

May 2015 subject reports

## 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 - 11	12 - 23	24 - 37	38 - 50	51 - 62	63 - 75	76 - 100

### Standard level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 10	11 - 21	22 - 34	35 - 46	47 - 57	58 - 69	70 - 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 2015 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

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 6	7 - 12	13 - 20	21 - 26	27 - 31	32 - 37	38 - 45

## Recommendations for IB procedures, instructions and forms.

This was the third May session for the new syllabus and most centres have adapted well to the new criteria. However, there were a few exceptions. Overall the standard was good, although a few candidates were hampered by their use of English. Some centres produced excellent work. A few centres prepared their candidates inadequately, and some were either unaware of the assessment criteria or were hugely generous in the marks awarded to their candidates.

A substantial number of portfolios did not include a summary portfolio coversheet. A template version of a summary portfolio coversheet and commentary coversheet are available in the Teacher Support Material (TSM). The 3/CS form does not give all the required information on sources, syllabus sections and word counts.

A number of centres did not accurately complete the 3/CS form. Centres should check the addition on the reverse side of the 3/CS form, and make sure the forms are signed by the candidate and the teacher.

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

It is important to carefully follow the rubric requirements. Many candidates lost a mark under criterion F because they did not provide a summary portfolio sheet with details of the sources, syllabus sections, the date commentaries were written and word counts. It is advisable to give the full URL (web address) of the articles. Articles should be complete, and the parts that the commentary is focusing on should be highlighted. If an article is in another language the candidate must provide a full, clear translation. Completing the front-page section "Titles and dates of work" of the 3/CS form does not replace a summary portfolio sheet.

It is recommended that teachers include a comment on the portfolio, explaining the marks they have awarded. These comments should be on a separate sheet; the portfolios should not be annotated by the teacher. A few teachers marked on the scripts with red pen, which can create confusion during moderation.

## The range and suitability of the work submitted

Most candidates followed the rubric requirements and submitted three commentaries from different sources and covering three syllabus sections, within the word count. When this does not happen it is important that the teacher takes this into account when assessing the portfolio as it will affect the moderating factor for the centre.

## Candidate performance against each criterion

### Criterion A: Diagrams

Most candidates included relevant diagrams but these were not always explained well. Too many simply copied generic graphs from textbooks or internet sources without making them specific to the commentary. It is preferable that candidates create their own graphs, either by hand or using computer skills. If candidates have copied graphs they must give the source. Please note that the criterion descriptor assesses whether the candidate “is able to construct and use diagrams” so copy/paste diagrams will not achieve maximum marks. Candidates should avoid very lengthy descriptions of graphs, especially where these are generic graphs which have been copied. Some candidates made reference to colours on their graphs but then sent portfolios printed in black and white.

### Criterion B: Terminology

Terminology needs to be used appropriately, but this does not mean every term must be defined. Terms like “price elasticity of demand” could be briefly explained with a comment such as “which measures how responsive the quantity demanded is to a change in price.” If precise definitions are copied they must be in quotation marks and a source be given. They must not be in footnotes or they will be ignored. This criterion implies that the candidate displays understanding of the terms used. A number of candidates used an inappropriate dictionary definition for economic terms such as deficit or depreciation. Most candidates achieved high marks in this criterion.

### Criterion C: Application

This criterion tests whether the candidate has recognized the appropriate economic issues from the chosen article. It is important to make links to the article, and not simply present some economic theory that is vaguely relevant. Some candidates made very little reference to the articles, and a few did not understand the articles. A common fault was to choose articles that were far too complex or dealt with issues not in the IB syllabus. Most candidates recognized the appropriate economic issues and achieved high marks.

### Criterion D: Analysis

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

**Criterion E: Evaluation**

A key issue in this criterion was whether the candidate “synthesizes his or her analysis”. If candidates have simply paraphrased an article that has already done the analysis and evaluation of an issue it is not possible to access the top levels on this criterion: the evaluation is not of the candidate’s own analysis. Many simply explained an article, generally agreeing with the author. Too many candidates gave opinions that were not backed up by appropriate economic reasoning. It is not possible to access the top level unless the candidate considers counter-arguments, and discusses benefits and disadvantages of a policy.

**Criterion F: Rubric requirements**

It is important to carefully follow the rubric requirements. Many candidates lost a mark under criterion F because they did not provide a summary portfolio sheet with details of the sources, syllabus sections, the date commentaries were written and word counts.

The descriptor about “different and appropriate sources” was designed to avoid candidates choosing excerpts from books, tutorial guides, government reports or personal blogs. A number of online media now include opinion columns which are technically “blogs” but these are acceptable if they are in a recognized news media source.

**Recommendations for the teaching of future candidates**

- The internal assessment (IA) should be an integral part of the IB course, not simply a set of assignments at the end of the course. The IA can be valuable to understanding the different parts of the syllabus and is especially important in providing examples that can be used in the externally assessed components. It is recommended that candidates read through their IA as part of their revision for examinations.
- Centres should provide guidance in selection of suitable articles but the choice must be made by the candidate. Some centres used a very limited selection of sources and topics for their IA, which gave the impression that teachers had selected the articles. Teachers are reminded that they are allowed to give feedback on a first draft of the commentary but the second draft is considered final.
- A few centres, or candidates, did not appear to have produced a first and subsequent final draft of the commentaries.
- It is important to stress the potential consequences of academic misconduct. Teachers should take care to verify the honesty of work presented, ensuring that the language and analysis presented is really that of the candidate.
- It is also necessary to remind teachers against providing too much assistance to candidates. It is part of the candidates’ task to find and analyse the article: this should not be done by the teacher. A number of centres presented samples where many candidates had used the same articles. Articles must not be given to the class by the teacher, and the production of the commentary must be each candidate’s individual work.

## Further comments

A small number of candidates did not fulfil the criteria by producing three commentaries that were on almost identical topics: this should be strongly discouraged by centres as it could be considered intellectual dishonesty. While very short commentaries do not get punished under Criterion F they are unlikely to score well on other criteria.

