

ECONOMICS TZ1

(IB Latin America & IB North America)

Overall grade boundaries

Higher level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 12	13 – 26	27 - 39	40 - 51	52 - 63	64 - 75	76 - 100

Standard level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 11	12 – 25	26 - 39	40 - 50	51 - 63	64 - 75	76 - 100

Time zone variants of examination papers

To protect the integrity of the examinations, increasing use is being made of time zone variants of examination papers. By using variants of the same examination paper candidates in one part of the world will not always be taking the same examination paper as candidates in other parts of the world. A rigorous process is applied to ensure that the papers are comparable in terms of difficulty and syllabus coverage, and measures are taken to guarantee that the same grading standards are applied to candidates' scripts for the different versions of the examination papers. For the May 2012 examination session the IB has produced time zone variants of the Economics papers. Grade boundaries for the different time zoned papers are set separately, and careful judgments are made that are based on criteria for performance level, to account for differences in the papers.

Higher and standard level internal assessment

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	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 schools become more familiar with the criteria. Many centres are preparing their candidates very well for this

component and have refined the process over the course of the last few years. The quality of the assessments 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. One centre appeared to have prepared candidates for the syllabus that will be examined from 2013. A number of centres sent portfolios without correctly completed forms, some without the teacher or candidate signatures. Teachers are encouraged to include comments on their candidates' work when they send portfolios for moderation. Comments should only be used to explain decisions on the awarding of marks and should be done on a separate sheet.

Candidate performance against each criterion

Criterion A

Most candidates achieved the maximum two marks for Criterion A and when this was not the case, most teachers deducted a mark accordingly. Some candidates provided a word count of below 750 words when in reality the commentary was longer than this. Some candidates seem to be unaware that all words are included, including footnotes and diagram labels. It is important to note that moderators do count words.

Criterion B

The quality of diagrams continues to improve. The maxim that diagrams require full, relevant explanations still holds true. There are still too many examples of candidates losing marks because their diagrams are poorly explained. The diagrams should be adapted to the articles, giving, for example, "price per barrel of oil." There are a number of candidates who choose to cut and paste their diagrams from websites or textbooks. This is to be discouraged, but is permitted if the diagrams are sourced fully. Candidates should be encouraged to draw the diagram themselves to illustrate that they fully understand them and so they can use them in their final examinations. Hand drawn graphs are perfectly acceptable. Please note that the rules on counting the words in titles and labels will change in the examination session for May 2013. There were some very good examples, which gained full marks for this criterion.

Criterion C

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

Criterion D

Paraphrasing the article was common by the weakest candidates. A useful technique to try and help weaker candidates with analysis might 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 in previous years. Evaluation still remains the most difficult area to get full marks. Candidates need to evaluate the economic theory in the context of real-world

examples, within their commentaries. It was a pleasure to see candidates not just evaluating at the end of each commentary, but throughout.

Recommendations for the teaching of future candidates

- 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.
- The choice of article continues to be very significant. Better articles allowed candidates to explain the events within them using economic theory. It is important that teachers continue to include a front cover summary document (an example can be seen in the teacher support material) and a front cover for each commentary. Long articles should be highlighted. If an article is not in the working IB language of the centre then a translation should be provided.
- Centres should be vigilant to make sure that a candidate does not do two commentaries on a very similar topic.
- As always, diagrams are an area that often lets candidates down. 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 dealing about the coursework, containing the official IB guidelines, the marking criteria, sample articles (good and bad), and perhaps exemplar portfolios and possible “deadline dates” for submission of extracts and commentaries to teachers for advice/comment.
- Teachers are reminded that candidates may submit a “first draft” and “final draft” of each commentary, but no more drafts.

Further notes

Please note that in the syllabus for May 2013 any definitions must be incorporated into the commentaries and not be put in footnotes. It is vital that teachers carefully study the new syllabus, for first examination in May 2013, as the IA criteria are substantially different.

Higher level paper one

Component grade boundaries

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

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

Particularly for this paper there was carelessness in reading the questions. In the urge to write "about" the topic and reproduce learned responses, there was a lack of focus on the particular requirements of the questions. This is commented on below.

Few candidates provided examples of any kind even though this is signalled in past markschemes.

Many candidates did not provide basic definitions as signalled in the markschemes, or provided definitions which were too vague to allow further development. Good definitions encourage the examiner's confidence in the candidate response from the start.

Some candidates structured responses poorly, writing long paragraphs conflating fundamentally different points. In the extreme cases the entire response was one long paragraph; very long paragraphs.

Responses to the development question were often disappointing, reverting to everyday opinion rather than making use of the economic concepts learned earlier in the course.

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

Time misallocation seemed to be less of a problem than in previous sessions. Attention was generally apportioned appropriately between the two parts of each question.

Few responses were seen which attempted both parts of the question together. This also has been a problem in previous sessions.

Diagrams showing the market structures of monopoly and perfect competition were generally well done, though there is always room for improvement in labelling.

There was evidence of good and memorable teaching in the responses.

