MARKSCHEME

May 2000

ECONOMICS

Higher Level

Paper 3

16 pages

SECTION A

Question 1:   Aid/Capital flows

			Partial Mark	Maximum Mark

(a) (i)   For just defining economic growth in terms of increased output over time.   **1**

For explaining zero growth in terms of no increase in output over a given time period.

2

(ii)   Allow *[1 mark]* for a basic definition and a second for some expansion, *e.g.*

liberalisation - along the lines of allowing the maximum operation of market forces   **1**

financial liberalisation - along the lines of opening economies to unrestricted flows of finance capital.   **1**

2

(b) (i)   Give *[1 mark]* to candidates who give one reason *e.g.*
- cuts by western governments in public spending   **1**
- predominance of free market arguments against aid   **1**
- establishment of trading blocs and severing of aid programmes.   **1**
Give up to *[2 marks]* for further explanation.   **2**

3

(ii)   Give *[1 mark]* each for candidates who give up to *two* reasons, *e.g.*
- debt problems   **1**
- provision of basic needs   **1**
- inability to attract private capital   **1**
- inadequate domestic savings and investment *etc.*   **1**
Give up to *[1 mark]* each for further explanation of either point.   **1**

4

(c) (i)   For just identifying relevant points from the passage allow *[1 mark]* per point to a maximum of *[3 marks]*
- the Tobin Tax   **1**
- deposits in the central bank   **1**
- allowing the free movement of capital   **1**
- strengthening of banking systems   **1**

For further explanation of any point moving beyond the passage   **2**

For discussion of any other relevant points   **3**

if the discussion is just confined to either deregulation or re-regulation a maximum of *[4 marks]* should be awarded - for *[6 marks]* both need to be addressed.   **4**

6

<div align="right">Partial Maximum
Mark Mark</div>

(ii) Possible points might include:
distinction between direct and financial investment
- exchange rate effects
- balance of payments effects
- impact on growth
- impact on employment
- private capital flows as a supplement to official aid
- arguments against private capital flows in terms of inward-orientated strategies of development; *e.g.* greater role of state, limitations on market forces, drawbacks of comparative advantage, ill effects of foreign control and ownership of economy *etc.*
- arguments for private capital flows in terms of outward-orientated strategies of development, *e.g.* encouragement of foreign investment, belief in market forces, minimum role for state, belief in integration into world markets *etc.*

		Partial Mark	Maximum Mark
Level 0	No valid discussion		**0**
Level 1	Very few relevant issues recognised, with little or no valid discussion	**1-2**	
Level 2	A few issues recognised with some attempt at discussion	**3-5**	
Level 3	A range of issues discussed in reasonable depth. Good use made of the passage	**6-8**	

SECTION A

Question 2: Spain: Main Economic Indicators

		Partial Mark	Maximum Mark

(a)   For candidates who

simply state that it refers to national income	**1**	
give a more precise definition along the lines of 'it is the value of goods and services produced within domestic boundaries, *i.e.* not including property income.'	**2**	
		2

(b)   (i)   For candidates who

note that the data indicates that there is an inverse relationship/negative correlation/lagged relationship/not a very strong relationship	**1**	
justify this relationship by making appropriate reference to the data	**2**	
explain that this relationship is plausible because firms		
• borrow to invest/interest is a cost of borrowing/MEC	**2**	
• finance investment from retained profits and the interest rate is the return the firm could earn by banking those funds	**2**	
cast doubts over this relationship by pointing out that it can be		
• interest elastic	**2**	
• highly unstable	**2**	
		5

(ii)   For candidates who

indicate that the data suggests a direct relationship/positive correlation	**1**	
justify this relationship by making appropriate reference to the data	**2**	
explain that this relationship may exist because investment is a component of GDP, hence the reason why they increase/decrease together	**3**	
discuss the multiplier effect that an increase in investment has on aggregate demand and output	**3**	
explain that an increase in GDP could cause an increase in capital formation if consumer demand increases (i.e. the accelerator)	**3**	
explain that an increase in GDP indicates increasing prosperity and the ability to finance investment	**3**	
explain that an increase in GDP could improve firm's expectations about future market conditions and stimulate investment	**3**	
explain that increases in capital formation help to increase productivity and have a supply side impact that allow increases in GDP	**3**	
		5

	Partial Mark	Maximum Mark

(c)   Allow *[1 mark]* per point up to a maximum of *[2 marks]* for candidates who mention any of the following points:

• profitability of firms	1	
• rate of technological change	1	
• level of demand and spare capacity	1	
• fiscal incentives for private investment	1	
• government expenditure and public investment	1	

Give *[1 mark]* per point mentioned for further explanation of each point and an additional *[1 mark]* for further explanation of each point.

	2	

Candidates could also explain that it might be useful to know the importance of the different components of fixed capital formation in order to see how those could be influenced by different factors.

