ECONOMICS

Overall grade boundaries

Higher Level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 12	13 - 26	27 - 40	41 - 52	53 - 65	66 - 77	78 - 100

Standard Level

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 11	12 - 25	26 - 39	40 - 52	53 - 66	67 - 78	79 - 100

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

Recommendations for IB procedures, instructions and forms

This was the final session of this economics syllabus. It is vital that all candidates, teachers, IB co-ordinators and other relevant educators ensure that they are prepared for the new syllabus which has its first examination session in May 2013.

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

The range and suitability of the work submitted

The November 2012 session featured some exemplary work. There were very few poor commentaries, and the vast majority of candidates met the basic rubric requirements. A number of large centres presented excellent portfolios for moderation. Teachers are also becoming more familiar with the assessment criteria and marking more precisely.

Candidate performance against each criterion

Criterion A

Nearly all candidates achieved the maximum 2 marks for criterion A.

Criterion B

Most portfolios were well organised and made appropriate or highly effective use of graphs. A few had problems with presenting illegible or incomplete portfolios.

Criterion C

Generally, there was good use of terminology. Note that in the new syllabus definitions are not vital if terms are being used accurately.

Criterion D

Most candidates realised the main relevant theory, but sometimes the links to the commentaries were not well made.

Criterion E

Understandably this was the area that candidates found most difficult: too many simply gave their opinions.

Recommendations and guidance for the teaching of future candidates

Teachers need to be familiar with the differences between the syllabus operating till November 2012 exams and that starting May 2013.

Key differences include:

- 3 commentaries instead of 4

- No minimum word count: the max is still 750 but labels and graph titles are not counted. Footnotes should only be used for references.

- There are marks specifically for the appropriate use of graphs

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- Any definitions used should be incorporated into the text of the commentary. Please check the syllabus guide for other points.

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Higher 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 - 16	17 - 19	20 - 25

General comments

The majority of centres that provided feedback (96%) believed the paper to be of an appropriate level of difficulty. The majority also felt it to be comparable with last year's paper. The clarity of wording and the presentation of the paper were at least satisfactory for all centres from which feedback was received. Responses were fairly evenly spread across the questions, although question 1 appeared to have been the most popular.

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

Many candidates could not precisely clarify the link between barriers to entry and abnormal profits being earned in the long run. It was also noticeable that many candidates were unsure of what the current account is comprised; many responses included foreign direct investment confusing it with income from investment. Candidates continue to find it challenging to provide examples that are appropriate and meaningfully utilized in their responses.

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

The standard of evaluation has improved over the last few sessions. Candidates will now usually make an effort to provide an element of evaluation relevant to the question, at times this just means citing the vocabulary of evaluation in the hope that it might count. However, it was noted that overall this is something where significant improvement appears to have occurred.

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

Question 1

Part (a)

There were many very good responses to this question where candidates applied theory clearly to show that barriers to entry were the cause of long run abnormal profits in monopoly. The best responses made appropriate use of well-explained and clearly labelled diagrams. However, a significant minority of candidates were unable

to establish why barriers to entry might allow abnormal profits to extend into the long run.

Part (b)

Again there were many good responses to this part of the question with candidates able to offer excellent examples drawn from various parts of the world to illustrate the issues that might arise. It was usual to tackle the question from the perspective of the textbook disadvantages usually ascribed to monopoly. Many good responses considered the relevance of market contestability as an influence on policy. A number of candidates cleverly reflected on what the government might have to do in order to facilitate the arrival of a new competitor.

Question 2

Part (a)

This seems to have been a straightforward question for most of those that attempted it. However candidates did rather focus on the direct tax system. Good candidates used the Lorenz curve to illustrate their answers and considered a wide range of possibilities such as the provision of merit goods and public goods, the use of a minimum wage and the introduction of welfare. As is usually the case good candidates were able to make specific reference to meaningful examples to support their response.

Part (b)

On the whole, this was answered well. Many candidates dwelt on the impact of taxation on incentives. The better responses were able to evaluate the effectiveness of a range of possible policy options including price controls, minimum wages and the cost of public and merit goods. The very best candidates gave very effective thought to the way in which markets might be distorted.