Non-native speakers of the response language expressed themselves well: there were very few scripts where language issues obscured meaning.

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

Question 1

- (a) Many wrote generally about the characteristics of monopoly rather than factors likely to encourage its formation. In some cases pre-learned responses went far into the

reasons for long run abnormal profit, missing the point of the question. Those who did interpret the question accurately wrote well on barriers to entry, exclusive control of resources and non-availability of substitutes, but only the best candidates explored economies of scale, sunk costs and contestable markets

- (b) Weaker candidates ignored natural monopoly, though some good responses compared the merits of perfect competition and monopoly. Many candidates described the two market structures well, but did not attempt evaluation. Good general level of understanding of allocative and productive efficiency, but only the best candidates were able to consider dynamic efficiency under natural monopoly. Few gave specific examples though rather more mentioned generic examples of natural monopoly such as utilities companies.

Question 2

- (a) Again there was lack of attention to the precise wording of the question, with candidates writing generally about deflation rather than why governments might view it as a threat. Some weak responses confused deflation with deflationary policies and recessionary gaps, or defined deflation as negative growth. Good candidates established “good” and “bad” deflation with appropriate diagrams from the start and were able to craft good responses from there. The influence of deflation on public and private debt was not well explained.
- (b) Responses tended to focus on low rather than stable inflation rates. The implications for business certainty, investment and savings were generally well covered but few candidates linked low inflation to international competitiveness. The implications for unemployment sometimes caused confusion as candidates who had been arguing for the positive benefits of low inflation suddenly found themselves, through the Phillips curve, confronting high unemployment. Evaluation was seen relatively infrequently.

Question 3

- (a) Although fewer candidates attempted this question, it was relatively straightforward and quite well done. Pre-learned responses focused on determinants of change in the exchange rate rather than differences in the operation of the two regimes. Diagrams were generally acceptable and the labelling of the y axis (one currency in terms of another) was mostly correct.
- (b) The weakest tried a simple demand-and-supply approach, arguing that just as equilibrium price emerges from disequilibrium in any market, the current account imbalance will be corrected by the exchange rate. The better responses related import and export sales to exchange rates, arguing that appreciation and depreciation will correct the imbalances through supply and demand responses. The best candidates recognised the role (and limitations) of Marshall-Lerner and elasticities. After explaining all this there was often little time for evaluative content.

Question 4

- (a) The development question attracted the largest number of weak candidates who felt they could answer based on general knowledge and opinion. They were often found lacking in definitions of infrastructure and capital flight, and responses proved disastrous if an erroneous definition was assumed. Consideration of ineffective taxation structures often focused on progressive/regressive taxes rather than more fundamental reasons such as inability to tax or corruption. It was often assumed that loss of human capital (brain drain) was part of capital flight. Most responses were weak but it was a pleasure to see a few outstanding ones.
- (b) As in (a) there were a large number of weak responses, including a minority who thought FDI was an international development data gathering agency (CIA/FBI?). Examples were very few and far between but as in (a) there were a few excellent responses by candidates for whom development is a burning and meaningful issue.

Recommendations and guidance for the teaching of future candidates

- There was slight evidence of over reliance on the Course Companion. Teachers should be encouraged to take it as read and highlight alternative views and examples. Although the presence of the Course Companion has greatly improved basic understanding of the course, it should be possible to build on that as further high quality textbooks emerge.
- Teachers should emphasise the importance of real world examples. I am sure many do this, but they just do not appear in examinations. To write a response to a development question without any examples is surely a missed opportunity.

Higher level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 4	5 – 8	9 - 11	12 - 15	16 - 19	20 - 23	24 - 30

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

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

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

A majority of candidates allocated their time appropriately so as to fully answer all three questions, a prerequisite for success in such a paper.

Candidates appeared to have been taught the relevant body of theory for this paper and were generally aware of what diagrams should be used where, although the application of the theory to specific questions was not always successful. Similarly, candidates appeared to be well aware of the need for definitions although, again, there was not always success in the application to particular questions.

There was a good spread of responses across the entire paper suggesting extensive syllabus coverage by teachers.

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

Question 1

This was a popular question and an area of the syllabus for which candidates had clearly been well prepared by their teachers. Candidates who were able to accurately define market failure, to relate their discussion to negative externalities arising from inner city road use and to use appropriate diagrammatic illustration, were able to score highly. Candidates could score full marks by couching their answer either in terms of production externalities or consumption externalities, or both, but all too often no distinction between the two types of externality was made. This tended to detract from the quality of the answer given. It was also not uncommon for diagrams to be poorly and inaccurately labelled. The question was essentially about why a government should intervene, but some candidates devoted far too much time and space to the question of how, although some reference to this, in the context of the question, was deemed worthy of credit. It was not uncommon for candidates to write what would appear to be a pre-prepared market failure response, without sufficient reference to the specific context of motor vehicles in city centres.