	2	
		4

(d)   Given the nature of the question the marking scheme cannot be too prescriptive but, in order to score full marks, candidates are expected to make some evaluative judgement about the Spanish economy by making at least some reference to all the main indicators given. Candidates should **describe** the changes in the main indicators provided, *e.g.* unemployment has increased from an already very high level, the rate of inflation has fallen, the balance of payments has improved. Better answers will make **judgements** from these changes about the performance of the economy and perhaps attempt to discuss possible relationships between them, *e.g.* a possible Phillips curve relationship between unemployment and inflation; the improvement in the balance of payments being consistent with the rise in unemployment; the question of unemployment being cyclical or structural *etc.*

Candidates who acknowledge that the changes are in line with the efforts of the Spanish government to meet the Maastricht criteria should obviously be generously rewarded, but this reference is not essential.

Answers might include an element of value judgement. Where this is supported by reference to relevant economic theories, answers should be generously rewarded.

Level 0 No valid discussion	0	
Level 1 Very few relevant issues recognised with little or no valid discussion	1-3	
Level 2 A few issues recognised with some attempt at discussion or just one issue developed fully	4-6	
Level 3 A range of issues discussed in reasonable depth.	6-9	

Marking Criteria, Section B

Use these guidelines as a general basis for awarding marks.

The candidate's answer should be placed in the band where the majority of descriptors correspond to the candidate's work.

See the mark grid for the range of marks available at each band.

Band 4A:
Excellent knowledge of the content of the HL syllabus.
Excellent expression, use of examples and critical approach.
Evidence of thorough understanding of major relevant issues, and accurate use of economic principles.
Where appropriate: a good appreciation of alternative points of view, and some higher order skills, such as analysis/evaluation.
Well organised, cogent, succinct, well informed.
Not necessarily a perfect answer, but as good as could reasonably be expected by a candidate at this level under these circumstances.

Band 4B:
Very good knowledge of the content of the HL syllabus.
Very good expression, use of examples, and critical approach.
Evidence of confident understanding of relevant issues and economic principles.
Where appropriate: some appreciation of alternative points of view, and/or some analysis, and/or some evaluation.
A clear and direct answer to the question.
Well argued with no major errors.

Band 3:
Good knowledge of the content of the HL syllabus.
Good expression and use of examples.
Evidence of clear understanding of relevant issues and economic principles; there may be some errors or confusions, but these are minor.
Ability to use economic models confidently, and/or apply economic concepts to answer the question.
Generally well organised and effectively communicated.
Some lapses in the logical argument may be present, but not too much to spoil the overall impression.

Band 2:
Satisfactory knowledge of the content of the HL syllabus.
Reasonable expression and use of examples.
A few issues recognised.
Some evidence of familiarity with basic economic models/principles, but there may be some confusion.
Some concepts may be understood, others misunderstood.
The organisation of material might be disjointed, and there might be a lack of lucidity/fluency, but the general message is communicated.
Relevant points might be mentioned, but not developed properly or explained clearly.
In the lower part of this band, some irrelevancies might be discussed at some length, and/or quite important material might be omitted, as long as some points of substance are discussed.
Answers with a number of relevant points which are presented in 'note' or 'list' form might reach the top of this band depending on the quality of the points made.

Band 1:
Weak knowledge of the content of the HL syllabus.
Poor expression and use of examples.
Issues discussed tend not to be central ones/central issues are misunderstood.
Minimal evidence of familiarity with basic economic models/principles; often an impression will be given of a use of general knowledge rather than a systematic training in Economics.
Essays not answering the question set will usually be in this band, as may severe cases of parrot-learning/pre-learned answers written regardless of the question/excessively short, note-like answers; but they may enter the band above depending on the extent of the irrelevancy and the quality of the answer.

Band 0:
Very weak or inadequate knowledge of the content of the HL syllabus.
Inadequate expression and use of examples.
Understanding of issues is not evident.
No evidence of any useful familiarity with economic models/principles.
Something of relevance might be mentioned, and receive some of the few marks available, but there are major points of confusion.
Poorly organised to the point of being incoherent.

BRIEF BAND DESCRIPTOR (Also refer to detailed criteria)	BAND	FOR QUESTION/SUB-QUESTION						
		25	15	13	12	10	9	8
Excellent	4a	24-25	14-15	12-13	12	10	9	8
Very Good	4b	20-23	12-13	10-11	10-11	8-9	7-8	7
Good	3	15-19	9-11	8-9	7-9	6-7	5-6	5-6
Satisfactory/adequate	2	10-14	6-8	5-7	5-6	4-5	4	3-4
Weak	1	5-9	4-5	3-4	3-4	2-3	2-3	2
Very Weak	0	0-4	0-3	0-2	0-2	0-1	0-1	0-1

MARKING GRID: IB ECONOMICS, MARKBANDS AND RANGES; PAPERS SL2, HL3 SECTION B (ESSAYS)
Read the band descriptors (detailed marking criteria) before using this grid

Section B Essays: Paper-Specific Guidance

The following comments are intended to provide extra guidance to Assistant Examiners, but they are not meant to be a 'straitjacket'.

They are meant to indicate some of the main points which the question-setter hoped to elicit, and/or indicate sensible approaches; however, it is often possible for candidates to respond to a question in a way which is unanticipated and yet which contains valid economic arguments, so please keep an open mind.

