriented growth strategies depended on increasing exports and were based on market liberalization and free trade whereas inward-oriented growth strategies relied on protectionism and import substitution based on government intervention to regulate domestic industries. These points were quite well made by the majority of candidates.

Candidates could have developed underlying theory a little more so putting these competing approaches into context. The basis of the theory supporting outward-oriented growth strategy is Ricardo's theory of comparative advantage. It is not necessary to develop this at any length (indeed there is not the time in an exam) but arguments for an outward-oriented growth strategy dealt with in terms of comparative advantage would be good.

Similarly, arguments for an inward-oriented growth strategy could be dealt with in terms of comparative advantage being too simplistic – a rejection of the assumptions of comparative advantage in a modern world.

## 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 examination and the questions being asked. It is important the candidates:

- know what they want to say
- know how to show what they know
- know the types of questions they will be asked
- plan on how to structure their ideas, and
- practice answering the examination questions.

In preparing candidates for examinations the following are key points:

- Defining key terms or concepts. Far too often examiners were left guessing as to what a candidate may mean by a particular term. 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 price discrimination, the Lorenz curve and the Gini coefficient proved very 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. Having said that, a question on the Lorenz curve had not been asked for a long time and yet it proved to be one of the most popular questions.
- Emphasis must be placed on the effective use of diagrams and examples. Diagrams are used to illustrate and explain the economic issue or concept being discussed. There must be in the response a discussion concerning the point of what the diagram is indicating, how it is helping to explain the issue as presented in the question.

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 monopolies/inflation *etc* because the concept is in the question. Also, candidates should remain focused on the question and not go off on tangents simply to fill space. The effective use of time is crucial for this.

### Further Comments

Teachers should be 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.

## Higher level paper three

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 8	9 - 17	18 - 23	24 - 30	31 - 37	38 - 44	45 - 60

### General Comments

This report, used in conjunction with the markscheme, is designed to help teachers prepare their candidates 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, if not exactly the same as in previous reports.

This examination seems to have been well-received by those centres that completed and submitted the G2 feedback forms. It was a well-balanced paper, with appropriate syllabus coverage. The texts were felt to be very accessible to the majority.

Evaluation in the final part d) questions was often lacking; there is a tendency 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 these sub-questions and are instructed to reward all plausible points, but to reach the top band, *effective* evaluation must be carried out.

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

This will be treated in the context of the individual questions

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

This will be treated in the context of the individual questions

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

#### Question 1

This is a fairly straight-forward theory of the firm question. There were many centres where not one candidate attempted this question, suggesting that this theory may be being neglected.

- a) (i) This is a double-barrelled term that required understanding of the terms “oligopoly” and “collusive”. Weaker answers neglected to explain what collusion means.
- (ii) A large number of candidates made no reference to the implicit costs of production. A correct definition of abnormal profit must refer to opportunity costs.

- b) One common mistake was to use a kinked demand curve model, which is appropriate to a non-collusive, rather than collusive, oligopoly. Problems in the diagrams included: MC not intersecting AC at the minimum of AC, incorrectly identifying the profit-maximising level of output, not including an MR curve, inaccurately drawing the relationship between AR (D) and MR. Weaker candidates would state 'abnormal profits' as shown on diagram, without explaining how the shaded area was derived – i.e. not stating that average revenue is higher than average costs.
- c) Most candidates identified the model correctly by drawing a long run average cost curve, but many failed to use the diagram to show and explain that there could be lower average costs at higher levels of output. Many failed to observe that economies of scale are a long-run phenomenon, and confused economies of scale with diminishing marginal returns. Many were unable to earn full marks as they did not clearly state costs as "average" or "per unit". In cases where candidates did include the short run average cost curves, which added to the quality of the written response, there were some carelessly drawn diagrams, where the LRAC curve was not tangential to the SRAC curves. For full marks, candidates needed to refer to one source of economies of scale, e.g. bulk-buying.
- d) Some responses were good in referring to relevant quotes from the text, but did not provide sufficient independent analysis/interpretation of the points from the text. There was evidence of candidates delivering pre-learned essays on the disadvantages or advantages of monopolies, without addressing these to the case study. For example, many observed that monopolies may benefit consumers by using their abnormal profits to engage in research and development, but this is not a likely scenario in the context of supermarkets. Many candidates did not observe that a reduction in market share to 75% might make little difference to the market, but made a huge leap to assume that this would result in monopolistic (or even perfect) competition with large efficiency gains.