Question 2

This was not one of the most popular questions, although it did offer the prospect of affording full marks for an answer that was able to accurately reproduce a discrete body of theory within the theory of the firm. Moreover, many of the candidates who did attempt this question only appeared to have a hazy idea as to how it should specifically be answered. Such candidates often wrote about losses in perfect competition in a very general way without the precise focus necessary to really answer the question that was asked. Essentially, the key requirement was to explain that MC and MR together determine the best or profit maximising level of output and that AC in relation to AR determine the level of profit at the best output – where AC exceeds AR, losses will be made at the profit maximising level of output. This point was often not made explicitly. In addition, the perennial mistakes involving poor/no definitions and inaccurate/poorly labelled diagrams were also in evidence. In summary, therefore, this was a straightforward question which, because of its very precise nature, tended to be done either very well or rather poorly.

Question 3

This was a straightforward question and one that attracted many candidates. A pleasingly high number of candidates were able to provide answers which met the Level 4 marking

criteria. However, against this, many candidates, who often clearly understood the question, needlessly forfeited marks by not addressing the question in sufficient depth. Typically, appropriate AD/AS diagrams would be drawn to illustrate cost push and demand pull inflation, with the explanation couched solely in terms of a shift of AS to the left and a shift of AD to the right. Commonly, explanations of the specific factors which can cause cost push and demand pull were missing. Hence, the less successful responses tended to score reasonably well on accuracy but had a tendency to be somewhat superficial in terms of a lack of detail.

Question 4

Only a minority of candidates chose this question and a high proportion of these scored quite highly. The question could have been answered generally in terms of the various trade gains and trade losses which might arise from the formation of a customs union, or more specifically in terms of trade creation and trade diversion. Either approach was acceptable with most candidates opting for the latter, and herein was often the basis of their success. The impact of trade creation and trade diversion can be explained in terms of a very specific body of theory. Many of the candidates attempting this question had learnt this theory very thoroughly and were able to apply it well to the question set – the provision of accurate definitions and the accurate application of relevant theory and diagrams were therefore all that was necessary to achieve a large measure of success in this question. Overall, not a popular question but one which tended to be tackled effectively by the minority who opted for it.

Question 5

This question attracted many candidates and, on the surface, it appeared to be straightforward. However, the reality proved to be slightly different from this with the question seeming to provide many pitfalls into which significant numbers of candidates charged headlong. There was firstly the problem for several candidates of accurately stating what fiscal policy entails and there were the inevitable confusions with monetary policy. Many candidates, inexplicably, discussed fiscal policy solely in terms of government subsidies which inevitably provided a very distorted and unrealistic type of answer. Others completely confused the supply side effects of fiscal policy with the demand side effects. Another common mistake was to fail to provide sufficient analysis in terms of a logical chain of reasoning in which the linkages between the various elements of fiscal policy and unemployment were explained. And, finally, there was often no mention of the type of unemployment (demand deficient) that expansionary fiscal policy could most effectively reduce.

Question 6

In the past, the economic development question has often attracted those candidates whose grasp of economic theory is not strong and who see a chance to produce a generalised answer in which everything can be thrown in. Unfortunately, this question did not prove to be an exception to this rule. A very small proportion of the total candidature chose to do this question but, of those who did, many produced very weak responses. All the usual weaknesses were in evidence in terms of lack of definitions, in this case 'aid' and 'development', and lack of appropriate theory, and, in addition, in this particular case, many candidates failed to really get to the heart of the matter. It was often the case that candidates

did not explain the factors that would limit the effectiveness of aid but, instead, discussed factors which might act as obstacles to development in general. These could, of course, be of relevance but all too often the issue of aid was completely bypassed.

Recommendations and guidance for the teaching of future candidates

Principal examiners have for many years been offering the same type of advice.

It should be emphasised to candidates that:

- Accurate definitions at the start of each answer are essential.
- Diagrams should be used wherever possible – they should be accurately drawn and labelled and incorporated into the main body of the text
- Application of relevant economic concepts and theories is essential
- Careful attention should be paid to the command words in the question; e.g. ‘explain why’ should not mainly be an answer involving ‘how’
- As much of the syllabus as possible should be revised and prepared for the examinations – limited revision can often mean limited choice
- Linkages between different variables, e.g. fiscal policy and lower unemployment and increasing costs and cost push inflation, should be fully developed
- Generalised answers involving little economics, which could be written by non-economists, should be avoided at all costs
- It is extremely useful to practise writing answers to questions under a time constraint before the examination.

Higher level paper three

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 8	9 – 16	17 - 23	24 - 30	31 - 37	38 - 44	45 - 60

General Comments

This subject 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 was reasonably well-received by those centres that completed the feedback forms. Some concerns were raised about the lack of HL extension material. There were also some concerns about some of the language in the texts, where teachers were worried that their non-native candidates might have struggled.

Evaluation in the final part (d) questions was often lacking; there is still 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.

Teachers must be aware that this is the final May examination session using the 'old' syllabus. In May 2013, the data response paper will be structurally very similar, so the advice in this report will be relevant. However, the main focus of the questions in May 2013 will be from Sections 3 and 4 of the syllabus.