## Higher level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 5	6 - 11	12 - 17	18 - 23	24 - 30	31 - 36	37 - 50

## General comments

There were some of the usual minor errors: OPEC is often quoted as an example of a collusive oligopoly within market structures of theory of the firm. It is an international agreement which has some international market power. In diagrams, Phillips curves often seem not to cross the bottom axis, indicating that there is no level of unemployment at which prices might be expected to fall. Marginal cost curves often cross average cost curves at points other than the lowest. These are minor points but they do not seem to change over the years. There were some misunderstandings of the word "trade-off", but the response remained valid even if it was interpreted as a positive correlation because it was about the relationship between inflation and unemployment.

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

Candidates appeared to find the paper a little less accessible than the previous year. This was not because it was more difficult but because it depended on candidates having an understanding of several learning outcomes that were perhaps less familiar and therefore more challenging for candidates to access higher marks. These were for example, common access resources, monopoly power, and natural rate of unemployment. All of these are clearly expressed as learning outcomes in the guide. Also the distinctions between collusive and non-collusive oligopoly and interventionist and market-oriented supply-side policies were not always made clearly, and sometimes they were ignored despite the phrasing of the questions. A second impression was that while some questions on this paper strongly invite real world examples (which often make the difference in accessing higher achievement levels), especially in questions 1(b) and 4(a), very few were offered. Real world examples were very rare indeed and even generic examples were infrequent. While this may be proof of the time pressure of

this examination, Economics is meant to be a living subject and examples are mentioned in the higher mark banks in markschemes.

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

A small number of centres prepare their candidates superbly well, and their candidates performed well on all aspects of all questions. A much larger number did not appear to prepare their candidates sufficiently.

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

While question 1(a) was perhaps more accessible than question 2(a), question 1(b) required an understanding of common access resources, which appeared to be a less familiar learning outcome.

### Question 1

- (a) This question was treated as rather open-ended. The last three words, “in a market” were meant to confine responses to consider signalling and incentive functions in one market but some candidates broadened their response to include ideas of allocative efficiency in theory of the firm, or resource allocation at a macroeconomic level. It was not clear to some candidates where and when to stop.
- (b) Disappointingly few candidates were able to provide real world examples of common access resources, though generic examples such as overfishing were mentioned. Some candidates confused public access resources with public goods. There was a tendency to describe possible government policies rather than reach an evaluative conclusion.

### Question 2

- (a) This question was generally dealt with well, either by use of a game theory choice matrix or by using the kinked demand curve. A few candidates attempted both explanations. Sadly many responses did not mention any examples of oligopolies with stable prices.
- (b) This question required an accurate diagram and explanation to establish the meaning of monopoly power. This sometimes took candidates so long that little attention was given to the point of the question - whether governments should intervene. Real-world examples of intervention were offered rarely.

**Question 3**

- (a) This question required understanding of the natural rate of unemployment which may have deterred some candidates. It was a strong discriminator in that candidates either knew or did not know that frictional, seasonal and structural unemployment are included. Perhaps unsurprisingly, few real-world examples of the natural rate were mentioned.
- (b) This question depended on understanding the distinction between short and long run and only the higher achieving candidates were able to distinguish the short-run Phillips curve which supports the trade-off and the long-term Phillips curve, which does not. Many responses gave one explanation only and did not "discuss" in the sense of putting both sides of the argument. The word "trade-off" proved a little confusing for some, who thought it meant a positive correlation.

**Question 4**

- (a) This question was generally well answered, yet many candidates did not offer a real-world example. Most produced a long-run aggregate supply curve shifting to the right. A few noted the initial boost to AD from increased government spending.
- (b) This question contained two keywords, effectiveness and interventionist. Many candidates spent too long explaining distinctions and giving examples (all useful) and not enough time on evaluating effectiveness. Examples were offered in very few cases.

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

- Teachers should be aware that all the learning outcomes in the syllabus are there to be assessed and that learning should not focus on familiar parts or parts in common with other syllabuses other than the IB Diploma.
- Apart from a lack of examples, there was also a lack of definitions. These are also mentioned in the markscheme achievement levels and without them the examiner has difficulty gauging the level of understanding of the candidate even before the question is answered. Some able candidates are able to convey understanding of definitions within their response but for the rest, it remains important.

**Standard level paper one****Component grade boundaries**

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 4	5 - 9	10 - 15	16 - 21	22 - 26	27 - 32	33 - 50

## General comments

Candidates appeared to be more comfortable with the microeconomics questions than the macroeconomics questions and were able to give more confident and rigorous responses in this section.

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

Candidates found it difficult to focus on the essence of the question being asked in some cases and some of the responses appeared to be have been prepared in advance and therefore lacked specific relevance to the question. For example some candidates gave detailed explanations of price elasticity of demand but were unable to link it to its significance for the government. In addition candidates failed to read the questions carefully enough and so gave incomplete or inappropriate answers. For example question 1 (b) asked about the consequences of imposing a price floor on a good and yet many candidates focused on the minimum wage. Candidates also struggled to integrate relevant real-world examples into their answers and this hindered their ability to access the higher levels of the assessment criteria. Evaluation remains a discriminator between candidates although increasingly they are aware of the need to discuss the issues in part (b). Many candidates find it difficult to express themselves effectively here and resort to using stakeholders and/or the time period as the default for evaluation. The problem here is that these references are not always appropriate for the specific question and the contrived nature of evaluation that is couched in these concepts does little to enhance the quality of the response. With regards to specific areas of the programme, the candidates found the circular flow difficult this year. Many were unable to really explain the circular flow at all while others drew over-elaborate diagrams but were then unable to explain the basic process. In many cases there was little reference to injections and leakages. In addition the reasons for a price floor was difficult for many candidates. They were often only able to give one reason or to very superficially cover more than one.

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

The use of diagrams in both microeconomics and macroeconomics was much improved this year. Candidates generally labelled the diagrams accurately and were able to integrate the diagram effectively into their responses. In terms of the specific areas of the programme, the candidates generally had a good level of knowledge and understanding of the consequences of price floors, price elasticity of demand, fiscal policy, using demand-side policies to combat inflation and shifting the LRAS. In general this manifested itself in the use of appropriate economic analysis and diagrams within their responses. Candidates also appeared well prepared in terms of time management and the majority of answers were completed with a similar weight attached to both Section A and Section B.



