



MARKSCHEME

November 2009

ECONOMICS

Standard Level

Paper 2

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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:

(i) market (Text 1) **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**
The idea that it is to do with demand and supply.

2 *Precise definition* **2**
An explanation that it is the interaction between buyers and sellers in order to exchange goods or services (to make an economic transaction).

(ii) fiscal policy (Text 3). **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**
The idea that it is to do with government economic policy.

2 *Precise definition* **2**
An explanation that it is
(i) a demand-side policy
(ii) using changes in government spending and/or direct taxation
(iii) to shift the AD curve
(iv) to achieve economic objectives relating to inflation and unemployment.

Any two points will suffice for **[2 marks]**.

(b) Using an appropriate diagram, explain why bakeries across Israel want the ceiling price on bread removed (Text 2). [4 marks]

level

- | | | |
|---|--|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a demand and supply diagram showing a ceiling price below the equilibrium price or for providing an explanation of how the removal of a ceiling price will lead to an increase in the price of bread to the equilibrium price, so providing more revenue for bakers. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a demand and supply diagram showing a ceiling price below the equilibrium price and for providing an explanation of how the removal of a ceiling price will lead to an increase in the price of bread to the equilibrium price, so providing more revenue for bakers. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

(c) Using a tariff diagram, explain why a reduction in the tariff on wheat in Swaziland “would certainly help consumers” (Text 3). [4 marks]

level

- | | | |
|---|---|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a demand and supply diagram showing the reduction of a tariff and thus the downward movement of the “world supply plus tariff” curve or for explaining that the reduction of a tariff will reduce the price of wheat and increase the quantity demanded by the Swazi consumers. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a demand and supply diagram showing the reduction of a tariff and thus the downward movement of the “world supply plus tariff” curve and for explaining that the reduction of a tariff will reduce the price of wheat and increase the quantity demanded by the Swazi consumers. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

(d) Using information from the text/data and your knowledge of economics, evaluate the removal of the set-aside policy in the European Union and the reduction of tariffs in Swaziland as responses to the shortage of wheat.

[8 marks]

Responses **may** include:

- if more land is used in the EU the supply of wheat will be increased and this would bring down the price of bread, pasta and other by-products of wheat as well as meat products (*Text 1*)
- lower food prices may lower inflation rates in the EU and in Swaziland
- may drive inefficient and underproductive producers out of business (*Text 1*), leading to unemployment in the EU
- consumers pay lower prices for wheat if tariffs fall in Swaziland
- Swaziland wheat producers would face increased competition from imports and would be forced out of business, leading to unemployment in Swaziland
- Swaziland government would earn less revenue which means that it would have less money available for its spending projects (*Text 3*)
- development objectives may be threatened
- all three pre-existing conditions (set-side policies, ceiling price and tariffs) distort the competitive market
- although most consumers will be better off, there are likely to be losers as well. The losers may be weak domestic wheat producers in Swaziland, wildlife in the EU and bread consumers in Israel. There would be losers also resulting from the reduction in government revenue, which may lead to higher taxation.

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

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

Effective evaluation may be to:

- consider short-term versus long-term 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:

(i) **inflation** (*paragraph 1*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that it is rising prices.

2 *Precise definition* 2
An explanation that it is a sustained increase in the general or average level of prices.

(ii) **interest rates** (*paragraph 3*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that it is a payment to or from banks.

2 *Precise definition* 2
An explanation that it is the price of borrowed or loaned money.

(b) Using an appropriate diagram, explain the impact of blue-ear disease on the market for pigs in China (*paragraph 2*). [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2
For drawing a demand and supply diagram of the market for pigs showing a shift of supply to the left and thus an increase in the price of pigs **or** for providing an explanation of how the disease will lead to a reduction in the supply of pigs.

2 *Correct application of appropriate theory* 3-4
For drawing a demand and supply diagram of the market for pigs showing a shift of supply to the left and thus an increase in the price of pigs **and** for providing an explanation of how the disease will lead to a reduction in the supply of pigs.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axes is sufficient for a demand and supply diagram.