## Question 2

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

- a) (i) Usually well-defined, and supported by an example.
- (ii) The vast majority of candidates listed the four factors of production. Candidates did not earn full marks unless they made some reference to their use in producing (goods and services)
- b) Generally very well done, but there were a large number of candidates who provided microeconomic labels. It was important to note that consumer spending is a component of aggregate demand,
- c) A very straight forward question that was done satisfactorily by the majority.
- d) There was a significant tendency to spend too much time describing expansionary policy by simply paraphrasing the text rather than evaluating it. A disappointing number of candidates considered changes in interest rates as a tool of fiscal policy. Many candidates seem to confuse the terms "disposable income" with "purchasing power", erroneously stating that a reduction in direct taxes would give consumers greater purchasing power. It was a shame that more candidates did not move beyond the text by referring, for example, to the positive supply side effects of increased government spending.

**Question 3**

- a) (i) This was generally well-answered.
- (ii) Incorrect responses confused FDI with *financial* investment such as the buying of shares. Weak responses said that FDI was done by “countries”, rather than multinational companies, investing in other countries.
- b) There was a marked improvement over past years in the labelling of the y-axis in the exchange rate model and most candidates accurately drew an increase in the supply of the Pakistani currency. However, many candidates neglected to provide a full explanation of the reason for the depreciation and did not include the point that the reason for the increase in supply is the Pakistani currency is supplied in order to buy foreign currencies in order to buy the increased imports. Candidates who showed a fall in the demand for the currency may have achieved some partial marks, depending on the written explanation.
- c) Again, some candidates used microeconomic, rather than macroeconomic labelling, and as a result, could not be awarded full marks. Some candidates drew a LRAS curve, rather than a SRAS curve. Some candidates did not read the question carefully, and referred only to a change in the price level, without addressing the level of output.
- d) Too many candidates delivered a clearly pre-learned essay on the advantages and disadvantages of tariffs, without directing the response to the case study or carrying out effective evaluation. The tariff diagram is a popular and useful model in IB Economics, but many candidates draw the model without really understanding it.

**Question 4**

This was the least popular question, and not terribly well-done by those that did answer it.

- a) (i) Most candidates were able to provide an explanation of this concept.
- (ii) Most candidates were able to provide an explanation of this concept.
- b) This was not well answered at all. Many candidates framed their answer in terms of price elasticity of demand. Candidates were able to access partial marks for an explanation of YED, but very few were able to apply the concept to the theory of sectoral change, even though this link is explicitly stated in the syllabus.
- c) Most candidates were able to draw either a shift in a PPC curve, or a shift in the LRAS curve, but many were not able to obtain full marks in the explanation as they did not refer to “productive capacity”.
- d) This was poorly done, on the whole. Many candidates simply stated the advantages and disadvantages as stated in the text, without applying appropriate theory. Good answers recognised that since rice is a primary commodity, it carries all the problems associated with over-dependence on primary commodities. There should have been references to fluctuating/volatile commodity prices and low income elasticity of demand. This is an important section of the syllabus, and a topic that deserves much attention.

### Question 5

This was the second least popular question after question 4. Since both of these questions focus on development economics, this is slightly concerning. Alternatively, the first three questions may simply have been seen to be more accessible.

- a) (i) Most candidates were able to earn at least one mark, if not full marks by explaining at least one of the functions of the World Bank. However, a worrying number of candidates seemed to consider it to be an international central bank.  
  