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

### Question 1

- (a) The majority of candidates had a good understanding of what a price floor is and were able to explain it using a diagram. Very few candidates confused a price floor with a price ceiling. However the focus of the question was on the reasons why the government imposes a price floor and this should have been emphasized in the responses. Many candidates failed to mention more than one reason and those that did gave quite superficial responses.
- (b) Most candidates were able to access the top of the level 2 mark band quite comfortably with this question because they were able to give common sense, but relevant, consequences in terms of higher prices for consumers, increased revenue for producers and increased expenditure by governments. There was ample opportunity for discussion with this question because so many conflicting consequences were possible but all too often candidates simply accepted that the government would purchase the excess supply rather than discussing the likelihood that they would and the consequences if they did not.

### Question 2

- (a) A rather more technical question than many of the others and one that the candidates dealt with quite well. Many understood the distinction between a movement and a shift and were able to explain the difference using diagrams. However, they were less likely to explain the reason for the movement (price) or the shift (non-price determinants) in great depth.
- (b) Candidates were frequently able to explain price elasticity of demand in some depth even though such a detailed understanding was largely unhelpful given the question. Applying the relevance of PED for the government proved to be more challenging and would frequently just be linked to taxation of a demerit good with little comparison of elastic and inelastic demand. Subsidies and price controls were rarely developed as additional points.

### Question 3

- (a) With the understanding of the circular flow demonstrating an area of knowledge that seemed to be lacking, candidates tended to fall back on AS/AD diagrams to help explain the effect of a rise in taxation and a fall in government expenditure. When circular flow diagrams were used they were often either too superficial, and made little reference to injections and leakages, or they were too detailed and yet still made little direct reference to injections and leakages.

- (b) Many candidates had a sound grasp of fiscal policy and the way it can be used to influence AD and consequently inflation. Evaluation was disappointing if the candidate contrasted the Keynesian and the Classical range of the LRAS curve as they usually failed to acknowledge that there is much less likelihood of inflation in the Keynesian range. However, there were many good responses that contrasted the use of fiscal policy to deal with demand-pull and cost-push inflation and others were able to access the higher mark bands by comparing fiscal policies with other government policies to deal with inflation.

#### Question 4

- (a) Most candidates understood the impact in terms of a shift to the right of the LRAS curve and were able to explain this well using a diagram. However, many of these candidates were unable to elaborate in depth on the reasons why the LRAS will shift in terms of increased productivity and efficiency. In addition there were a number of candidates who focused on the SRAS curve rather than the LRAS curve even though the question stated quite clearly that the shift is in the LRAS curve.
- (b) This question was not answered particularly well for a number of reasons. Frequently candidates were unable to distinguish accurately between interventionist and market-based supply-side policies and consequently their responses lacked clarity and real understanding. In addition candidates found it difficult to evaluate these policies except for a cursory reference to how much time they take to become effective or the opportunity cost to the government.

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

- Encourage candidates to learn definitions more thoroughly. Many candidates are aware of the need to define terms, particularly those used in the question, but the definitions are often given very casually and lack the accuracy required.
- Candidates should be encouraged to integrate examples into their responses even if they are generic ones. The assessment criteria for level 3 and level 4 make the point that where appropriate examples should be used and it makes it more difficult for a candidate to access these higher levels if they fail to use them.
- Candidates need to be aware of the assessment criteria well in advance of the examination and to be taught how to build their responses to integrate the criteria into their answer. There needs to be a degree of planning so that the answer focuses on the question and unfolds seamlessly building on definitions, knowledge and understanding, analysis and finally evaluation. Diagrams and examples should be integrated along the way to help enrich the quality of the response but need to be appropriate to the question.
- The balance between analysis and evaluation in part (b) of the essays should be encouraged towards the discussion. Candidates should be taught that evaluation is more than just a simple reference to stakeholders or the timeframe; it is an opportunity to critically reflect upon the points that have been made.

## Higher level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 4	5 - 9	10 - 15	16 - 20	21 - 24	25 - 29	30 - 40

### General comments

This subject report, used in conjunction with the markscheme, is designed to help teachers prepare their candidates for future examinations by clarifying the expectations of the IB examining team. Since the markscheme outlines the most appropriate responses, this report focuses more on the more common errors made by candidates. General comments about exam-writing techniques are similar, if not exactly the same as in previous reports on economics data-response questions.

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 and of a suitable degree of difficulty.

### The areas of the programme and examination which 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) Many candidates were aware that it is a form of trade liberalization and that member countries agree to trade freely amongst themselves. Fewer were able to add that the members also adopt common external barriers/trade policies towards non-members. Lower achieving candidates were not aware of how customs unions operate and wrote vaguely about what they thought a eurozone did.

- (ii) This question was surprisingly poorly answered on the whole. Lower achieving candidates were completely confused and wrote incorrectly about indirect taxes, *ie* taxes on expenditure. Others were partially correct, saying that they were income taxes paid by individuals to the government, although this is obviously an example of a direct tax, as opposed to a full definition. Direct taxes are taxes on income (or wealth), including household income and firms' income (profits).
- (b) Lower achieving candidates ignored the question and chose to explain how the devaluation of the lat may have been caused, as well as providing an exchange rate diagram. Higher achieving candidates explained that the devaluation of the lat may lead to an increase in export revenue, a decrease in import expenditure, and so an increase in net exports and a shift of the AD curve to the right and that this would bring about an increase in real GDP. They also drew a correctly labelled AD/AS diagram showing the above. As is always the case, a Keynesian AS diagram was fully acceptable, as well as a neo-classical (LRAS) diagram.
- (c) This question was generally not well answered and many candidates showed confusion relating to PPC's and movements within them, or upon them. Higher achieving candidates drew a PPC diagram, with a movement from one point inside the curve to a point closer to the curve. They then explained that there was economic growth between 2008 and 2012 and so an increase in actual output. Some candidates showed two movements, with an initial shift away from the PPC and then another shift back towards it. This was also correct, but not necessary for full marks. Many candidates shifted the PPC curve outwards and explained that economic growth leads to a shift of the PPC, which is incorrect. This is an area of the syllabus that centres may need to look at more carefully.
- (d) Higher achieving candidates defined a monetary union and then introduced possible positive and negative outcomes that could come about through membership, using examples from the text to support the theory that they used. They then weighed up the strengths and limitations and produced a balanced judgment/conclusion.

The lower achieving candidates tended to ignore the eurozone aspect of the question and chose to write upon the benefits of membership of a customs union instead. Since Latvia had already been a member of the EU customs union, this type of response was not suitable. There was also a tendency to simply repeat points that were made in the text without using economic theory to develop any analysis.