Question 3

Part (a)

As indicated earlier a significant number of candidates were unclear about the current account and what it is made up of. Whilst most knew that it contained goods and services, many felt it also records direct investment. There seems to be confusion between foreign direct investment, the purchase of fixed assets in other countries and investment income. However candidates were more secure in their observations of what might bring about a current account deficit, with most able to cite at least a few possible causes such as a loss of competitiveness or an increase in domestic aggregate demand.

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Part (b)

Candidates were usually able to produce a number of suitable policies, some preferred to divide policies into expenditure switching, expenditure reducing and supply side policy. There were many pleasingly coherent evaluations of a range of appropriate possibilities. Trade controls, exchange rates and the manipulation of aggregate demand and aggregate supply together with requisite diagrams were usually well applied to the demands of the question.

Question 4

Part (a)

This question seemed to attract weaker candidates who felt they could offer more to this question than to the others on the paper which were quite theory-specific. Part (a) was usually successfully addressed in that candidates usually knew what a multinational corporation was; they were also usually able to offer some reasons why such firms might choose to locate in a new market. It was surprising how few candidates offered concise definitions of what a developing country might be and very few were able to provide anything beyond rudimentary and vague examples to support their answer.

Part (b)

As in part (a) there was a lack of suitable definitions for development and many responses seemed to be pre-learned answers, which sought to describe the advantages and disadvantages of multinational corporations, with limited reference to development and minimal use of appropriate examples. The few exceptions built a response for which the architecture was a meaningful use of relevant and well-developed examples.

Recommendations and guidance for the teaching of future candidates

- Provide definitions of key terms. Many candidates continue to not provide definitions of the economic key terms used in the question. It is difficult for a candidate to successfully negotiate a question were they have not examined the meaning of the terms used in the question.

- Few candidates use suitable examples in their responses.

- Many candidates continue to produce a pre-learned answer, which is not properly related to the question that has been set. Candidates should carefully read the question and consider the meaning of the key terms used in order to start them off in the right direction.

- Candidates should be advised not to use colours in their diagrams. The examiners

mark an electronically scanned script and cannot see the colours

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 - 18	19 - 22	23 - 30

General comments

85.2% of the respondents to the G2 form thought that the paper was of an appropriate level, and 11.1% felt that it was too easy. 72% of the respondents though it was of similar standard to last year's paper, whereas, 12% thought it was a little more difficult than last year's. It is noteworthy that only 27 teachers completed the G2 form.
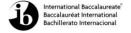
In this last session of the current syllabus, it seemed that many candidates have become more familiar with the paper's requirements. Most candidates have defined terms, given examples and at least attempted to explain relevant economic theory. In general, this familiarity with the paper was not always translated in better answers. Many of the responses recognized the relevant economic theory and could talk of relevant real world examples, without being able to give quality answers that showed sound understanding of economic theory.

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

While many economic concepts like opportunity cost and inflation were thoroughly explained by most candidates, there were some areas of the programme that proved difficult for many. In particular, the adoption of a single currency and the adjustment process to the long run for firms in monopolistic competition appeared to be difficult for many.

Specific difficulties in this paper included:

- Explaining the process leading to normal profit in the long run for firms in monopolistic competition

- Explaining the disadvantages associated with the adoption of a single currency

- Explaining the implications of lower commodity prices for less developed countries

- As mentioned in previous reports, the use of accurately labelled diagrams is important to assist in economic analysis. Diagrams need to be relevant to the

question and have to be fully explained.

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

Most candidates could explain concepts of opportunity cost, buffer stock schemes and inflation. Candidates were well prepared to answer questions on these topics.

Candidates have allocated time appropriately between the three questions and were able to complete the paper.

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

Question 1

> Question one was a very popular question. Most candidates could define opportunity cost and draw and explain a production possibility curve. Many answers were quite descriptive though and could not go beyond explaining the meaning of various points on the PPC.

> Good answers have used the PPC to explain the choices facing society and could give relevant examples to support their answers.

> A common mistake that many candidates made was to point out a point on the PPC, where there was supposedly equal production of both goods.

