



MARKSCHEME

November 2005

ECONOMICS

Standard Level

Paper 2

*This markscheme is **confidential** and for the exclusive use of examiners in this examination session.*

*It is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of IBCA.*

Paper Specific Markscheme

In addition to the assessment criteria use the paper-specific markscheme below. Award up to the maximum marks as indicated.

1. (a) Define the following terms indicated in bold in the text: **[2 marks]**

(i) **economic development (paragraph 2)**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**
The idea that it is an improvement in the quality of life.

2 *Precise definition* **2**
An explanation that it is an improvement in welfare measured from a number of viewpoints, such as monetary measures, health measures, education measures, and any other appropriate measures.

(ii) **Gross Domestic Product (figure 1).** **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**
The idea that it is a measure of a country's productive value.

2 *Precise definition* **2**
An explanation that it is a measure of output in the economy in one year. (Candidates may express their answers in income or expenditure terms and, if so, these responses should be fully rewarded.)

(b) Using an appropriate diagram, explain the effect of the improvement in the literacy rate on economic growth, as shown in the data. [4 marks]

level

- | | | |
|---|---|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled production possibility curve (PPC), where the curve shifts outwards (or for an LRAS curve doing the same thing) or for providing an explanation of how Tanzania may shift its PPC (or LRAS) by increasing the quality of labour by improving literacy. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled production possibility curve (PPC), where the curve shifts outwards (or for an LRAS curve doing the same thing) and for providing an explanation of how Tanzania may shift its PPC (or LRAS) by increasing the quality of labour by improving literacy. | 3-4 |

(c) Explain why the importance of agriculture in Tanzania may result in the change in the terms of trade suggested in the text. [4 marks]

level

- | | | |
|---|---|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For identifying that the terms of trade measures the relationship between import prices and export prices. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For identifying the fact that Tanzania's main exports are agricultural and for explaining that agricultural prices have fallen and so this would lead to a deterioration in the terms of trade. | 3-4 |

- (d) Using the data and your knowledge of economics, evaluate measures that could be taken to achieve development in Tanzania. [8 marks]**

Responses may include:

- GDP per capita is rising, but this is not development
- investment in human capital
- trickle down may be introduced
- literacy rates are improving, but from a low base. Thus, they would make a good priority
- privatisation may help, but there are associated problems
- the HIV/AIDS problem has implications
- corruption needs to be addressed
- access to safe water is a problem and has implications
- undernourishment is a problem and has implications
- any reasonable answer.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

2. (a) Define the following terms indicated in bold in the text: [2 marks]

(i) maximum price (*paragraph 5*)

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is a price above which the market is not allowed to go.

2 *Precise definition* 2

An explanation that a maximum price is imposed by the government and is set below the equilibrium price. An appropriate diagram is enough.

(ii) cross elasticity of demand (*paragraph 6*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is the relationship between the demand for one good when there is a change in the price of another good.

2 *Precise definition* 2

The responsiveness of the demand for one good to a change in the price of another good. A correct formula is enough.

(b) Using a supply and demand diagram, explain why there was an “excess supply of chicken in the market” (paragraph 4). [4 marks]

level

- 0 *Inappropriate answer* 0
- 1 *Identification of appropriate theory* 1-2
For drawing a correctly labelled demand and supply diagram, where demand has shifted to the left and there is now an excess of supply (or for any other suitable diagram) **or** for providing an explanation of how demand for chicken has fallen because of the avian flu and that now, more will be supplied than demanded.
- 2 *Correct application of appropriate theory* 3-4
For drawing a correctly labelled demand and supply diagram, where demand has shifted to the left and there is now an excess of supply (or for any other suitable diagram) **and** for providing an explanation of how demand for chicken has fallen because of the avian flu and that now more will be supplied than demanded.

Better candidates may refer to the imposed price or may use figures from the text and a perfectly inelastic supply curve set at 1.1 million chickens, but this is not necessary for full marks.

(c) Using an appropriate diagram, explain the likely effect of importing higher priced baby chicks from Australia and the EU, on the market for chickens. [4 marks]

level

- 0 *Inappropriate answer* 0
- 1 *Identification of appropriate theory* 1-2
For drawing a correctly labelled supply and demand diagram, with supply shifting to the left and so a higher price and lower quantity demanded and supplied (but any suitable diagram should be rewarded) **or** for explaining that an increase in the price of chicks is an increase in a raw material cost, which should lead to fewer chickens being supplied at a higher price.
- 2 *Correct application of appropriate theory* 3-4
For drawing a correctly labelled supply and demand diagram, with supply shifting to the left and so a higher price and lower quantity demanded and supplied (but any suitable diagram should be rewarded) **and** for explaining that an increase in the price of chicks is an increase in a raw material cost, which should lead to fewer chickens being supplied at a higher price.