(ii) Many candidates confused “free market” with “free trade” and did not earn marks. However, given the openness of this concept, a wide range of explanations was acceptable.
- b) Given the phrasing of the question, most candidates scored fairly well by drawing a minimum price diagram, despite the misleading link between fair trade and guaranteed minimum prices. One limitation of many answers was the result of simply delivering an explanation of minimum prices without explaining specifically how it would “benefit groundnut farmers”.
- c) A vast number of candidates incorrectly shaded a welfare loss diagram. As long as this was not part of the answer, candidates were not penalised for it, since it is not specifically requested in the question. It was acceptable to use either a production externality or a consumption externality diagram. It was necessary to show understanding of external, rather than private benefits by referring to at least one positive external benefit.
- d) There was a great deal of information in the text and so even weaker candidates were able to write a fair amount. However, in many cases, candidates simply paraphrased sections of the text without managing to show evidence that they had studied an economics course. Good responses referred to and developed concepts such as the poverty cycle. . Top responses also showed appreciation of the point that fair trade needs to form part of a larger approach to economic development with some reference to complementary strategies.

## Recommendations and guidance for the teaching of future candidates

The recommendations and guidance remains largely as in previous reports.

- The full syllabus needs to be taught. Incomplete teaching of some sections of the syllabus will disadvantage candidates when they come to choosing their data response questions.
- Teachers should encourage their candidates to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the candidates are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help candidates in this important skill, candidates could be encouraged to compile a glossary of terms. Candidates must be taught to include appropriate economic words in their definitions, in order to distinguish themselves from those who have simply picked up some information without having taken an economics course.
- In part a) questions, candidates should be encouraged to write *no more than* two sentences.

- Candidates will also benefit if they compile a glossary of all the diagrams. Most questions b) and c) 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), candidates 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.
- Too often, candidates 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. Candidates 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.
- 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 now the policy that candidates 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 Pakistani rupee should have as its y-axis label, *price of the rupee in another currency*.
- Candidates must be very careful to be accurate in their labelling. There was a tendency to provide a generic label of "price" on all microeconomic diagrams, whereas in using theory of the firm analysis, it is necessary to distinguish between "price" and "cost".
- Candidates must also be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents candidates from achieving full marks.
- Candidates must be taught to carefully identify what a question is asking for in parts b) and c). They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- While examiners are observing much improvement, 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 case study. 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. Teachers should instruct their candidates to take a few sentences to explain concepts that they bring up in their analysis for question d). In question 2 for example, candidates would often bring up a problem, such as an increased budget deficit due to expansionary fiscal policy, but would not give any explanation as to why an increased budget deficit is a problem.

When this happens, candidates 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. For example, in question 3d) where candidates were asked to evaluate a tariff, many candidates brought up concepts like deadweight loss, consumer and producer surplus, consumer welfare, etc. 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, candidates 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.*
- Theory provided in part d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to really "engage" with the case study, in order to be able to *apply* the theory.

### Further Comments

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## 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

The G2 feedback forms indicated that compared to last year's paper, the May 2010 paper was thought to be of a similar standard if not a little easier and it was felt that the level of difficulty was appropriate. Questions 1 and 2 were by far the most popular and question 3 was the least popular. Overall, candidates appeared to be much better prepared for the essay paper and many appreciated the correct approach to maximize their chances of achieving a high grade. However, some are still not defining terms accurately and fail to focus specifically on answering the question. These candidates generally perform relatively poorly when compared to the candidates who appear to carefully plan their answers before they start writing.



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

- Distinction between merit goods and public goods
- The meaning of "performance of an economy"
- Understanding of the terms of trade
- The importance of elasticity for exports and imports
- Expenditure-reducing policies
- The exact components of the HDI
- The difference between debt and aid in development economics

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

Most candidates showed a good understanding of economic theory and were able to define terms relatively well and use the language of economics appropriately throughout their answers. The quality of drawn diagrams and the explanation of these diagrams have improved over previous years as many candidates appear far more appreciative of what is required of them. In addition, more candidates understand the importance of examples in their answers and can incorporate them intelligently into their essays. Nevertheless, the majority of candidates limited their responses to a descriptive level, not engaging in real depth of explanation or analysis. In addition, evaluation continues to be a problem with the lack of evaluation in part b) of most questions being the primary cause of candidates not achieving higher marks.