## Question 2

- (a) (i) Most candidates were able to give an appropriate definition for this question.
- (ii) For candidates who attempted this question, there were very few who failed to score full marks for this definition. The only issue that arose was that many candidates wrote too much. Some candidates even drew the tariff diagram, which was unnecessary.

- (b) Most candidates were able to get two marks for a definition of a budget deficit. Most candidates got at least one mark for their definition of current account deficit, but failed to get a second mark because they referred only to trade in goods and services (neglecting investment income and/or transfers). Another shortcoming was that some candidates were unable to distinguish between 'value' and 'volume' by inaccurately writing things like "A current account deficit is the situation in which imports are greater than exports".
- (c) There was a broad mix of answers to this question, with some excellent and concise responses. However, a number of candidates missed the key theory suggested by the text.

Despite the clear indication in the text that there was an outflow of funds from India (indicating an increase in supply of the rupee), a common mistake amongst lower achieving candidates was to illustrate and explain that the increase in the US interest rates would lead to a fall in the demand for the rupee. While credit was possible, this approach mainly led to some very confused and contradictory responses. A general rule is that any change in the value of a currency may be explained by either an increase in supply (depreciation) or an increase in demand (appreciation).

- (d) This is a straightforward question based clearly on a learning outcome. The syllabus refers quite explicitly to three measures that may be taken to reduce a current account deficit. Candidates who knew these three measures and could apply them within the context of the Indian case study were able to perform well. The lower achieving responses focused narrowly on the part of the extract that referred to the gold tariff, and wrote at length about protectionism. This was perhaps because to many IB candidates, the tariff diagram is a favourite. Other answers focused on the growth strategies of export promotion and import substitution. These were able to earn marks, but the analysis was often not clearly linked to the current account deficit.

### Question 3

- (a) (i) Most candidates were able to write about a trade agreement as an agreement to liberalize trade, but many were unaware that the agreement is between two countries.
- (ii) Despite the fact that this term keeps coming up on examinations, many candidates still simply list examples of different types of infrastructure, rather than explain what it is.
- (b) This question was handled well by the majority of candidates. Even candidates who performed less well on other sections of the examination did very well on this question part. One shortcoming was a failure to refer to opportunity cost in the written explanation.

- (c) In terms of the diagram, most candidates performed quite well on this question, recognizing a shift in the PPC. However, there was some rather poor labelling. In the written explanation, many candidates seemed to incorrectly assert that education/training would lead to an increase in output, rather than an increase in potential output.
- (d) The biggest problem with the question was an inability of a great many candidates to link their analysis to economic development. Many simply wrote about how trade could contribute to economic growth. Many candidates uncritically accepted the statement in the question that trade is more effective, and delivered a pre-prepared and one-sided explanation of the disadvantages of aid. Relatively few candidates effectively contrasted the pros and cons of aid and trade to reach a balanced conclusion. Having said that, there were also some excellent responses that made very good use of the abundant data and applied relevant theory. The format of the question led higher achieving candidates to effective evaluation.

#### Question 4

- (a)
  - (i) Most candidates were able to define this term, although many neglected to refer to the word 'sustained' in their definition.
  - (ii) Almost all candidates successfully defined this term.
- (b) In general, this question was not well answered, even though it is a straightforward question based on the learning outcomes. The lower achieving responses explained the terms of trade as the nature of the relationship between trading nations. An alternate (incorrect) approach was to define the terms of trade as the amount of exports in relation to the amount of imports. Some had a vague idea that it was about the prices of exports and imports but got the formula the wrong way around. Some candidates seemed to confuse the words 'value' and 'price' in their explanation of the term. If the rest of the explanation indicated that the candidates knew that the formula concerned the price of exports and imports, then full marks were available. Having said that, there were also a significant number of candidates who understood the question and were able to apply the relevant theory correctly.
- (c) Candidates generally performed well in this question, with the majority drawing a correct diagram. However, there were inevitable inaccuracies in the labelling. Most candidates recognized that a fall in the Gini coefficient meant a decrease in income inequality, though some neglected to actually state this in the written explanation.
- (d) This question comes straight from the learning outcomes, so it is an area that candidates should be prepared for. The syllabus is very clear on possible approaches. While there were certainly some excellent and perceptive responses that used the text meaningfully, there were a great many long-winded responses that failed to present appropriate economic theory.

A very clear shortcoming among many responses was an inability to link the theory presented with economic development. There was a tendency for some candidates to treat this as a macroeconomics essay question, and examine the pros and cons of interventionist and market-oriented supply-side policies, without making any links to development. Some even perceived the question to be a comparison of demand-side policies (interventionist) with supply-side policies. Although the question did not refer specifically to Peru, there was ample evidence in the text about Peru, and many candidates did not make good use of this evidence.

## Recommendations and guidance for the teaching of future candidates

Many will note that these suggestions have appeared in previous examiner reports, at both standard and higher level, for the past syllabus. However, since the structure of the questions, as well as the expectations, have not changed with the new syllabus, the advice remains largely the same.

- 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 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.
- Many part (b) and (c) questions require the use of a diagram, and these are generally all standard diagrams from the syllabus. Candidates would thus benefit if they compiled a glossary of all the diagrams. Where a diagram is used in part (b) or (c) questions, candidates should be sure to use/explain the diagram by making references to it in the response. The diagram and the explanation must be integrated with each other. Since diagrams are meant to be dynamic (*i.e.* they illustrate a change to a situation) candidates should explain reasons for any changes and use (dotted) lines to the axes and notation such as ( $q_1$  to  $q_2$ ) or ( $AD_1$  to  $AD_2$ ) in their written work.
- Diagrams should not be placed at the end of the answer booklet. They should be drawn exactly where the accompanying explanation is written.
- Candidates should take about a third of a page to draw their diagrams, and should use a ruler to make sure that it is drawn neatly so that the information is clear. All curves/lines and axes must be labelled.
- It is the policy that candidates are not allowed to use coloured pens/pencils on their examinations. Therefore, there should not be references to different coloured lines in the diagram, as these will not show up on the scanned examinations. However, they should be sure to use arrows to indicate the direction of change of any variables.