Question 2

> Question two was generally well answered. Most candidates who have attempted this question could explain how a buffer stock scheme functioned as well as draw a correct diagram with a price band.

> One common mistake was to swap the maximum and minimum price bands by labelling the upper price band as minimum price or price floor and the lower price band as maximum price or price ceiling. Some candidates could still explain the scheme despite this error, while others had the incorrect understanding that the scheme was a combination of a high price floor – where the government would buy surpluses - and a price ceiling, with shortages at lower prices. These responses tended to be rather confused and candidates were not able to address the main demands of the question.

> Some candidates used one target price as opposed to a price band/range, but could still explain the basic function of the scheme.

Question 3

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

A common mistake that candidates made in this question was in their explanation of the adjustment to the long run normal profit. Many have confused this market with perfect competition and argued that free entry/exit will result in shifts in market supply as opposed to the demand facing the firm.

Many candidates have failed to define relevant economic terms like short run, long run, abnormal and normal profit.

Few candidates have confused monopolistic competition with monopoly and have missed the point of the question.

Question 4

Question four was a popular question and was generally well answered. Most candidates have accurately defined inflation and explained the differences between cost-push and demand-pull inflation. Many responses have also shown good understanding of the underlying economic theories.

Some candidates seemed to believe that demand-pull inflation could only occur when AD increased beyond full-employment output, with inflation occurring without any addition to real output.
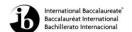
Question 5

Most candidates could explain at least in general terms what a single currency was. The Euro was used as an example and the Greek crisis was often used to discuss what could go wrong. It is noteworthy that many answers were quite basic and descriptive and could not go beyond saying that other members of the union will be negatively affected when a country is in debt, without being able to use economic theory to explain why.

Some answers were quite exceptional though, and candidates could explain the relevant theory as well as relate it to the crisis in Europe.

Question 6

Question six was not very well answered, as many candidates talked about development in very general terms, without addressing the question asked. Some candidates have tried to show that lower commodity prices will have very positive implications for developing countries and have mostly failed to identify the main demands of the question.

Recommendations and guidance for the teaching of future candidates

- The recommendations and guidance remains largely as in previous reports but it should be noted that this examination will no longer feature in future sessions.

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

- In preparing candidates for examinations the following are key points:

- Defining key terms or concepts: an implicit understanding of a concept is not enough – an explicit definition or explanation is required to effectively answer a question. This session the concept of single currency proved difficult for a number of candidates.

- Candidates often use past papers as a guide to what will appear on current papers; when something appears that has not been questioned for a long time they are at a loss. This has been particularly felt with question 5.

- Emphasis must be placed on the effective use of diagrams and examples. Diagrams are used to illustrate and explain the economic theory or concept being discussed. There must be in the response an explanation of the diagram used, and how it is helping to explain the theory/concept presented in the question. Candidates are also encouraged to give relevant examples whenever possible.

- Candidates should remain focused on the question and not go off on tangents simply to fill space.

- Cover the whole syllabus. This will be particularly important in future sessions as the external assessments in the new guide are designed to cover the entire syllabus. Candidates will not be able to answer the entire examination if they did not cover the whole syllabus.

Higher level paper three

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 8	9 - 17	18 - 24	25 - 32	33 - 39	40 - 47	48 - 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.

Evaluation in the final part (d) questions was often lacking; there is a tendency for candidates to provide lists of advantages and disadvantages or to paraphrase the texts 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.

It is important to remind teachers that this is the last examination of this particular syllabus, and the next examination session will follow a different format. Nevertheless, there will still be data response questions, and the advice given here will still be pertinent.

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. However, it may be observed that candidates seem to be better prepared to present accurate definitions.

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

Question 1

(a)(i)

This was generally well answered with most candidates explaining that they are taxes on goods and services, or expenditure/consumption taxes.

(a)(ii)

Weaker candidates explained that it was where a change in the price of a good led to a small change in quantity demanded, rather than a proportionately smaller change. A number of candidates described perfectly inelastic demand and stated that the quantity demanded would not change at all when price changed.

(b)

Most candidates were able to draw a negative externalities diagram, but too many failed to explain what a negative externality was and what the negative externalities involved in the consumption of unhealthy foods might be.