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

### Question 1

- a) This was a popular question and part a) was generally handled extremely well. Many candidates clearly understood the difference between a movement and a shift in the demand curve and used diagrams effectively in their answers. Where detail was lacking it was often the omission of any reference to *ceteris paribus*, or an explanation of what can cause the price to change (shift in supply) or that a factor that shifts the demand curve was not explained in depth.
- b) The best answers provided an explanation of the way that the price mechanism works and then contrasted it with a number of situations that can make the market fail. Those who went on to evaluate the likelihood of market forces always allocating resources in the best way stood the best chance of achieving the highest grade. Candidates that just gave a textbook explanation of types of market failure or considered the question to be based upon the notion of planned vs. free market tended to do less well. In addition, there were some candidates that failed to provide a balanced view and largely ignored the need to provide an explanation of the free market and focused solely on market failure.

**Question 2**

- a) Question 2 was also extremely popular and part a) provided a good opportunity to score well as it was a straightforward explanation of factors influencing components of AD. Any candidate that did struggle may not have defined consumption or government spending, mixed micro concepts with macro for the factors that influence consumption, failed to understand the meaning of disposable income or wealth or not appreciated the factors that influence government spending.

Candidates that focused on a recession and a boom as two separate factors that influence government spending were given credit, although they really both fall under the single factor of the economic cycle. However, these candidates would have struggled to achieve full marks on this question.

- b) This question was often answered extremely theoretically focusing primarily on the Keynesian/Classical debate. This was fine as long as the candidate managed to keep the question in mind and was capable of evaluating the likelihood of each scenario developing. Where candidates gave a textbook explanation of the debate they tended to do less well as evaluation was often lacking. Some candidates became sidetracked with writing about what the government will do to rectify the problem of the increase in consumption. As this is usually to dampen AD by reducing consumption these candidates often ended up arguing round in a circle, which was not a helpful way to approach the question.

**Question 3**

- a) This question was not attempted by many candidates and part a) proved to be quite difficult for those who did answer it. The main problem was in defining and understanding the terms of trade. Many candidates decided to attempt the question with no clear appreciation of the terms of trade and either defined it incorrectly or chose to ignore it completely. Consequently a number of responses remained in level 2 even if the candidate had a better understanding of the current account.
- b) It appeared that many candidates were attracted to this question because of the opportunity to write an in-depth analysis of trade protection theory. Many candidates clearly understood what was meant by expenditure switching policies and were able to write in detail on tariff, quotas and subsidies. The tariff diagram was extremely popular but, unfortunately, in many cases the candidate failed to link the diagram back to the question. Those candidates that were able to bring out the expenditure-switching policies and how they affect the current account did not then recognize the arguments against these policies and the alternative of using expenditure reducing and supply side policies. Consequently some relatively detailed and analytical responses failed to achieve level 3.

**Question 4**

- a) This question was attempted by a fair number of candidates. The majority had a good understanding of the difference between economic growth and development and some used diagrams, particularly the PPF, to illustrate the difference. There was also some good understanding of how the two are measured although for economic growth the responses sometimes lacked detail. Candidates believed that it was enough to recognize that growth is measured by looking at the % change in GDP and that an explanation of how GDP is measured was not necessary.

Many candidates appreciated that growth was quantitative and development was more qualitative and were able to detail a number of different ways that development or the standard of living was estimated. When it came to more specific methods like the HDI, candidates were often unsure what exactly was included and often listed variables that are outside of the scope of the index.

- b) Many candidates did not clearly explain what it means to be a country in debt and the weaker candidates often just focused on the extra money the government of the indebted country will have available if the debt is removed. In addition, many answers became heavily focused on actual examples and neglected the economic analysis as a result. More sophisticated answers went on to explain other ways that a developing country can be helped although many of these provided just a textbook analysis of the advantages and disadvantages. As a result, many candidates failed to achieve level 3 because they failed to evaluate whether debt removal is the most effective method available to help developing countries.