- Diagrams should be made appropriate to the question and/or the market in the question.
- Candidates must also be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents candidates from achieving full marks.
- Candidates must be taught to carefully identify what a question is asking for in part (b) and (c) questions. They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- Where a diagram is required, the questions always stipulate which diagram is to be used. Despite this, candidates often draw different ones. This is yet another reason why it is so important to read the question carefully.
- Candidates could be advised to re-read a question once they have finished writing their answer. This can serve as a self-check to make sure that the question is actually answered. In many cases, candidates come very close, but do not actually answer the question set and they would easily get the full marks if they added just one line to present a clear answer to the actual question.
- Candidates must be reminded that to achieve top marks in part (d) questions, they must make reference to the text. Encourage candidates to use quotation marks, or make references to the paragraphs or texts.
- Answers to part (d) questions also require candidates to apply and develop the economic theory that is relevant to the text/data. It is not enough to simply mention the relevant theory; answers which reach the top level 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 command terms that may be employed in part (d) questions and the evaluation/synthesis skills that are being tested. The synthesis/evaluation command terms are 'compare', 'compare and contrast', 'discuss', 'evaluate', 'examine', 'justify', and 'to what extent...' Each of the command terms has an explanation in the syllabus guide and candidates and teachers need to be aware of these.
- Theory provided in part (d) questions must be directly linked to the text/data to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to really 'engage' with the text, in order to be able to apply the theory.
- There is concern at the extent to which candidates are uncritically paraphrasing the texts in their answers to part (d) questions. 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 carry out some evaluation.



## Standard level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 4	5 - 8	9 - 13	14 - 18	19 - 22	23 - 27	28 - 40

### General comments

This subject report, used in conjunction with the markscheme, is designed to help teachers prepare their candidates for future examinations by clarifying the expectations of the IB examining team. Since the markscheme outlines the most appropriate responses, this report focuses more on the more common errors made by candidates. General comments about exam-writing techniques are similar, if not exactly the same as in previous reports on economics data-response questions.

The examination seems to have been well-received by those centres that completed the feedback forms. It was considered to be a well-balanced paper, with appropriate syllabus coverage. The texts were considered to be accessible to the majority. There seemed to be very few problems with candidates managing their time appropriately.

The performance of candidates seemed to be fairly equal between the international economics section and the development economics section.

### The areas of the programme and examination which 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) Many candidates were aware that it is a form of trade liberalization and that member countries agree to trade freely amongst themselves. Fewer were able to add that the members also adopt common external barriers/trade policies towards

non-members. Lower achieving candidates were not aware of how customs unions operate and wrote vaguely about what they thought a eurozone did.

- (ii) This question was surprisingly poorly answered on the whole. Lower achieving candidates were completely confused and wrote incorrectly about indirect taxes, ie taxes on expenditure. Others were partially correct, saying that they were income taxes paid by individuals to the government, although this is obviously an example of a direct tax, as opposed to a full definition. Direct taxes are taxes on income (or wealth), including household income and firms' income (profits).
- (b) Lower achieving candidates ignored the question and chose to explain how the devaluation of the lat may have been caused, as well as providing an exchange rate diagram. Higher achieving candidates explained that the devaluation of the lat may lead to an increase in export revenue, a decrease in import expenditure, and so an increase in net exports and a shift of the AD curve to the right and that this would bring about an increase in real GDP. They also drew a correctly labelled AD/AS diagram showing the above. As is always the case, a Keynesian AS diagram was fully acceptable, as opposed to a monetarist (LRAS) diagram.
- (c) This question was generally not well answered and many candidates showed confusion relating to PPC's and movements within them, or upon them. Higher achieving candidates drew a PPC diagram, with a movement from one point inside the curve to a point closer to the curve. They then explained that there was economic growth between 2008 and 2012 and so an increase in actual output. Some candidates showed two movements, with an initial shift away from the PPC and then another shift back towards it. This was also correct, but not necessary for full marks. Many candidates shifted the PPC curve outwards and explained that economic growth leads to a shift of the PPC, which is incorrect. This is an area of the syllabus that centres may need to look at very carefully.
- (d) Higher achieving candidates defined a monetary union and then introduced possible positive and negative outcomes that could come about through membership, using examples from the text to support the theory that they used. Positive points included the elimination of exchange rate uncertainty, easier planning for firms, increased foreign investment, economic growth, less dependence on Russia, and the benefits of having to meet the criteria for membership, building a good economic foundation for the future. Negative points introduced included the loss of sovereignty over monetary policy, changeover costs, the problems of supporting other eurozone members, the threat of inflation, and Latvia's loss of power in controlling its own exchange rate to improve competitiveness. They then weighed up the strengths and limitations and produced a balanced judgment/conclusion.

The lower achieving candidates tended to ignore the eurozone aspect of the question and chose to write upon the benefits of membership of a customs union instead. This led to theoretical responses, which were off topic.

**Question 2**

- (a) (i) This question was well answered, with most candidates explaining that an exchange rate is the value of one currency expressed in terms of another.
- (ii) Answers to this question tended to lack detail. Most candidates explained that import expenditure would be greater than export revenue. However, only higher achieving candidates went into the required detail and explained that it was a situation where the outflows of money from trade in goods and services, income flows, and transfers were larger than the inflows of the money.
- (b) On the whole, this question was not well answered, and raised another area of the syllabus that centres may need to look at very carefully. Higher achieving candidates, who were clearly in the minority, drew a correctly labelled exchange rate diagram with a shift of the supply curve of the real to the right and a fall in the exchange rate. They also explained that an increase in US interest rates would lead to an increase in Brazilian saving in US financial institutions, and so an increase in the supply of the real, as Brazilians purchase dollars, reducing the exchange rate.

Despite the clear indication in the text that “money is leaving developing economies” (indicating an increase in the supply of the real), a common mistake amongst lower achieving candidates was to illustrate and explain that the increase in the US interest rates would lead to a fall in the demand for the real. While credit was possible, this approach mainly led to some confused and contradictory responses. A general rule is that any change in the exchange rate of a currency may be explained by either an increase in supply (depreciation) or an increase in demand (appreciation).