(c)

This was generally well answered. Most candidates either drew a diagram to show the effect of a tax on foods with a high fat content, and a fall in quantity demanded and supplied, or the effect on substitute products, with a rightward shift of the demand curve. They then explained that the tax would lead to a lower quantity demanded of high-fat foods, and so a higher demand for substitute products.

(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 theory of imposing indirect taxes, failing to evaluate likely consequences. Weaker responses seemed to think that indirect taxes shifted the demand curve to the left, misunderstanding the theory. Most of the effective evaluation included analysing the effect on demand for junk food and sugary drinks, considering its inelastic nature, and thus the effects on consumption and production.

Question 2

(a)(i)

This question was well-answered.

(a)(ii)

> This question was well answered. Many candidates managed to quickly draw a diagram. While this is, of course, not necessary, it can sometimes help especially if the candidates are non-native speakers.

(b)

> Where candidates read the question carefully, the answers were well done. In some cases, candidates failed to explicitly state that the determinant of supply was the costs of production. Unfortunately, many candidates did misread the question, and analysed the market for fodder instead of the market for milk.

(c)

> A common error in this question was to illustrate the kinked demand theory, which is not an appropriate model for a collusive oligopoly. It was possible for candidates to use this model, but only if they could say that the uncertainty associated with pricing created an incentive for the producers to collude. Better answers illustrated a monopoly earning abnormal profits, and explained that the producers would collude to set a high price and share the monopoly profits.

(d)

> This was a rather difficult text to understand, with many layers of producers addressed in the text. Weaker candidates framed their answer simply around the policy of the minimum price mentioned in the text without looking at any other policy or really understanding the context. There seemed to be too many answers that assumed that government intervention was necessary. Top answers questioned the need for any intervention given the fact that less costly milk appears to be readily available to consumers if they were to shop at the larger supermarkets.

Question 3

(a)(i)

> This was not very well answered, with candidates finding it difficult to be precise. Examiners gave full credit to appropriate explanations of the multiplier effect.

(a)(ii)

> This is a difficult term to define clearly, but there were many very good answers. A common error was to neglect the intermediate step of the rise in interest rates.

(b)

> There were many very sloppy diagrams of the Phillips curve where the curve became horizontal and parallel to the x-axis. Some even began to slope upwards. Candidates really should learn that the curve intersects the x-axis at the NRU. Many candidates

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drew a reasonably accurate curve but then neglected to actually use their diagram in their answer. They need to identify two points on the curve to be able to explain the inverse relationship. Full credit was given to answers that argued that the data supported the theory, and to answers that argued that the data did not support the theory, depending on the time frame in question. To gain the full marks, candidates obviously needed to justify their response with the data.

(c)

Many weaker candidates shifted the short run aggregate supply curve and did not refer to long term growth.

(d)

There were many pre-learned essays delivered on the merits and de-merits of fiscal policy. While such answers were able to score marks in the level 2 mark band, they did not necessarily show good understanding of the context, and therefore did not move beyond level 2. Another shortcoming was to discuss the advantages and disadvantages of fiscal policy in general, without linking it to the goal of reducing unemployment. There was a lot of information in the text; candidates needed to be able to develop elements of the theory rather than simply paraphrase the text and assume that policies would be effective.

Question 4

(a)(i)

A majority of the candidates who attempted this question were able to provide an accurate definition. A weakness was to neglect to refer to a 'sustained' fall.
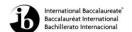
(a)(ii)

A majority of the candidates who attempted this question were able to provide an accurate definition.

(b)

Candidates were rewarded for either a macro approach (shifting SRAS) to the right, or a micro approach (shifting a supply curve to the right). The key issue was whether the labels on the axes matched the curves, and so weaker candidates may have been prevented from achieving full marks by using micro demand and supply curves with macro labels, or macro AD and SRAS with micro labels. This question was generally well done.

(c)

This question was generally well done, with most candidates aware of the link between a lower value of the lat and export revenues (or import expenditure) and made the link to an increase in AD. Errors occurred when candidates failed to actually

complete the analysis to say that an increase in AD would result in an increase in real output, and therefore economic growth. Some candidates did not read the question carefully, and drew exchange rate diagrams.