## Recommendations and guidance for the teaching of future candidates

There are some key things for teachers to work on to improve candidate performance. Candidates should:

- define terms in essay titles accurately
- focus on the question being asked and not opt for pre-prepared responses
- use relevant theory effectively to support answers
- draw clear, well labelled diagrams
- support answers with examples
- evaluate their arguments effectively in part b) answers.

Candidates should be extremely familiar with the demands of the rubric before going into the exam.

Candidates should be taught the difference between mentioning or describing a relevant point and explaining or analyzing it. It is not enough to just make a statement, such as "cancelling debt would allow LDCs to focus on development..."; they need to explain why. In addition, evaluation is more than just an analysis of advantages and disadvantages. Amongst other things, it is an assessment of the likelihood of a particular scenario taking place and the factors that determine whether or not it will take place. For example, in question 2 part b) many candidates recognized that an increase in AD via an increase in consumption is considered to be inflationary by the Classical economists with the economy operating at full employment, but is not necessarily inflationary according to a Keynesian economist. However, few candidates explored the likelihood of the economy being at full employment or developed analysis considering the ability of an economy to actually operate on a perfectly elastic Keynesian AS curve. In all questions, candidates who knew they were supposed to evaluate often relied on a reference to the long-run and the short-run, even when there was no real justification for it.

Teachers also need to make candidates aware of the distinction between microeconomics and macroeconomics and to use past papers more effectively to make candidates aware of the type of question that is micro and the type of question that is macro. The basic mistakes that candidates made this session on confusing micro and macro concepts could have been avoided if the candidates were more familiar with the style of questions asked in each area.

Teachers should also prepare candidates in time management so that they don't spend so much time on part a) and consequently have less time to effectively tackle part b)

Finally, it should be stressed to candidates that essays should be answered in 2 parts labelled a) and b) rather than mixed together.

### Further Comments

Teachers should be 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.

## Standard level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 7	8 - 15	16 - 23	24 - 30	31 - 37	38 - 44	45 - 60

### General comments

This report, used in conjunction with the markscheme, is designed to help teachers prepare their candidates 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, if not exactly the same as in previous reports.

The examination seems to have been well-received by those centres that completed and submitted the G2 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.

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 these sub-questions and are instructed to reward all plausible points, but to reach the top band, *effective* evaluation must be carried out.

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

One common concern raised by examiners was the tendency for many candidates to confuse microeconomic and macroeconomic labels.

Question 5 was the least popular question. This led some examiners to feel that the development economics section of the syllabus is being inadequately treated. On the other hand, this may simply be that the questions on the other sections were more accessible.

## 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 term was generally well-defined.  
(ii) This term was generally well-defined. A few candidates interpreted investment as financial investment
- b) The majority of candidates were able to present an accurate diagram. Weaker candidates did not fully explain that the increase in supply is caused by a reduction in costs of production.
- c) There were a few different errors among weaker responses: quite a few candidates seemed to think that decreased imports would result in a fall in demand; many candidates considered an increase in investment as a shift in the SRAS curve.
- d) This was a fairly straight-forward part (d) question, with a good amount of material from the text to draw from. Therefore, many candidates were able to analyse effectively, using the links to the text. As is always the case, weaker candidates did not manage to move beyond a basic explanation of advantages and disadvantages to illustrate the skill of evaluation. In this case, evaluation could take the form of *weighing up* the short-run versus the long-run implications, or the negative externalities of wind power versus the positive externalities.

### Question 2

- a) (i) Incorrect responses confused FDI with *financial* investment such as the buying of shares. Weak responses said that FDI was done by “countries”, rather than multinational companies, investing in other countries. Some even confused FDI with foreign aid.  
(ii) This was generally well-defined.
- b) This was reasonably well-handled, although many candidates adopted a microeconomic approach and could therefore not be awarded full marks. Some candidates drew a LRAS curve, rather than a SRAS curve. Some candidates did not read the question carefully, and referred only to a change in the price level, without addressing the level of output.
- c) This was a difficult question, with low marks scored by almost all candidates. Candidates confused the time periods, did not refer to the table and misinterpreted the data. Candidates did not seem able to make a link between the exchange rate and the price level.