- (c) This was a better answered question, with most candidates explaining that the move to a deficit would lead to a fall in net exports, reducing aggregate demand in the economy, and then drawing a correctly labelled AD/AS diagram, with the AD curve shifting to the left. They then further explained how this might harm the economy in terms of a decrease in real GDP and/or negative economic growth and/or an increase in unemployment. A number of candidates did not fully answer the question, omitting to explain the potential harm to the Brazilian economy.
- (d) Higher achieving candidates gave a balanced response, highlighting consequences of a fall in the value of the real, both positive and negative, and supporting them with evidence from the text, which was plentiful. Positive consequences included exports becoming more competitive, improvements in employment in export industries, improvements in the current account deficit, increased demand for domestic products as imports become more expensive, and increased employment in domestic industries as a consequence. Negative consequences included the danger of imported inflation, planning problems for companies, reduced consumer and investor confidence, and the problems associated with raising interest rates and using foreign reserves to support the value of the currency.

Many candidates wrote a theoretical response relating to a low exchange rate, ignoring the text, and so only reached level 2 in the markscheme. The ability to synthesize/evaluate, supported by appropriate evidence, is the higher level skill that is being sought in these questions and it is something that candidates need to be able to accomplish, if they are to reach the highest levels of achievement.

### Question 3

- (a) (i) This question was surprisingly poorly answered, with many candidates clearly not familiar with the term at all. Better candidates explained two aspects of the role of an entrepreneur, such as starting up a business, employing / organizing / managing resources or factors of production, and/or risk taking.
- (ii) A well answered question, with most candidates explaining that it is the total value of all goods and services produced in an economy in a given time period. Lower achieving responses excluded the term 'value', or failed to mention that it was goods and services.
- (b) A generally well answered question, with the majority of candidates able to draw a demand and supply curve diagram showing a price floor, set above the equilibrium price, and indicating the resultant excess supply/surplus; and then explaining that the price floor will lead to an increase in quantity supplied, a fall in quantity demanded, and a subsequent surplus of cocoa. Lower achieving responses placed the price floor below the equilibrium (*ie* a price ceiling) or were not able to explain a price floor at all.
- (c) This question was generally well answered. Higher achieving responses defined opportunity cost and explained that any spending on debt servicing might be at the expense of less spending on development objectives, using information from the text, such as one third of government revenue being spent on debt servicing in the 1980s and 1990s, or that since 2008, debt servicing (government repayments) have averaged 15% of government revenue. Some candidates did not use information from the extract as requested. A few, sadly, did not seem to be familiar with the concept of opportunity cost.
- (d) The main missed opportunity for marks here was that some candidates tended not to focus on the specific interventions in the text, but wrote in a general way about ways to achieve economic development through government intervention. This led to very theoretical responses, which only achieved level 2 in the markscheme.

Higher achieving candidates identified specific government intervention policies from the text and then evaluated their possible success or failure in promoting economic development. There was much to be found in the text and policies such as the price floor for cocoa, investment to improve crop yields, the promotion of diversification, the provision of infrastructure, and reduced government expenditure on health care, were among the areas discussed. Lower achieving candidates tended to identify areas of government intervention, explain their effect on economic growth, but not link them to development.

**Question 4**

- (a) (i) Most candidates either got this question correct or completely incorrect. Higher achieving candidates explained that it is the total value of incomes earned by a nation's factors of production, regardless of where the assets are located. Many candidates were aware that it is a measure of national income, but no more.
- (ii) Higher achieving candidates were able to list two of the measures: life expectancy at birth, mean years of schooling, expected years of schooling, and GNI per capita. A worrying number of candidates were still working from the measures that used to make up the HDI, before changes in 2010. This is another area of the syllabus that centres may need to look at very carefully, in terms of updating teaching information.
- (b) Higher achieving candidates drew a correctly labelled AD/AS diagram, showing a shift of the AD curve to the right and a higher average price level, and explained that the increased oil exports would increase net exports, leading to greater aggregate demand and so inflationary pressure. Some said that the oil boom had led to increased investment and thus an increase in aggregate demand. If correctly explained, this approach was also fully rewarded. Lower achieving candidates seemed to think that the oil boom would increase costs (SRAS), causing cost-push inflation. This was not supported in the text.
- (c) Many candidates identified possible barriers from the text, but failed to link them to development. Higher achieving candidates identified factors, such as lack of clean drinking water, lack of resources in education and health, growing inequality, or dependence on subsistence farming; and then explained how the factor could impede development.
- (d) Higher achieving candidates successfully distinguished between growth and development and realised that oil revenues could contribute to the former, but not necessarily to the latter. However, a large proportion of candidates merely wrote an essay on what is needed for development without sufficiently focussing on how the growth of the oil industry might assist or impede such development. A problem associated with a lot of the responses for this part of the question is the fact that candidates fail to differentiate between growth and development and either write about them interchangeably or simply say that growth leads to development, without any explanation of how or why that may be.

## Recommendations and guidance for the teaching of future candidates

Many will note that these suggestions have appeared in previous reports, at both standard and higher level for the past syllabus. However, since the structure of the questions, as well as the expectations, have not changed, the advice remains largely the same.

- 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 developing 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. Some candidates write far too much and then suffer time problems later in the paper.
- Many part (b) and (c) questions require the use of a diagram, and these are generally all standard diagrams from the syllabus. Candidates would thus benefit if they compiled a glossary of all the diagrams. Where a diagram is used in parts (b) or (c), candidates should be sure to use/explain the diagram by making references to it in the response. The diagram and the explanation must be integrated with each other. Candidates should explain reasons for any changes and use (dotted) lines to the axes and notation such as ( $q_1$  to  $q_2$ ) or ( $AD_1$  to  $AD_2$ ) in their written work.
- Diagrams should not be placed at the end of the answer booklet. They should be drawn exactly where the accompanying explanation is written.
- Candidates should take about a third of a page to draw their diagrams, and should use a ruler to make sure that it is done neatly so that the information is clear. Very small diagrams are difficult for examiners to read, and thus reward.
- It is the policy that candidates are not allowed to use coloured pens/pencils on their examinations. Therefore, there should not be references to different coloured lines in the diagram, as these will not show up on the scanned examinations. However, they should be sure to use arrows to indicate the direction of change of any variables.
- Diagrams should be made appropriate to the question and/or the market in the question.
- Candidates must also be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams correctly prevents candidates from achieving full marks.
- Candidates must be taught to carefully identify what a question is asking for in part (b) and (c) questions. They should make sure that their diagrams address the specific question that is asked, rather than write all about every aspect of a diagram.
- Where a diagram is required, the questions always stipulate which diagram is to be used. Despite this, candidates often draw different ones. This is yet another reason why it is so important to read the question carefully.