(d) Using information from the text and your knowledge of economics, especially elasticity of demand, evaluate the economic situation facing the chicken farmers and consumers of chicken.

[8 marks]

There is a lot of information in the text, some of which may be included in the answer

- chicken farmers may be vulnerable to demand and supply-side shocks
- the elasticity of demand for processed chicken may be calculated and is $10\%/20.00\% = 0.5$
- the elasticity of demand for live chickens may be calculated and is $10\%/20\% = 0.5$
- in both cases, the demand is inelastic
- this means that if producers wish to increase their revenue, then it would be better to raise their prices rather than lower them
- the farmers are acting as a cartel and so should be able to control supply and thus price
- there may be competition from imports, especially if price rises
- the reaction of the 20% of the non-cartel suppliers may be important
- the imposition of the maximum price poses some interesting problems
- aggressive marketing may be necessary and this may be costly
- cross elasticity of demand and suppliers of substitutes may be a factor
- consumers benefit from lower prices
- consumers gain an increase in real income
- consumers' demand for beef and lamb may be affected
- any reasonable answer.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

3. (a) Define the following terms indicated in bold in the text and data: [2 marks]

(i) **unemployment rate**

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is the number of people claiming benefits or who do not have a job.

2 *Precise definition* 2

An explanation that it is the number of people unemployed or claiming benefits, divided by the number in the labour force $\times 100$, i.e. that it is expressed as a percentage.

(ii) **current account (figure 3).** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is exports minus imports.

2 *Precise definition* 2

An explanation that it is a measure of the revenues earned from the export of goods and services minus the expenditure on imports of goods and services. (Allow alternative terminology. Some candidates may add interest, dividends and profits, but this is not necessary for full marks.)

(b) Using a production possibility curve, explain how Austria might “boost its potential growth”. [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2

For drawing a correctly labelled production possibility curve (PPC), where the curve shifts outwards (or for any other appropriate PPC) **or** for providing an explanation of how Austria may shift its PPC by increasing the quantity and/or quality of its factors of production.

2 *Correct application of appropriate theory* 3-4

For drawing a correctly labelled production possibility curve (PPC), where the curve shifts outwards (or for any other appropriate PPC) **and** for providing an explanation of how Austria may shift its PPC by increasing the quantity and/or quality of its factors of production.

(c) Using an appropriate diagram, explain the relationship between consumer prices and unemployment in Austria from 2001 to 2002. [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2

For drawing a correctly labelled AD/AS diagram or Phillips Curve (but any suitable diagram should be rewarded) **or** for explaining that inflation is falling over the period and unemployment is rising, suggesting an inverse relationship.

2 *Correct application of appropriate theory* 3-4

For drawing a correctly labelled AD/AS diagram or Phillips Curve (but any suitable diagram should be rewarded) **and** for explaining that inflation is falling over the period and unemployment is rising, suggesting an inverse relationship.

N.B. The Phillips Curve is not in the SL syllabus and so it should not be expected.

(d) Using information from the text, the diagrams, and your knowledge of economics, evaluate the performance of the Austrian economy. [8 marks]

Responses may include:

- Austria’s GDP growth tracked the OECD levels for the first two years, but is now lower and, even though it is rising, this could be a problem
- comment on relative growth rates
- the improvement of Austria’s current account balance and the fact that the OECD figure has not improved
- Austrian inflation rates are now a little below the OECD
- unemployment levels are much lower in Austria, although relatively high for the country
- ageing population is putting a strain on the taxpayers
- attempts to raise labour force participation rate, *e.g.* raising the retirement age
- possible privatisation of the service industries
- any reasonable answer.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

4. (a) Define the following terms indicated in bold in the text: [2 marks]

(i) monopolistic competition (paragraph 1)

level

0 Wrong definition 0

1 Vague definition 1
The idea that there are lots of firms.

2 Precise definition 2
An explanation that there are many buyers and sellers, producing differentiated products, with no barriers to entry.