(d)

Many candidates seem to have read this question carelessly, and evaluated the outcomes of a devaluation of the lat, rather than the decision to maintain the value at the higher rate. There were however, some very good responses that showed excellent understanding of the situation facing the Latvian economy and the implications of the strong lat. Effective evaluation was shown by making a final judgement/conclusion about the decision to maintain the value of the lat, supported by the theory that had been developed within the answer.

Question 5

(a)(i)

There were some very vague responses here, with many candidates simply giving examples of infrastructure without explaining what it is. Better candidates explained that it is essential facilities (capital) (provided by the government) used to make economic activity possible.

(a)(ii)

Again, answers tended to be very vague here. Few candidates were accurate in explaining that it is money given by countries to international (or multinational) institutions which are distributed to developing countries.

(b)

There were many possible approaches here, including shifting the LRAS curve to the right, shifting a production possibilities curve outwards, shifting AD to the right, or using a poverty cycle diagram showing how investment in health and education facilities might break the cycle. All of these were accepted, if properly explained. Candidates seemed to either score well, or to have no idea how to answer the question. There was little in between.

(c)

This was generally answered well, with most candidates either identifying or illustrating a poverty cycle, beginning and ending with low incomes, and explaining the linkages between low incomes and the other elements of the identified cycle.

(d)

This was a generally poorly answered question. Candidates had a lot of scope in the question and could look at the effects on trade, through trade liberalisation, and/or the effects on development. There were a lot of suggested advantages and

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disadvantages for trade and development in the text, which could be used. However, in many cases, candidates did not use the text to any great effect and also failed to evaluate possible positive and negative effects. Responses tended to be short and general. In a lot of cases, it appeared that this area of the syllabus may not have been thoroughly covered 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 continue to 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 now the policy that candidates are not allowed to use coloured pens/pencils on their exams, so this should no longer be encouraged. However, they should be sure to use arrows to indicate the direction of change of any variables.

- Diagrams should be made appropriate to the question and/or the market in the question. For example, a question about the market for milk should have as its y-axis label, price of milk in Euros.

- 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 student can clearly use/apply that theory. Candidates need to show an examiner that they have studied an economics course, not simply that they can use some economic words that appear in a question or in the text. Teachers should instruct their candidates to take a few sentences to explain concepts that they bring up in their analysis for question (d). In question 3 for example, candidates would often bring up a problem, such as an increased budget deficit due to expansionary fiscal policy, but would not give any explanation as to why an increased budget deficit is a problem. When this happens, candidates look as though they have simply memorized a set list of issues, but do not demonstrate any depth of understanding of the topic.

- Candidates must be aware of the different ways that they can carry out the skill of evaluation. To start, candidates can be encouraged to discuss advantages and disadvantages of a particular economic 'event' or policy; they can look at an issue from the perspective of different stakeholders or they can consider the differences between short run and long run consequences. But it is not sufficient to just list advantages or disadvantages or to distinguish between the short run or the long run. For evaluation to be effective, it is necessary to make a reasoned and justified judgment regarding the information. In many cases, this will relate to the effectiveness or appropriateness of a particular policy decision.

- Theory provided in part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Candidates should be encouraged to really 'engage' with the case study, in order to be able to apply the theory.

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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 - 16	17 - 19	20 - 25

General comments

The response to this examination paper was generally positive from both centres and examiners. The questions were accessible and it was good to see a relatively equal balance of responses across questions 1 - 3 and a healthy number of answers to question 4. The overall standard of answers was pleasing with clear evidence of many centres responding positively to guidance given in previous exam reports. It was particularly pleasing to see more candidates using examples to support the points they were making in an answer.

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

The performance of candidates on the first three questions suggested there were no general weaknesses on the syllabus areas covered by these questions. However, the answers to question 4 suggested the development area continues to cause problems in terms of candidates writing answers that score well on the assessment criteria.

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

It is heartening to see many candidates reacting positively to the advice given in previous examination reports. Large numbers of candidates were answering questions using theory they clearly understood, illustrating the point made with appropriate diagrams, using effective examples and attempting to evaluate the points they made in part (b) questions. The increased use of examples is a clear improvement on previous sessions.