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 was by far and away the most popular question, answered by the vast majority of the candidates. Question 2 was the second most popular. Question 3 was the third most popular. Question 5 was the fourth most popular and Question 4 was the least popular.

Question 1

(a) (i) Minimum price

This question was generally well answered. However, a number of candidates failed to explain that the price was set above the equilibrium. The weaker candidates were often confused and described a maximum price, set below the equilibrium.

(ii) Free market

Weaker candidates failed to mention the role of demand and supply (consumers and producers) in the allocation of resources. The weakest candidates wrote about free trade rather than a free market.

- (b) Most candidates were able to show a shift of the demand curve for cigarettes to the left and explain that a ban on tobacco advertising would eventually lead to a fall in demand for cigarettes, lowering price and the quantity demanded and supplied. Some candidates took a market failure approach to the question and showed a reduction in welfare loss, which was also fully rewarded. Weaker candidates were confused and shifted the supply curve to the left.
- (c) Many candidates were able to show a relatively steep demand curve and to show and explain that a change in price would lead to a relatively smaller change in quantity demanded. However, a significant number of candidates were rather inexact here and simply wrote about a “small change” in quantity demanded, failing to stress the importance of the relative changes in price and quantity. A number seemed to think that the demand for cigarettes would be perfectly inelastic. They received some reward for this.

While candidates were not penalised for talking about an inelastic good (as opposed to a good with inelastic demand), it is disappointing to see so many candidates make this error in terminology. It was also not uncommon to read that cigarettes are inelastic, which again, is poor terminology. There was also a lot of confusion between a ‘fall in demand’ and a ‘fall in quantity demanded’.

- (d) This was a reasonably well answered question, with a good amount of material from the text on which to draw. Unfortunately many of the responses simply explained the arguments for and against imposing a minimum price, failing to evaluate the economic effects. Weaker responses failed to apply the theory to the actual situation and identified an excess supply of cigarettes, which they suggested the government would have to purchase and then store or sell abroad. They missed the point of the minimum price, which was to reduce consumption. Many candidates uncritically copied out sections of the text, without developing economic theory.

Question 2

- (a) (i) Negative externalities

Most candidates referred to third party effects, but weaker candidates failed to acknowledge what it was that would cause the external costs. It was possible to explain either a negative externality of production or of consumption, or simply the external costs of an economic transaction.

- (ii) Structural unemployment

Since there are several causes of structural unemployment, examiners rewarded a number of different approaches to this type of unemployment. Candidates who simply

defined unemployment or defined a different type of unemployment received no credit.

- (b) Most candidates were able to show a fall in supply, but many failed to refer to increased costs as the determinant of supply in their written explanation.
- (c) It is clear that most candidates have learned MSB/MSC analysis and could identify the market failure here as a case of a negative externality of production. Many candidates shaded the wrong welfare loss triangle. Weaker candidates did not remember the correct labels for the curves. Even where diagrams were correct, candidates often did not earn full marks because they didn't actually explain why it was a market failure, but simply stated that it was a negative externality.
- (d) Weaker candidates tended to uncritically copy out sections of the text without developing relevant theory, rather than use economic theory to analyse the case. There was a tendency to exaggerate the consequences of the ETS on the economy. For example, candidates would assume that there would be high levels of structural unemployment, and then write at length the costs of high unemployment. Similarly, candidates would assume that if some Australian exports were to become less competitive internationally, this would lead to a current account deficit.

Few candidates discussed possible positive effects.

Question 3

- (a) (i) Indirect tax

There were a great many very imprecise definitions of this quite straightforward term.

- (ii) Inflation

Most candidates were able to earn at least one mark on this question. The most likely reason to not score full marks was to neglect to mention to the time frame by using a word such as 'sustained' or 'persistent'.

- (b) Both a macro and a micro approach were acceptable for this question. Many candidates neglected to refer to increased costs as the reason for a shift in supply. When using a microeconomic diagram, it was common to see parallel, rather than divergent curves.
- (c) Most candidates were able to show and explain a fall in aggregate demand. However, the explanations were often quite muddled. Commonly, candidates lost marks because they did not refer to Greek economic growth, as asked in the question.
- (d) This question was not widely well done. Many candidates simply used the text to identify the impact of the debt crisis on the Greek economy, but did not go further to analyse the measures taken. Candidates often went off track in this answer and wrote

about what the Greek government could do to stimulate the economy. In many cases, there was very little understanding of the situation facing Greece.

Question 4

This was the least popular question by far, presumably because candidates were put off by the inclusion of the term ‘two-tiered exchange rate’.

(a) (i) Informal market

Many candidates assumed that an informal market involves illegal economic activity, as opposed to unrecorded economic activity,

(ii) Exchange rate

This question was largely well-answered.

(b) In spite of the difficulty of this question, many candidates were able to understand the text enough to be able to explain why there are two different official exchange rates and relate this to the need to import necessity goods at a favourable exchange rate. Candidates were confused about a stronger/weaker VEF stating that VEF4.3=1\$ is a higher/stronger value for the Venezuelan currency than VEF2.6=1\$.