(ii) recession (paragraph 2). [2 marks]

level

0 Wrong definition 0

1 Vague definition 1
The idea that it is a fall in economic activity.

2 Precise definition 2
At least two consecutive quarters of negative economic growth.

(b) Using a supply and demand diagram, explain why the price of Brazilian furniture might be expected to rise in the future (paragraph 3). [4 marks]

level 0

0 Inappropriate answer

1 Identification of appropriate theory 1-2
For drawing a correctly labelled demand and supply diagram, where demand is shifting to the right, causing price to rise (or for any other suitable diagram) or for providing an explanation of how demand for Brazilian furniture seems to be increasing in the US and so we would expect the price of the furniture to rise.

2 Correct application of appropriate theory 3-4
For drawing a correctly labelled demand and supply diagram, where demand is shifting to the right, causing price to rise (or for any other suitable diagram) and for providing an explanation of how demand for Brazilian furniture seems to be increasing in the US and so we would expect the price of the furniture to rise.

(c) **Using an appropriate diagram, explain what type of unemployment is occurring in the US furniture industry (paragraph 4).** **[4 marks]**

level

0 *Inappropriate answer* **0**

1 *Identification of appropriate theory* **1-2**

For drawing a correctly labelled diagram, which might be a supply and demand diagram with demand shifting to the left and thus a fall in output and so employment (but any suitable diagram should be rewarded) **or** for explaining that there has been a change in the structure of the economy and that the unemployment is structural unemployment.

2 *Correct application of appropriate theory* **3-4**

For drawing a correctly labelled diagram, which might be a supply and demand diagram with demand shifting to the left and thus a fall in output and so employment (but any suitable diagram should be rewarded) **and** for explaining that there has been a change in the structure of the economy and that the unemployment is structural unemployment.

(d) Using information from the text and your knowledge of economics, evaluate the view of the American Furniture Makers Association that tariff barriers should be placed upon furniture imports.

[8 marks]

Candidates may take a very one-sided view and it would be impossible to move their responses beyond Level 2. Better responses will realise that there are counter arguments to all the points that may be raised in favour of, and against, protectionism.

Answers may include:

Reasons for tariffs:

- 47 000 job losses already
- protection of employment
- protection of a sunset industry
- the advantages of a gradual, controlled decline
- unfair trading practices (low wage production)
- the problems associated with increased unemployment
- any reasonable answer.

Reasons against tariffs:

- the industry will eventually fail and so protection is pointless
- the idea that Brazil has a comparative advantage in furniture production
- the benefits that Brazil may gain as a developing country
- fears of retaliation (unlikely)
- any reasonable answer.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

5. (a) Define the following terms indicated in bold in the text:

(i) **exchange rate (paragraph ③)** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that it is the value or price of a currency.

2 *Precise definition* 2
An explanation that it is the price of one currency expressed in terms of another, preferably with an example.

(ii) **depreciation (paragraph ④).** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that it is a fall in the value of a currency on the foreign exchange market.

2 *Precise definition* 2
An explanation that it is a fall in the value of one currency against another currency in a floating exchange rate system.

(b) **With the help of an appropriate diagram, explain one reason for the fall in the value of the US dollar.** [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2
For drawing a correctly labelled diagram, showing either an increase in supply or a fall in the demand for the dollar **or** for providing an explanation of one factor that will lead to a fall in the value of the US dollar.

2 *Correct application of appropriate theory* 3-4
For drawing a correctly labelled diagram, showing either an increase in supply or a fall in the demand for the dollar **and** for providing an explanation of one factor that will lead to a fall in the value of the US dollar.

(c) **With the help of an AD/AS diagram, explain why Japan fears a “high-valued yen” (paragraph 5).** **[4 marks]**

level

- | | | |
|---|---|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled diagram, showing a fall in AD caused by a fall in demand for exports and/or an increase in demand for imports or for providing an explanation that a high-valued yen raises export prices and so will probably lead to a fall in demand for exports. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled diagram, showing a fall in AD caused by a fall in demand for exports and/or an increase in demand for imports and for providing an explanation that a high-valued yen raises export prices and so will probably lead to a fall in demand for exports. | 3-4 |

Some candidates may introduce elasticity to this question, but this should not be expected for full marks.

(d) Evaluate *two* methods that the US government might use to correct its “exploding current account deficit” (paragraph 2).

[8 marks]

There are many possible methods, which may include:

- reducing interest rates, thus reducing the demand for the dollar and reducing its value
- methods to protect the economy from imports
- methods to deflate the economy, thus reducing the demand for imports
- methods to reduce demand for imports, such as nationalistic campaigns
- methods to increase exports, such as political moves and trade delegations
- any reasonable answer.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8