THE GENERAL MARKING CRITERIA REMAIN THE MAIN BASIS FOR AWARDING MARKS.

SECTION B

Question 3

(a)   <u>Law of demand</u>
Definitions of the law of demand that do not make reference to the 'time period' and 'ceteris paribus' (other things being equal) are technically incorrect and should only be given partial credit.

<u>Movements along the demand curve</u> are caused by price changes
- a price increase will bring about a contraction of demand
- a price fall will bring about an extension of demand

Shifts of the demand curve are caused by changes in various factors including the following:
- tastes
- the number and price of substitute goods
- the number and price of complementary goods
- income
- distribution of income
- expectations of future price increases
- the time period under consideration   ***[10 marks]***

(b)   (i)   <u>The market for cars</u>
Candidates could
- note that the increase in the price of petrol will cause a contraction in the demand for petrol
- consider the likely effect on the quantity demanded of petrol given the price elasticity of demand for petrol
- state that petrol and cars are complements or in joint demand
- state that the increase in the price of petrol will bring about a shift to the left of the demand curve for cars
- consider the importance of cross price elasticity of demand
- provide accurate diagrams illustrating the effects on the market price of cars

(ii)   <u>The demand for coal</u>
Candidates could
- state that petrol and coal are substitutes
- recognise that the increase in the price of petrol will bring about a shift to the right of the demand curve for coal
- consider the importance of cross price elasticity of supply for coal
- provide accurate diagrams illustrating the effects on the market price of coal.   ***[15 marks]***

N.B. Mark parts (b)(i) and (ii) together and use the mark band descriptor for ***[15 marks].***

Question 4

(a)   <u>Monopoly price and output</u>

Relevant points might include:

- definition of monopoly
- explanation of 'socially ideal', perhaps in terms of different aspects of efficiency
- monopoly equilibrium diagram
- explanation of monopoly equilibrium
- equilibrium in perfect competition
- comparisons between perfect competition and monopoly.   *[12 marks]*

(b)   <u>'Victim' of monopoly</u>.

Areas of discussion could include:

- higher prices and consumer surplus
- redistributive effects of monopoly pricing
- impact on choice and quality
- importance of productive and allocative efficiency
- possibility of economies of scale and lower prices
- impact of dynamic efficiency under monopoly
- importance of research and development
- importance of abnormal profits, level of certainty and investment
- natural monopolies and public utilities
- domestic monopolies versus international monopolies in areas of
- national importance
- dynamic efficiency under monopoly.   *[13 marks]*

Question 5

(a)   <u>Problems of measuring the national income</u>

Relevant points might include:

- definition of national income
- inadequate information, *e.g.* because of tax evasion and the parallel/hidden economy
- the problem of double-counting
- the subsistence/non-money part of the economy
- valuation of government services
- allowances for market prices/factor cost, property income,
- imports/exports
- the problem of timing *etc.*   *[10 marks]*

(b)   Issues and areas for discussion could include:

- definition of living standards
- the need to use real GDP (GDP at constant prices) to take inflation into account
- the need to use purchasing power parities which compare living costs
- the distribution of income
- the impact of externalities
- production does not equal consumption (the composition of output)
- the size of the informal economy
- the production of de-merit goods
- non-marketing goods
- living standards influenced by wealth not just income
- tastes and needs may be different in different countries
- degree of accuracy of data varies between countries
- living standards also influenced by factors such as human rights, democracy, *etc.*
- composite indexes provide a broader measure of living standards, *e.g.* HDI (literacy and health), HPI, GEM (gender empowerment) *etc.*   *[15 marks]*

Question 6

Areas for discussion could include:

- definitions of economic growth/sustainable development
- conceptions of development, *e.g.* industrialisation, urbanisation, social needs *etc.*
- indicators of development (*e.g.* GDP, GNP, HDI, GPI, GEM *etc.*)

- environmental costs of economic growth
    - pollution
    - land degradation
    - deforestation
    - ozone depletion
    - hazardous processes
    - depletion of non-renewable resources

- Effects that different income groups have, through their different consumption patterns, on the environment
    - urban against rural dwellers
    - large landowners versus marginal peasants
    - consumers from more developed countries compared with more populous but less affluent consumers from less developed countries

- Role of multinational corporations
    - exporting hazardous practices and materials to less developed countries (*e.g.* pollution in the Rio Grande region in Mexico, Bhopal in India, *etc.*)

- Global economy
    - higher level of debt associated with high levels of environmental degradation
    - World Bank and IMF policies, *e.g.* structural adjustment policies and Export Oriented Industrialisation encourage the export of natural resources

- Global solutions
    - an awareness of the Earth Summit in Rio and the Kyoto convention
    - GEF
    - global concerns

- Perspectives on the environment
    - neo-liberal (*e.g.* markets in tradeable emissions permits)
    - difficulties with pricing the future and applying traditional market concepts to non-renewable resources
    - sustainable development (*e.g.* Brundtland Commission definition)
    - anti-development (*e.g.* Sachs' view that sustainable development is merely the repackaging of traditional views of economic growth)   *[25 marks]*