- Candidates could be advised to re-read a question once they have finished writing their answer. This can serve as a self-check to make sure that the question is actually answered. In many cases, candidates come very close, but do not actually answer the question set and they would easily get the full marks if they added just one line to present a clear answer to the actual question.
- Candidates must be reminded that to achieve top marks in part (d) questions, they must make reference to the text. Encourage candidates to use quotation marks, or make references to the relevant paragraphs or texts.
- Answers to part (d) questions also require candidates to apply and develop the economic theory that is relevant to the text/data. 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 command terms that may be employed in part (d) questions and the evaluation/synthesis skills that are being tested. The synthesis/evaluation command terms are 'compare', 'compare and contrast', 'discuss', 'evaluate', 'examine', 'justify', and 'to what extent...' Each of the command terms has an explanation in the syllabus guide and candidates and teachers need to be aware of these.
- Theory provided in responses to part (d) questions must be directly linked to the text/data to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to fully 'engage' with the text/data, in order to be able to apply the theory.
- There is concern at the extent to which candidates are uncritically paraphrasing the texts in their answers to part (d) questions. 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 carry out some evaluation.

## Higher level paper three

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 5	6 - 11	12 - 17	18 - 24	25 - 30	31 - 37	38 - 50

### General comments

It is clear that the May 2015 paper was more challenging than in previous sessions. Some of the 4-mark "explain" questions tackled more difficult concepts, while candidates were possibly given a little less time to process questions and plan responses than previously.

Such a shift is not necessarily a bad thing as it seems that this paper was a better test of skills, economic understanding and the ability to analyse and apply and a better discriminator than previous papers.

It was clear that some teachers did not expect certain learning outcomes, such as those relating to satisficing behaviour, the reasons why the AD curve has a negative slope and the issue of equity, to be examined. Candidates generally could have been better prepared to tackle learning outcomes such as these. Furthermore, the terms of trade questions were not well answered. Some teachers appear to think that higher level paper 3 will examine only those concepts in the third column of the table of learning outcomes in the subject guide but this is not the case.

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

### Question 1:

- Many candidates were completely unfamiliar with the term “satisficing”.
- A surprising number of candidates were unsuccessful in calculating the price elasticity of demand when required to find the initial and final prices and quantities from a graph.
- Although the majority of candidates could relate the kinked demand curve to price rigidities in non-collusive oligopoly, the majority found difficulty in explaining clearly, with reference to interdependence, elasticity and the effect of a price change on revenue/profit or the resulting discontinuity of MR and its implications.

### Question 2:

- The majority of candidates were not able to shift the aggregate demand curve to the left by \$9 billion as required.
- Only a small minority were able to show how market forces (*ie* the expected rightward shift of SRAS) might bring about a return to long-run equilibrium according to the monetarist/new classical model.
- Good answers to explain the correct reasons why the aggregate demand has a negative slope were few and far between. The majority of answers tried to apply microeconomic analysis and most relied on “a change in real income as APL increases”.
- Calculations of income tax demonstrated an area of improvement for many candidates, who simply multiplied the whole income by one tax rate.
- Understanding of equity and of the concept of progressive taxation was extremely poor. Most simply described the effect of cutting the progressive income tax on equality, without establishing a link to equity.

### Question 3:

- It was common for a managed float to be defined simply as an exchange rate system in which a currency is kept within a band, without reference to periodic intervention or that such intervention is not dependent on a pre-determined “band”, but possibly on the desire to slow down the rate of appreciation/depreciation.
- A surprising number of candidates could not calculate a terms of trade index.



- While candidates could describe the reason for a deterioration in the terms of trade, a description of the deterioration itself proved more difficult for the majority of candidates.
- Candidates found great difficulty in explaining how a change in the terms of trade might affect the current account balance.

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

### Question 1:

- Candidates were generally able to analyse short- and long-run equilibrium in perfect competition, calculating profit and explaining the movement from short-run equilibrium to long-run equilibrium.

### Question 2:

- The majority of candidates were able to identify reasons for a decrease in consumer spending.
- Most candidates correctly identified the position of the long-run aggregate supply curve in the monetarist/new classical model.
- Candidates recognized the effect of a lower rate of direct tax on the multiplier, although many simply referred to “an increase in spending” rather than a change in the marginal rate of withdrawal/MPC.
- Most candidates could sketch a Lorenz curve and identify how the Gini coefficient would be derived.

### Question 3:

- The majority of candidates were able to convert spending in one currency to another.
- Drawing a diagram to illustrate appreciation of a currency proved straightforward for most.
- Candidates were able to explain reasons for a currency appreciation, although there was some repetition as two examples of increased exports were given.
- The possibility of selling domestic currency on the foreign exchange market or reducing interest rates was recognized by the majority of candidates.

### General:

- Candidates were well-prepared for the necessity of showing their workings in calculations.
- Diagrams were generally drawn accurately and labelled appropriately.
- The incidence of rounding errors and failure to include correct units was lower than in previous sessions.

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

### Question 1

- (a) (i) Answered very well by nearly all candidates.
  - (ii) Generally answered very well, although a small number of candidates omitted a \$ sign.
  - (iii) Almost all candidates were awarded the 1 mark available. Most gave an answer of 140 000 units, while a significant number gave the “alternative” answer of 120 000.
  - (iv) A large proportion of candidates earned full marks for this question.
- (b) Well-answered by the majority.
- (c) A pleasing number of candidates were able to explain the dynamics of a move from short-run abnormal profit to long-run normal profit, although few explained that, when normal profits are made, there is no further incentive for firms to enter the industry. The majority sacrificed a mark by neglecting to refer to the diagram. Lower achieving candidates argued that the AC curve would shift as firms entered the industry.
- (d) Candidates did not answer this question well. A significant number of candidates wrote nothing for this question, or gave vague definitions. A number of candidates defined the term by providing an alternative objective eg “satisficing means to maximize revenue” rather than referring to the acceptance of less than maximum profits in order to pursue other objectives, or because the firm cannot possess sufficient information to maximize profits or revenue.
- (e) The majority of candidates recognized the meaning of “non-collusive” although many could not resist the temptation to use “do not collude” as part of the definition. Several candidates referred to firms “not making agreements” without any reference to the type of agreements (eg price/output) which might be relevant.
- (f) (i) Many correct answers, but a significant number of rounding errors and miscalculations. Candidates found it much more difficult to calculate elasticity when values needed to be taken from a graph, in comparison to previous questions when values were given.
- (ii) As in part (i), although a greater number of accurate responses were given in comparison with the previous part.
- (g) The majority of candidates recognized the significance of the kinked demand curve, but few were able to explain clearly the significance of interdependence, the resulting price elasticity of demand and the effect on revenue/profit. Very few referred to the

resulting discontinuity of MR and its implications. Lower achieving candidates merely stated that firms would wish to avoid price wars.