(c) This question was rather surprisingly poorly done by many candidates. While it was possible to identify inflation as being caused by cost-push or demand-pull factors, many candidates were unable to do either.

(d) There were a few excellent responses to what was a difficult question, showing an impressive grasp of fixed exchange rates. However, there was a tendency for candidates to present a standard discussion of the advantages and disadvantages of a fixed exchange rate, many with little understanding of the Venezuelan context.

Question 5

(a) (i) Quotas

Most candidates were able to access full marks for this question by referring to a limit on either the value or volume of imports.

(ii) Economic development

As usual, there were some extremely vague responses to this question. Candidates ought to be able to appreciate that this is a term that they will need to be able to define. Answers which spoke about only one aspect of development (usually higher living standards) earned one mark. Candidates often said how development might be measured, not what it actually is.

(b) A wide range of approaches to this question were accepted. One clear weakness was for candidates to explain the problem of overdependence on a narrow range of

exports, without focusing on the specific problems associated with primary products/commodities.

- (c) Candidates seem to love drawing the tariff diagram. However, there is often a lot of careless labelling. Many candidates incorrectly labelled the horizontal supply curves. Many candidates wasted a lot of time explaining all the consequences of reducing the tariffs, rather than simply answering why trade would increase.

Some candidates discussed the effect of imposing a tariff, rather than the effect of reducing it. It was acceptable to discuss a removal of a tariff, as opposed to a reduction of the tariff.

- (d) This was a difficult question for candidates. The most common approach was to discuss the benefits of increased trade in general, rather than to discuss the benefits of increased trade within Africa. Candidates often simply rephrased the text. Few were able to outline the opportunities and obstacles associated with an increase in trade within Africa.

Recommendations and guidance for the teaching of future candidates

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

- 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 in this important skill, candidates might 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 people who have simply picked up some information without having taken an economics course.
- In part (a) questions, candidates should be encouraged to write *no more than* two sentences.
- 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.

- All 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 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.
- 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.
- 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 and the long run. For evaluation to be effective, it is necessary to make a reasoned and justified judgment regarding the information.
- Theory provided in 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.

- Examiners are concerned at the extent to which candidates are uncritically paraphrasing the texts in their part (d) answers. Candidates should be encouraged to think critically about the information in the text and challenge the viewpoints held by the authors or people quoted in the articles. Candidates often seem oblivious to the source of the information in the text, missing an ideal opportunity to do some evaluation.

Standard level paper one

Component grade boundaries

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

General comments

Last year's paper was criticized by some centres because a number of the questions were ambiguous which made it difficult for all of the candidates to access the paper. The May 2012 paper was felt to be far more straightforward in terms of what was being asked and it was felt that candidates who had prepared thoroughly should be able to achieve their full potential. 91% of teachers, who responded to the survey, said that the paper was of an appropriate standard for their candidates and 100% felt that the wording of the questions was satisfactory or good. Even so, there were still 17% who felt that the paper was more difficult than last year's, and this may have been due to the areas of the syllabus that were tested this year compared to last. In terms of the popularity of questions, number 2 and 4 were answered by the majority of candidates and question 3 was the least popular. The preferences of candidates for particular questions are interesting because the development question is perceived to be the easiest question to answer and yet it is, all too often, the question that is poorly answered. This is because candidates often adopt a journalistic style to this question and neglect the economic theories that should underpin their responses. Questions that are perceived to be more technically difficult can actually be answered better as candidates are forced to apply more abstract economic concepts which will earn them more credit. As has been said in this report before, there is still a clear distinction between the quality of responses from candidates who are familiar with the assessment criteria and those who are not. Basic mistakes like not defining terms or not using and explaining appropriate diagrams makes a significant difference to the mark that can be achieved. Those candidates that appreciate the assessment criteria maximize their chances of achieving a high grade.

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

- Clear understanding of a merit good.
- Illustrating the provision of a merit good free of charge by using a diagram.

- Providing a detailed explanation of why countries measure national income.
- The precise meaning of capital flight.
- Understanding an ineffective taxation structure from the perspective of a less developed country.
- The meaning of foreign direct investment.

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

The overall level of understanding of the candidates improved from last year particularly at the tail end of the grading scale. However, very few candidates managed to demonstrate the clear understanding, insight and development of economic theory necessary to achieve the top level marks. Most candidates appeared to be familiar with the basic theory although some wrote in descriptive generalities. In addition, the candidates who had practiced "model answers" did not always adjust them to the specific questions. A key skill is being able to construct a coherent and focused response that demonstrates some critical evaluative comment and most candidates seemed ill-prepared or simply unfamiliar with the tools necessary for them to do this. At a basic level economic terms were often poorly defined and although candidates used economic language quite well, subsequent points were not always developed in the context of the question and the depth of analysis was usually quite superficial.