- d) A great many candidates delivered a clearly pre-learned essay on the advantages and disadvantages of tariffs, without directing the response to the case study or carrying out effective evaluation. The tariff diagram is a popular and useful model in IB Economics, but many candidates draw the model without really understanding it.

### Question 3

- a) (i) This was generally well defined. One weakness was to define unemployment, rather than the unemployment *rate*.  
(ii) This was generally well-defined. One weakness was to simply give the equation for aggregate demand
- b) Most candidates were able to link falling domestic demand with a fall in the demand for labour and either used an AD/AS diagram or a labour market diagram to explain that this would result in less employment and/or more unemployment.
- c) This was generally well answered. One problem was that some candidates did not show the increase in the minimum wage, but simply indicated one minimum wage. This may well have been due to careless or superficial reading of the question.
- d) The weakest candidates could not clearly distinguish between demand-side and supply-side policies. Another approach, which did not earn high marks was to go through a rote-learned explanation of both demand-side and supply-side policies without going much beyond re-stating the text, and without providing effective evaluation in the form of a supported judgment.

### Question 4

- a) (i) This was generally well-answered, although candidates often neglected to include the adjective “real” before GDP.  
(ii) While answers showed understanding of the term, some found it difficult to provide a precise definition.
- b) This was generally well done. Most candidates were able to make the link between increased FDI and increase demand for the rupee. Some candidates provided incomplete labelling on the y-axis, although there has certainly been an improvement on past efforts.
- c) This was generally well done, with most candidates recognising the link between exports and increased AD.
- d) Almost all candidates were able to explain the effect of a rising currency on exports and imports. However, many were unable to go beyond this to assess the effect on the price level or output. Weaker candidates incorrectly thought that a rising currency would cause inflation. It was not enough to simply list the advantages and disadvantages of a rising currency; to reach the top mark band, a reasoned conclusion needed to be made.

### Question 5

This was the least popular question chosen.

- a) (i) Most candidates were able to provide a reasonable explanation of this concept.  
(ii) This was generally well-explained.

- b) This was not well answered. Candidates were able to access partial marks for an explanation of YED, but very few were able to apply the concept to the theory of sectoral change, even though this link is explicitly stated in the syllabus. Some candidates incorrectly framed their answer in terms of price elasticity of demand.
- c) Most candidates were able to draw either a shift in a PPC curve, or a shift in the LRAS curve, but many were not able to obtain full marks in the explanation as they did not refer to “productive capacity”. Weaker answers used a microeconomic model and/or referred only to the rice market.
- d) This was poorly done, on the whole. Many candidates simply stated the advantages and disadvantages as stated in the text, without applying appropriate theory. A few good answers recognised the problems involved in over-dependence on primary commodities and used this to justify diversification.

## Recommendations and guidance for the teaching of future candidates

The recommendations and guidance remains largely as in previous reports.

- The full syllabus needs to be taught. Incomplete teaching of some sections of the syllabus will disadvantage candidates when they come to choosing their data response questions.
- Teachers should encourage their candidates to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the candidates are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help candidates in this important skill, candidates could be encouraged to compile a glossary of terms. Candidates must be taught to include appropriate economic words in their definitions, in order to distinguish themselves from those who have simply picked up some information without having taken an economics course.
- In part a) questions, candidates should be encouraged to write *no more than* two sentences.
- Candidates will also benefit if they compile a glossary of all the diagrams. Most questions b) and c) 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), candidates 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.
- Too often, candidates 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. Candidates 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.
- 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 now the policy that candidates 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 Indian rupee should have as its y-axis label, *price of the rupee in another currency*.
- Candidates must also be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents candidates from achieving full marks.
- Candidates must be taught to carefully identify what a question is asking for in parts b) and c). They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- While examiners are observing much improvement, 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.
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- Theory provided in part d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to really "engage" with the case study, in order to be able to *apply* the theory.

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