

MARKSCHEME

November 2000

ECONOMICS

Standard Level

Paper 2

SECTION A

Question 1

	Partial Mark	Maximum Mark
(a) (i) Price support measures: agreement on quotas to limit supply setting up minimum prices buffer stock arrangements	2 2 2	3
(ii) Excessive volatility: mention of short run demand and supply inelasticity can earn <i>[2 marks]</i> or a diagram showing steeply sloping curves and large price movement with explanation for <i>[2 marks]</i>		2
(iii) Self imposed quota: explanation or diagram showing how voluntary limit on exports can raise prices. Good answers may mention the temptation to run over the quota. For saying that the quota is imposed by the country themselves <i>[1 mark]</i>		3
(b) For a correct diagram <i>[2 marks]</i> . For an explanation that the fall in supply will lead to an increase in price and so a decrease in demand <i>[2 marks]</i> . Answers without diagrams no more than <i>[1 mark]</i> .		4
(c) Able students will challenge the assumption: price and volatility are the verdict of the market, not at odds with it. The known presence of stocks overhanging the market will depress price. Students who list the determinants of supply and demand relate them to the coffee market up to <i>[4 marks]</i> .		4
(d) Within the text, Difficulty of maintaining co-operation between so many producers 'No independent policing,' <i>i.e.</i> no means of enforcement of quotas. 'The market is sceptical that it will actually happen' <i>i.e.</i> confidence in members is lacking 'Others will happily step in,' <i>i.e.</i> market coverage is incomplete 'Brazil exported 3m bags above its self imposed quota,' <i>i.e.</i> cheating. Evaluation of difficulties, even only two, should score a minimum of <i>[5 marks]</i> .	2 2 2 2 2	8

SECTION A

Question 2

	Partial Mark	Maximum Mark
(a) (i) Quarterly percentage change in Japan's GDP has been negative three times since 1997 Q2	2	
Give credit if students can provide some definition of recession.	2	
For a correct definition [2 marks]. For identifying the correct point in the graph [2 marks].		3
(ii) Give a mark for mention and some understanding of measures of unemployment	1	
consumption	1	
business confidence	1	
investment	1	
income		4
and any other indicator of actual output. Full explanation =2	1	
(b) (i) A fiscal stimulus package might include	1	
reduced taxes	1	
increased government spending	1	2
budget deficit		
(ii) the package might be expected to increase aggregate demand as government spending provides more private sector income	2	
lower taxes increase disposable income	2	
the multiplier effect	2	4
Diagrams should be rewarded		
(c) The supply and demand diagram must incorporate understanding of how an exchange rate is determined. Action by central banks will involve selling dollars to buy yen,- shown by a shift in the demand curve for yen	2	
which results in a smaller number of yen per dollar (144 to 138)	2	
Reserve top marks for well labelled, calibrated and explained diagrams	2	5
(d) Japan's recession will reduce demand for exports from Europe and the USA	3	
The yen's (and other Asian currencies') depreciation will make	2	
-Asia's exports cheaper driving western exports out of third markets	2	
and increasing their penetration of Europe and the United States	2	
-western exports more expensive in Japan further reducing them	2	8
Heightened danger of protectionism and trade wars		
Withdrawal of overseas investment as international trade declines		
Any other relevant points		

SECTION B

General note Questions 3-6: In order to reach the highest level, i.e. 4a on the Marking Bands, candidates must use real life examples.

Question 3:

Discuss the view that government intervention in a mixed economy is both unnecessary and undesirable. **[25 marks]**

It needs to be clear from the answer that the candidate understands the nature of a mixed economy. Meaning of government intervention is required.

In the latter part of the essay, arguments might include

- public goods
- environmental spillovers
- income inequality
- macro instability
- rise of monopolies

In order to score highly, the essay might examine both sides of government intervention and may make use of MSC/MSB, Lorenz and Business Cycle diagrams.

Question 4:

(a) Briefly explain the main economic policy objectives of governments. **[10 marks]**

Full marks to candidates who discuss the four objectives of price stability, reducing unemployment, adequate economic growth and external equilibrium.

(b) Discuss the way fiscal policy might be used to achieve these objectives. **[15 marks]**

Discussion might include:

- Defining fiscal policy (G and T)
- Formulating different policies for differing objectives
- Graphing the impact of policy with AS and AD curves

Better answers might combine economic theory with the actual operation of fiscal policy in various mixed economies.

Question 5:

- (a) **Explain the factors which determine freely floating exchange rates.** *[10 marks]*

The answers should include a definition of freely floating exchange rate.

Demand and supply factors determining freely floating exchange rate might include:

- Desire for exports
- Long term capital flows
- Short term capital flows
- Medium of exchange
- Speculation

High scoring essays might include graphs and a discussion of both demand and supply.

- (b) **Discuss the view that an appreciation of the exchange rate is always beneficial and a depreciation is always harmful.** *[15 marks]*

Definition of appreciation and depreciation.

Possible benefits of appreciation might include:

- cheaper imports
- higher living standards
- lower inflation rate
- more capital inflow
- expansion of plant and equipment

Possible costs of appreciation might include:

- more expensive exports
- contraction of export industry
- increased unemployment
- future debt repayment

Possible benefits of depreciation might include:

- cheaper exports
- increased foreign markets
- expansion of export industries
- increased employment

Possible costs of depreciation might include:

- more expensive imports
- higher production costs
- inflation increase
- capital outflow

High marks should be awarded only to candidates who evaluate both sides of the appreciation and depreciation and who use the examples in their answer.

Question 6:

(a) Explain *three* major barriers to the development of Less Developed Countries.

[12 marks]

Relevant elements would include an awareness of the nature of economic development and LDCs.

Possible barriers might include:

- vicious circle of poverty
- dual economy
- political factors
- administrative factors
- social and cultural obstacles
- population
- international trade patterns
- foreign debt

(b) Discuss possible strategies which could be adopted to overcome the previously identified barriers.

[13 marks]

Discussion might differentiate between inward and outward orientated strategies.

Points discussed might include:

Inward	Outward
Infant industry	Exposure to world competition
Protectionism	Comparative advantage specialisation
Disadvantages of specialisation	Benefits of FDT/MNC
Dole of government	Deregulation advantage
Preventing dependency on FDT	Market successes

However, this is only one possible approach to the question.

Higher scoring essays will evaluate the alternative strategies, will indicate the need to consider non-economic factors and will provide examples of countries using different strategies.

MARKING GRID: IB ECONOMICS, MARKBANDS AND RANGES; PAPERS SL2, HL3 SECTION B (ESSAYS) Read the band descriptors (detailed marking criteria) before using this grid								
BRIEF BAND DESCRIPTOR (Also refer to detailed criteria)	BAND	MAXIMUM MARK 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