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

Question 1

(a)

This was generally well done by candidates who showed good awareness of the concept of merit goods. The best candidates focused on the under-allocation of resources which leads to market failure in this area. It was pleasing to see a clear application of the theory of positive externalities to explain under consumption of

merit goods and this was nicely supported with appropriate marginal social cost and benefit diagrams. The best candidates worked in effective examples often based on healthcare examples such as vaccinations. The theory needed here is quite technical and candidates need to be very precise in the way they explain market failure relating to merit goods and some of the weaker candidates struggled with this.

(b)

Part (b) also produced some good answers. Candidates ran through government policy options like subsidies, state provision, advertising and education. These approaches were often supported by good theory and effective diagrams. Many answers evaluated the points made by considering the cost and effectiveness of government programmes or by considering the difficulties establishing how much intervention is needed to achieve the socially efficient output. It would be good to see candidates also trying to evaluate their arguments by considering long and short term factors and the impact on different stakeholders.

Question 2

(a)

There were some good answers to this question with candidates' clearly defining and explaining demand deficient and structural unemployment. The best answers supported the explanations with appropriate examples and diagrams. There were, however, a number of candidates who confused the two types of unemployment with different types and causes such as frictional and seasonal unemployment. A few candidates also got bogged down with the concept of equilibrium and disequilibrium unemployment which made their answers confused and not clear on the distinction between demand deficient and structural unemployment.

(b)

There were some very good answers to this question with candidates focusing on the problems unemployment poses for a country in terms of the negative effects on the unemployed, loss of output of the unemployed, the negative impact on government finance, reduction in aggregate demand, the social consequences for communities and the impact on businesses if aggregate demand falls. Good answers would then evaluate these points by considering issues like the effect often depends on how long people are unemployed for, the number of people unemployed and the fact that some unemployment can help the economy. It was also good to see some answers that focused on the concluding theme of whether unemployment is the 'most serious problem' by considering other macroeconomic objectives like inflation, growth and income inequality. Some candidates had problems with focusing on the question and considered other macroeconomic objectives without relating them to the question asked or by looking in detail at policies to deal with unemployment which, again, was not answering the question. This question did illustrate the importance in essay answers of answering the question asked and not trying to write a pre-prepared answer.

Question 3

(a)

Question 3 was a popular questions and it produced some of the best answers on the paper. Good answers explained and defined the key elements of a free floating exchange rate and used demand and supply analysis to say how the value of the currency is determined in this system. Many candidates used effective diagrams and examples which were crucial in answering the question effectively. There were very few poor answers to this question because it tended to attract the strongest candidates.

(b)

Similar to part (a), part (b) produced some very good responses that clearly explained, analysed and evaluated the effect of depreciation in a country's exchange rate. The best answers considered the benefits of a depreciated exchange rate for domestic firms in export markets and domestic firms competing with imports. This could be developed by looking at the possible benefits for economic growth if net exports increase. Many candidates evaluated this effectively by considering the negative consequences of depreciating exchange rate on domestic businesses and consumers that rely on imports, domestic travellers overseas and increased inflationary pressure. It was also good to see some candidates evaluating the point on 'significant depreciation' as opposed to short term minor falls in the exchange rate. It is pleasing to see clear evidence in the answers to this question of improvements in the way exchange rates have been covered by centres.

Question 4

(a)

This was the least popular question on SL paper 1 and it generally produced the weakest answers of the four questions on the paper. The aim of the question was to consider the reasons why multinationals enter new markets in LDCs by looking at the opportunities for MNCs to access new markets with potential consumers, employ low cost labour, buy cheap raw materials and benefit from lower tax and less regulation in LDCs. By entering LDCs MNCs can use these benefits to increase profits. To score highly candidates needed to support the points made with theoretical analysis and examples which tends to be challenging in this type of question and is where many candidates struggled. The lack of relevant examples is always a weakness in answers to development questions and this was the case in this session as well.