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

Question 1

- (a) This was a relatively straightforward question that required candidates to demonstrate an understanding of the benefits of the price mechanism from the consumer's point of view. Most candidates were able to identify the key benefits in terms of low price, lack of shortages or surpluses, and choice and many used a supply and demand diagram to show how a change in demand or supply would lead to a change in the market equilibrium. However, too many answers relied on the phrase 'as can be seen in the diagram' without explaining how this can be seen. The more sophisticated responses were able to analyse how the incentive effect of prices change via the invisible hand lead to resources being allocated towards those products with the highest demand.

Some candidates misunderstood the question and interpreted the free market to mean free trade. As a consequence the analysis tended to focus on the benefits of international trade in terms of low price and choice. Some credit was available to these candidates but the narrow focus of these responses usually limited the mark to level 2.

- (b) It was surprising how many candidates were unable to give a clear definition or explanation of a merit good. It was important to appreciate that these are not only goods with a positive externality associated with their consumption but also that they will be under consumed in the free market. As a consequence they will be underprovided but this is a consequence of the under consumption. In addition some candidates used an externalities diagram showing a positive externality of production and not a positive externality of consumption.

Most candidates appreciated the opportunity cost of the government providing merit goods free of charge but many then drifted into an analysis of providing subsidies to encourage their consumption. This approach tended to neglect the fact that the question focused on free provision of these goods as the diagrams and analysis used tended to show just a decrease in price.

Question 2

- (a) Although a very straightforward question it proved to be quite difficult to obtain a high mark on this section. The explanation could be that the candidates understood the reasons why the government measures national income but were unable to elaborate on these reasons. As a result many did not write in sufficient depth and others went off at a tangent and commented on the different ways that national income can be measured. Good answers used the business cycle to help explain the importance of measuring the performance of the economy and linked national income to economic growth and living standards.
- (b) This question has appeared in a variety of disguises over the past few years and candidates appeared very comfortable with the economic concepts. Many were able to explain demand-side policies in great detail and the diagrams, demonstrating a shift to the right of the AD curve, tended to be of a high standard. However, a detailed analysis of the advantages and disadvantages of demand-side policies in terms of increasing national income is not necessarily sufficient to raise the response above a level 2. The key phrase in the question is 'most effective' and this implies that an alternative method is needed as well as an evaluation of the effectiveness of demand-side. The candidates that did well in this question made an attempt to assess the effectiveness of demand-side and gave consideration to the circumstances that are likely to make it more or less effective.

Candidates who adopted a view from the beginning that demand-side policies are either the most effective or are not the most effective struggled to rise above a level 2.

Question 3

- (a) This question was not attempted by many candidates but those who did tended to give quite strong responses. The wording of the question encouraged candidates to define the terms at the beginning which many of them did very successfully. The explanations of expenditure-switching and expenditure-reducing were then quite thorough although some candidates did spend too much time on expenditure switching. By the time they had drawn and explained the tariff diagram and analysed

the effect of a depreciation there appeared to be insufficient time available to explain expenditure-reducing policies. It was also crucial to link the policies to the impact on a current account deficit.

- (b) Many candidates interpreted this question to mean an analysis of the advantages and disadvantages of protectionism, and this approach definitely gave them a firm foundation in terms of the economic concepts that could be developed. However, an analysis of advantages and disadvantages is not the same as an evaluation and some candidates ended up writing a very descriptive response that failed to get into level 3. The very good responses recognized that the arguments depend on many different variables and will not be the same for all countries and were also able to focus on whether protectionism is 'never desirable'.

Question 4

- (a) This question was attempted by a significant number of candidates and on the whole was not answered particularly well. A number of candidates were not aware of the theory linked to the question or ignored the importance of using the normal tools of economic analysis. In addition, the context to a less developed country was often missing and candidates would often apply less appropriate macroeconomic concepts to the situation. For example, the main issue regarding ineffective taxation structures is that it is difficult for government to collect direct taxes and, coupled with corruption, this prevents the government from maximizing its potential tax revenue. There is less of an issue surrounding the balance of progressive and regressive taxes in these countries. Capital flight was better understood by the majority of candidates although a number referred to it as human capital flight which is a different issue altogether. Income inequality was also understood but often poorly linked to development. It is difficult to argue that income inequality leads to a disincentive to work in a less developed country as many candidates did.
- (b) Those candidates who clearly understood what FDI means often gave strong level 2 responses as they were able to analyse many textbook advantages and disadvantages. However, the question also required a consideration of alternative methods of development as well as an evaluation of the relative merits of FDI and this was often lacking in the responses. A rather surprising number of candidates misunderstood FDI completely, often explaining it in terms of foreign aid, and these responses rarely achieve higher than level 1.

Recommendations and guidance for the teaching of future candidates

- As mentioned earlier in the report there were signs this year that candidates were better prepared for the examination than in previous years. The language of economics tended to be prevalent throughout, diagrams were used effectively and economic analysis tended to be appropriately applied. A structured response where the candidate clearly understands the assessment criteria and endeavours to focus on the question is precisely how good grades are achieved. When teachers are preparing candidates in this way the quality of responses from that centre are

noticeably higher than from other centres. However, one assessment criteria that tended to be lacking was the use of examples. Although not necessarily the major factor in determining whether a candidate can achieve a level 4 the absence of appropriate examples makes it difficult for examiners to reward very good scripts with a top grade. It is recommended that teachers be sensitive regarding the examples they use and give to candidates. These should be as realistic and accurate as possible and candidates should be encouraged to use them in the exam.