## Question 2

- (a) (i) Many candidates recognized two reasons why consumer expenditure might decrease, although some referred to microeconomic factors such as changing marginal utility of changing tastes and preferences.
- (ii) The majority of candidates were unable to draw a leftward shift of \$9 billion of the AD curve, however many interpreted the question as meaning that the short-run equilibrium had decreased by \$9 billion.
- (iii) Generally answered well, with many earning a mark through the “own-figure rule” (OFR).
- (iv) Almost all candidates answered this question correctly.
- (v) A minority of candidates only were able to recognize that the short-run aggregate supply curve would shift to create equilibrium at LRAS. Many candidates gave “130” as the long-run equilibrium price level, assuming that the economy would return to the original equilibrium position following a decrease in AD – presumably assuming that, for some reason, AD would decrease again.
- (b) It was clear that many candidates were not aware of reasons why the AD curve has a negative slope. It was common for candidates to provide a microeconomic treatment, referring to the Law of Demand, income and substitution effects and linear demand equations. It was also common to simply argue that higher prices would mean lower real income and therefore lower AD, neglecting the likely effect of increasing nominal income as the price level increases.
- (c) (i) Although many candidates were able to calculate income tax paid, it was also the case that a significant number were not able to apply the appropriate rate to each band of income, instead multiplying the whole income by one marginal rate. Candidates should have been aware that such a system involves charging different segments of income at different rates (as per question 2 in the specimen paper).
- (ii) As above. Moreover, some candidates provided an average of two marginal tax rates rather than taking the tax paid as a proportion of gross income.
- (iii) Candidates recognized the effect of a lower rate of direct tax on the multiplier, although many simply referred to “an increase in spending” rather than a change in the marginal rate of withdrawal/MPC.
- (d) (i) Most candidates were able to sketch an appropriate Lorenz curve, although a significant proportion indicated incorrectly that the fall in indirect taxation would

make the distribution of income more unequal. Many candidates drew a Lorenz curve inside the box provided rather than using the whole box, as expected.

- (ii) This question was correctly answered by the vast majority. Candidates were able to identify  $a/a+b$  – even if their diagram did not contain these labels.
- (e) Although many candidates could recognize that the “rich would become richer” they were unable to relate this to a progressive income tax, and wrote fairly vague answers. Those who referred to the tax system as progressive generally explained this imprecisely by saying that those on higher incomes would pay more tax. Moreover, a small minority only were able to apply the change in the distribution of income to the concept of equity. Many treated equity as synonymous with equality. Even the highest achieving candidates generally struggled to justify a comment on equity with reference to ability to pay or fairness.

### Question 3

- (a) Generally well-answered. Even the lower achieving candidates were generally able to convert AU\$ to THB.
- (b) Generally well-answered, with a significant minority incorrectly providing an answer that  $\$AU1.625 = THB30.61$
- (c) Generally well-answered, although some omitted to calculate the change, foregoing 1 mark as a result.
- (d) Most candidates were able to sketch and label a diagram showing an increase in demand for/decrease in supply of \$AU. Labelling was generally good, with some candidates mixing the currencies on the vertical axis.
- (e) Generally well-answered, with lower achieving candidates simply describing the movement of the demand/supply curve and not explaining a possible reason. It was also common for candidates to give two reasons for an increase in exports or to write that “Thai candidates want to come to Australia” instead of specifying an increase.
- (f) The meaning of “managed float” was generally described in a rather vague manner, with a number of candidates simply considering it as a system in which a currency is kept within a band, instead of referring to periodic intervention by a government authority such as a central bank.
- (g) Although some candidates confused the selling of \$AU and that of foreign currency, this was generally answered well. A small number of candidates suggested increasing the supply of \$AU, without suggesting how. Others referred to increasing the supply of money rather than the more direct decrease in the rate of interest.
- (h) A large number of candidates answered this question correctly, with a significant minority dividing the 2010 value by that for 2011. There were many rounding errors.

- (i) Many candidates referred to a decrease or drop, rather than a deterioration, worsening or unfavourable movement. Only the higher achieving candidates were able to identify that a given quantity of exports would now buy fewer imports, instead describing the change itself by referring to a fall in the price of exports relative to that of imports.
- (j) Generally well-answered and there were many possible answers.
- (k) Candidates struggled to answer this question correctly. Many candidates could not refer to increased competitiveness, and the resulting change in export revenue/import spending, which would be influenced by the relevant elasticities (M-L condition). It was common for candidates to refer to a deterioration of the ToT meaning that “the value of exports would fall” and producing inaccurate analysis as a result – such as a consequent “improvement” in a persistent surplus on the current account.

## Recommendations and guidance for the teaching of future candidates

- Candidates should be reminded to show workings, use appropriate units and round correctly. It would be helpful if teachers could insist on rounding to 2 decimal places throughout the course, not just in assessment activities.
- Candidates should be reminded that answers must be written in the spaces provided, or on additional sheets. Several candidates this examination session provided their answers with a portion written outside of the boxes provided, contrary to the instructions.
- Teachers should make candidates aware of the need for clear explanation of more complex concepts such as the terms of trade and price rigidities under oligopoly.
- Teachers should be mindful that any of the learning outcomes stated in the subject guide may be examined. Candidates should be able to define terms used in the guide, such as “satisficing” and should be prepared for all learning outcomes, such as “Explain why the AD curve has a negative slope”.
- Candidates should be reminded to refer to a diagram/data directly when asked to do so in the question.
- Candidates should be made aware of the requirements of addressing the command term “explain” when attempting the 4-mark questions.
- Candidates should be given practice in reading questions carefully. For example, when required to calculate a change or an increase, a subtraction of the initial value from the new value must be performed. There remains a tendency for candidates to omit this part of the question, or to provide a positive number when the correct response is a negative number.