(b)

Many candidates struggled with this question because they struggled to work in enough theory to support their answer. It was important for candidates to start by clearly explaining development and then to focus on the question by looking at issues like intense competition for domestic firms, environmental consequences, exploitation

of labour and natural resources, repatriation of profits, the dependency on MNCs, inappropriate technology and loss of domestic culture. These points needed to be supported by theory like market failure analysis to illustrate environmental consequences. To evaluate their answers candidates needed, for example, to say how low wages paid by MNCs might well be much higher than wages paid by domestic employers or to say how MNC might actually work to much higher environmental standards than domestic firms in LDCs. It would also be good to see candidates consider the long and short term implications of MNCs in LDCs and the effects MNCs have on different stakeholder groups.

Recommendations and guidance for the teaching of future candidates

This is the last standard level paper 1 where candidates will answer one question from four on each part of the syllabus. There are, however, approaches from this paper which can be used when the new standard level paper 1 is sat in May and November 2013.

Candidates will still need to:

- Define key economic terms accurately

- Apply appropriate microeconomic or macroeconomic theory

- Illustrate their answers with appropriate diagrams

- Support their answers with examples

- Evaluate the points they make in part (b) answers

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Standard level paper two

Component grade boundaries

Grade:	1	2	3	4	5	6	7
Mark range:	0 - 7	8 - 15	16 - 23	24 - 31	32 - 39	40 - 47	48 - 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.
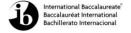
As is frequently the case, evaluation in the final part (d) questions was often lacking; there is a tendency for candidates to provide lists of advantages and disadvantages without coming to reasoned conclusions or making a judgment. Examiners do not expect a particular number of specified points to 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 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)

This was generally well answered with most candidates explaining that they are taxes on goods and services, or expenditure/consumption taxes.

(a)(ii)

Weaker candidates explained that it was where a change in the price of a good led to a small change in quantity demanded, rather than a proportionately smaller change. A surprising number of candidates described perfectly inelastic demand and stated that the quantity demanded would not change at all when price changed.

(b)

Most candidates were able to draw a negative externalities diagram, but too many failed to explain what a negative externality was and what the negative externalities involved in the consumption of unhealthy foods might be.

(c)

This was generally well answered. Most candidates either drew a diagram to show the effect of a tax on foods with a high fat content, and a fall in quantity demanded and supplied, or the effect on substitute products, with a rightward shift of the demand curve. They then explained that the tax would lead to a lower quantity demanded of high-fat foods, and so a higher demand for substitute products.

(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 theory of imposing indirect taxes, failing to evaluate likely consequences. Weaker responses seemed to think that indirect taxes shifted the demand curve to the left, misunderstanding the theory. Most of the effective evaluation included analysing the effect on demand for junk food and sugary drinks, considering its inelastic nature, and thus the effects on consumption and production.

Question 2

(a)(i)

Most candidates were able to suggest that these were illegal markets, but fewer were able to explain that they were markets where economic activity is not officially recorded (included in the calculation of GDP).

(a)(ii)

> Generally well answered. The usual weaknesses were the inability to state that it was a sustained increase, as opposed to an increase, in the general (average) price level, as opposed to prices.

(b)

> This was generally well answered, with candidates identifying the shortage (excess demand) that comes from the imposition of a maximum price and explaining the situation. Weaker candidates showed the maximum price as being above the equilibrium price or suggested some sort of buffer stock scheme.

(c)

> A surprising number of candidates were unable to explain and illustrate either a deflationary demand-side policy, or a supply-side policy, to reduce inflation. A number did suggest supply-side policies, but then showed shifts of the SRAS curve, as opposed to the LRAS curve, in their diagrams.

(d)

> Most candidates explained this quite well, but the main weakness was an inability to use the text. Stronger candidates did this and then evaluated the effectiveness of the price ceilings by weighing up the positive and negative outcomes resulting from their imposition. Weaker candidates wrote a theoretical essay on price ceilings and failed to apply or evaluate in any way.

Question 3

(a)(i)

> This was not well answered, with too many candidates being inaccurate and saying something like "exports are bigger than imports". Better candidates explained that it was either where revenue from the export of goods and services is greater than expenditure on the import of goods and services or where net exports of goods and services plus net investment income and net current transfers are greater than zero. Either explanation was acceptable.