- The focus on assessment criteria becomes even more significant next year when the new examinations are introduced. Teachers are encouraged to prepare candidates for the new examinations early on in the year as specimen papers are now available on the OCC. Please work from the new documentation rather than the old examination documents to ensure that there are no surprises when your candidates enter the examination hall next May.
- As mentioned in previous reports teachers should continue to guide candidates on how to improve the quality of their writing. An excellent performance according to the group 3 grade descriptors means that the candidate has to demonstrate, amongst other things, 'conceptual awareness, insight, and knowledge and understanding which are evident in the skills of critical thinking'. This is rarely obtained from a textbook and candidates need to be encouraged to open their minds to what they are learning rather than just learning it by rote. The confidence to do this has to be fostered in the classroom so that candidates develop the skills necessary to enable them to be more adventurous with their responses. All too often the responses in part b) are very 'safe' in that they adhere rigidly to what candidates know from their textbooks. All too often they choose to neglect the key phrases in the question that will force them out of their comfort zone in terms of how critically they write. This year the key phrases were 'most effective' in question 2b), 'never desirable' in question 3b) and 'key factor' in question 4b). Focusing their responses so that they address these specific phrases will require them to critically evaluate the economic concepts they have applied and will give them an opportunity to achieve higher marks.

Standard level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 7	8 – 15	16 - 22	23 - 29	30 - 37	38 - 44	45 - 60

General comments

This subject 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 the feedback forms. It was considered to be a well-balanced paper, with appropriate syllabus coverage. The texts were considered to be accessible to the majority.

As is frequently the case, evaluation in the final part (d) questions was often lacking; there is a tendency for candidates to provide lists of advantages and disadvantages without coming to reasoned conclusions or making a judgment. Examiners do not expect a particular number of specified points to be made in these part (d) questions and are instructed to reward all plausible points, but to reach the top band, effective evaluation must be carried out and the text must be used.

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

This will be addressed in the context of individual questions.

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

This will be addressed in the context of individual questions.

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

Question 1

- (a) (i) minimum price

This question was generally well answered. However, a number of candidates failed to explain that the price was set above the equilibrium. The weaker candidates were often confused and described a maximum price, set below the equilibrium.

- (ii) Free market

Weaker candidates failed to mention the role of demand and supply (consumers and producers) in the allocation of resources. The weakest candidates wrote about free trade rather than a free market.

- (b) Most candidates were able to show a shift of the demand curve for cigarettes to the left and explain that a ban on tobacco advertising would eventually lead to a fall in demand for cigarettes, lowering price and the quantity demanded and supplied. Some candidates took a market failure approach to the question and showed a reduction in welfare loss, which was also fully rewarded. Weaker candidates were confused and shifted the supply curve to the left.

- (c) Many candidates were able to show a relatively inelastic demand curve and to show and explain that a change in price would lead to a relatively smaller change in quantity demanded. However, a significant number of candidates were rather inexact here and simply wrote about a “small change” in quantity demanded, failing to stress the importance of the relative changes in price and quantity. A number seemed to think that the demand for cigarette would be perfectly inelastic. They received some reward for this.
- (d) This was a reasonably well answered question, with a good amount of material from the text on which to draw. Unfortunately many of the responses simply explained the arguments for and against imposing a minimum price, failing to evaluate the economic effects. Weaker responses failed to apply the theory to the actual situation and identified an excess supply of cigarettes, which they suggested the government would have to purchase and then store or sell abroad. They missed the point of the minimum price, which was to reduce consumption.

Question 2

- (a) (i) Appreciation

This question was generally well answered. However, a significant number of candidates omitted the fact that it related to an increase in the value of a currency in a floating exchange rate system.

- (ii) Unemployment

A well answered question, with the majority of candidates explaining that it was the people without a job, who were actively seeking work (and/or able and willing to work). Weaker candidates got confused and defined the unemployment rate.

- (b) The majority of candidates were able to show a shift of the AD (or AD_L) curve to the left, explaining that if exports fell, then AD would also fall because exports are a component of AD. With a fall in real national output, there would be a fall in the demand for labour and so an increase in the level of unemployment.
- (c) This was not a well answered question on the whole. Better candidates drew an AD/AS diagram, with AD shifting to the left, and the average price level falling. They explained that an appreciated peso would lead to more expensive exports and cheaper imports, which would lead in turn to a fall in net exports, so a fall in AD, and so a fall in inflation. Some candidates showed a shift of AS to the right, explaining this as a fall in the price of imported raw materials and finished goods, reducing costs for firms, and so reducing inflation. This was fully rewarded. Many candidates were confused and showed shifts of the AD curve to the right and argued for an increase in inflation. A significant number misunderstood the question and tried to explain how inflation may have affected the appreciation of the peso.
- (d) This was a generally poorly answered question, with many candidates unable to explain what a current account deficit was and so were incapable of evaluating the

possible effects. This is clearly an area that centres might concentrate on for the future. Better candidates managed to explain the possible problems of a continuing deficit and to evaluate them, but these responses were few and far between.