(a)(ii)

> Generally well answered, with most candidates explaining that it is a policy that uses changes in government expenditure and taxes to influence aggregate demand. Weaker candidates only identified government expenditure or taxes, or wrote about monetary policy.

(b)

Candidates tended to take two approaches here. The first approach was to explain the cause of the German inflation, with a diagram showing demand-pull inflation, and further explaining that contractionary fiscal policy would reduce the inflation. The second approach showed the effect of contractionary fiscal policy, with a shift of the AD curve to the left, and explained that the original AD represented the economy under inflationary pressures and that the new AD represented the effect of the planned contractionary fiscal policy. Both approaches were fully rewarded if explained accurately. Weaker candidates did not understand the distinction between fiscal policy and other economic policies, and offered inappropriate solutions, such as monetary policy or supply-side policies.

(c)

This was generally well answered, with most candidates explaining that a depreciating currency makes exports cheaper and imports more expensive, thus increasing export revenue and decreasing import expenditure, leading to a growing current account surplus as (X-M) increases. Weaker candidates only identified the change in either export prices or import prices. The weakest candidates got the changes moving in the wrong direction and thought that export prices rose and import prices fell.

(d)

This was generally well answered, with most candidates explaining contractionary fiscal policy and its advantages and disadvantages, illustrating their answers with quotations from the text. As is often the case, weaker candidates wrote a theory essay and failed to use the text, or to evaluate. As stated earlier in part (b), a number of candidates simply did not understand the concept of fiscal policy and so were unable to give appropriate answers here.

Question 4

(a)(i)

Most candidates explained that it was the selling of a good in another country either below its average cost of production, or marginal cost of production, or below the price it sells for in the domestic market. All reasonable answers were accepted.

(a)(ii)

Most candidates explained that it was a fall in real GDP over two consecutive quarters. Some were too vague and omitted 'real', or failed to explain that there were a specified number of time periods and that they needed to be consecutive.

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(b)

This was generally well answered, with most candidates able to draw a diagram showing the imposition of a quota and for explaining effects (two) on the market for car wheels, such as an increase in price, an increase in domestic production, a fall in imports, or a fall in the consumption of car wheels. Weaker candidates simply did not know how to show a quota, many opting to draw a tariff diagram instead.

(c)

This was generally well answered, with most candidates explaining that the recession would lead to lower incomes and thus lower demand for cars and car wheels and providing an appropriate diagram. Weaker candidates drew AD/AS diagrams and tried to explain what a recession was, rather than directly answering the question.

(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 weighing up the likely costs and benefits. They seemed to be very comfortable with the concept of tariffs. However, many candidates ignored the exact question set and wrote in general about the possible effects of imposing tariffs on the world economy, or China, as opposed to the European economies, as requested. Weaker candidates simply attempted to draw the tariff diagram and explain it, with no reference to the text.
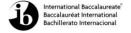
Question 5

(a)(i)

There were some very vague responses here, with many candidates simply giving examples of infrastructure without explaining what it is. Better candidates explained that it is essential facilities (capital) (provided by the government) used to make economic activity possible.

(a)(ii)

Again, answers tended to be very vague here. Few candidates were accurate in explaining that it is money given by countries to international (or multinational) institutions which are distributed to developing countries.

(b)

There were many possible approaches here, including shifting the LRAS curve to the right, shifting a production possibilities curve outwards, shifting AD to the right, or using a poverty cycle diagram showing how investment in health and education facilities might break the cycle. All of these were accepted, if properly explained. Candidates seemed to either score well, or to have no idea how to answer the question. There was little in between.

(c)

> This was generally well answered, with most candidates either identifying or illustrating a poverty cycle, beginning and ending with low incomes, and explaining the linkages between low incomes and the other elements of the identified cycle.

(d)

> This was a generally poorly answered question. Candidates had a lot of scope in the question and could look at the effects on trade, through trade liberalisation, and/or the effects on development. There were a lot of suggested advantages and disadvantages for trade and development in the text, which could be used. However, in many cases, candidates did not use the text to any great effect and also failed to evaluate possible positive and negative effects. Responses tended to be short and general. In a lot of cases, it appeared that this area of the syllabus may not have been thoroughly covered 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 student 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.