Question 3

(a) (i) Recession

This was generally well answered. The majority of candidates knew that it related to negative economic growth and the better ones also gave a time frame of at least two consecutive quarters.

(ii) Budget deficits

There were some rather vague answers here. Most candidates were aware that it was to do with spending and income, but many were unable to be exact about the definition. A simple statement that they exist when government expenditure exceeds government revenue (taxation) would have sufficed. The weakest candidates thought that they were to do with trade deficits.

(b) The question was not well answered. Many candidates clearly did not understand the relationship between an aging population and a likely fall in potential output and so were unable to offer meaningful responses. Better candidates explained that as the average age of the population increases, the proportion of the population participating in the labour force will decline, reducing the potential output of the economy. They illustrated this with either an inward shift of a PPC or a leftward shift of an LRAS curve.

(c) This was a generally well answered question and indicates that centres seem to be explaining demand-side policies very well. The vast majority of candidates showed a shift of the AD curve to the right and explained that tighter fiscal policy would lead to reduced aggregate demand and thus slow any recovery.

(d) This was not well answered. Many candidates were confused about the policy options and could not explain them properly. Weaker responses simply listed the possible options that were given in the text, with no explanation of how they might work, or evaluation of their possible impact.

Question 4

(a) (i) Protectionism

A well answered question, with most candidates aware that it involves government intervention in order to restrict trade between countries.

(ii) Exchange rate

Another well answered question, with almost all candidates explaining that it was the value of one currency expressed in terms of another currency.

- (b) Better candidates explained that the value of the Yuan had been kept artificially low, which would keep the price of Chinese exports to the USA low, which in turn would make US domestic products less competitive in the USA. Weaker candidates simply did not understand the relationship between exchange rates and export prices.
- (c) Many candidates understood that China kept the value of the Yuan low by selling their currency and so increasing its supply on the international foreign exchange market. However, diagrams did not always reflect the explanation. In addition, the labelling of axes on the exchange rate diagrams was rather poor in many cases and is something that centres might address.
- (d) There were a significant number of strong responses to this question. Candidates identified and explained possible effects, used the text to support their explanations, and evaluated the effects, often by comparing their likely magnitude. However, many candidates ignored the exact question set and wrote in general about the possible effects of a currency appreciation on the world economy, or the USA, as opposed to the Chinese economy, as requested. Weaker candidates simply did not understand the effects of a currency appreciation and so answered very poorly.

Question 5

- (a) (i) Economic development

Most candidates were aware that it involves better living standards and many went on to explain that it is an improvement in welfare measured from a number of viewpoints. However, a disappointing number of candidates were very vague in their answers to this question.

- (ii) Interest rates

Most candidates did well here, explaining that they are the cost of borrowing and/or the reward for lending (saving) money. Very few candidates had no idea of the concept.

- (b) Those that were familiar with the concept of the circular flow had little trouble with this question. However, it became clear that many candidates did not really understand the circular flow and the fact that investment is an injection. Because of this, they were unable to explain that micro-credit is a form of investment which could lead to an increase in the level of national income (aggregate demand) and thus, there would be an increase in economic activity.
- (c) Candidates were either fully aware of poverty cycles, or completely unaware, and so this question tended to split the candidature down the middle. Those that were aware drew poverty cycle diagrams including investment, and then explained that micro-credit could help to fill the investment gap, thus breaking the poverty cycle, increasing incomes and reducing the worst aspects of poverty.

- (d) This was a generally poorly answered question. The majority of candidates failed to distinguish between growth and development and seemed to have little idea of why micro-finance might be a means of promoting economic development. It appeared that this area of the syllabus may not have been thoroughly covered in a number of Centres and many candidates appeared to be answering this question as a last resort. There was little true understanding of development economics shown.

Recommendations and guidance for the teaching of future candidates

- Many will note that these suggestions have appeared in previous examiner reports at both the Standard and Higher Level. Since the expectations have not changed, the advice remains the same.
- 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 in this important skill, candidates might 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 people who have simply picked up some information without having taken an economics course.
- In part (a) questions, candidates should be encouraged to write no more than two sentences.
- 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.
- All 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 (q_1 to q_2) or (AD_1 to AD_2) 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 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.
- 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!
- 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 and the long run. For evaluation to be effective, it is necessary to make a reasoned and justified judgment regarding the information.
- Theory provided in 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.
- Examiners are concerned at the extent to which candidates are uncritically paraphrasing the texts in their part (d) answers. Candidates should be encouraged to think critically about the information in the text and challenge the viewpoints held by the authors or people quoted in the articles. Candidates often seem oblivious to the source of the information in the text, missing an ideal opportunity to do some evaluation.