(c) **Using an appropriate diagram, explain how the “low value of the yuan” may create inflationary pressure (paragraph 4).** [4 marks]

level

- | | | |
|---|--|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing an aggregate demand and aggregate supply diagram where AD shifts to the right, causing an increase in the average price level or for providing an explanation of how the low value of the yuan will lead to an increase in export revenue and a decrease in import expenditure thus increasing net exports and aggregate demand and therefore causing demand pull inflation. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing an aggregate demand and aggregate supply diagram where AD shifts to the right, causing an increase in the average price level and for providing an explanation of how the low value of the yuan will lead to an increase in export revenue and a decrease in import expenditure thus increasing net exports and aggregate demand and therefore causing demand pull inflation. | 3-4 |

Candidates may explain that the inflationary pressure is caused by cost push factors. The low value of the yuan results in higher prices for imported raw materials and semi-finished goods, thus shifting the SRAS curve to the left. If this is correctly explained and illustrated with a diagram, then full marks should be rewarded.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The vertical axis may be price level or average price level. The horizontal axis may be “output”, “national output”, “real national output”, “real national income” or “GDP”.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the likely consequences of China’s policy of raising interest rates to “prevent excessive growth in real GDP” (paragraph ③).**

[8 marks]

Responses **may** include:

- an explanation of how higher interest rates may lead to lower levels of consumption and/or investment, thus reducing demand pull pressure
- a fall in AD due to higher interest rates may lead to unemployment
- higher interest rates may create discontent in the population (paragraph ⑤)
- an explanation of how higher interest rates are likely to lead to a stronger yuan
- a stronger yuan may encourage imports and reduce exports (paragraph ④) and so reduce the demand pull pressure of the current account surplus
- a stronger yuan lowers the costs of imported raw materials and semi-finished goods
- more imports and reduced exports will damage export industries and industries that compete with imports, possibly leading to unemployment
- raising interest rates is not likely to solve the inflation due to supply shocks (paragraph ⑤)
- higher interest rates may actually worsen cost push pressures as higher interest rates must be paid by firms thus resulting in higher costs of production
- given that the interest rates have already increased four times (paragraph ③), it may be that the economy is not responsive to interest changes
- there may be a delayed response to higher interest rates and the lag could cause a large slow down in growth.

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Effective evaluation may be to:

- consider short-term versus long-term 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:

(i) consumption (Table 1) **[2 marks]**

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is to do with spending by consumers.	1
2	<i>Precise definition</i> An explanation that it is spending by households on consumer goods and services.	2

(ii) unemployment rate (Figure 3). **[2 marks]**

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is to do with the number of unemployed in a country.	1
2	<i>Precise definition</i> An explanation that it is the number of unemployed expressed as a percentage of the total workforce. (If this is expressed as an equation, then full marks should be awarded if the equation is correct.)	2

(b) Using the data in Table 1, calculate the value of GDP. Explain your calculation. **[4 marks]**

level

0 *Inappropriate answer* **0**

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

For correctly calculating the value of GDP as €478 billion **or** for explaining that GDP is calculated by adding consumption, investment, government expenditure and export revenue and then subtracting expenditure on imports.

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

For correctly calculating the value of GDP as €478 billion **and** for explaining that GDP is calculated by adding consumption, investment, government expenditure and export revenue and then subtracting expenditure on imports.

Candidates who correctly identify the figures for C, I, G and (X–M) as being the ones to use, but who do not add or subtract correctly, may gain **[2 marks]**.

(c) Identify one positive statement and one normative statement from Text A. Explain your reasoning. **[4 marks]**

level

0 *Inappropriate answer* **0**

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

For explaining that a positive statement is one that may be proven to be correct or false by looking at the facts and that a normative statement is a matter of opinion **or** for providing examples of positive and a normative statement from Text A.

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

For explaining that a positive statement is one that may be proven to be correct or false by looking at the facts and that a normative statement is a matter of opinion **and** for providing examples of positive and a normative statement from Text A.

N.B. There are four elements to this question and a mark should be awarded for each. Examples of positive statements are “economic growth was almost 3%” and “exports benefited from faster demand in the Euro area”. Examples of normative statements are “the economy grew well”, “a tighter fiscal policy should be put in place to reduce demand pressures” and “the government needs to implement policies...”.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the role of demand-side policies and supply-side policies in maintaining the growth of the Dutch economy.**

[8 marks]

Responses **may** include:

- an explanation of demand-side policies
- an explanation of supply-side policies
- if expansionary fiscal policy is used, then there is the danger of inflation (*Text A*)
- if contractionary fiscal policy is used (*Text A*), then growth may slow down
- the inflation rate is not really very worrying (*Figure 2*) and so perhaps there is no present need for deflationary policies
- unemployment is low (*Figure 3*), so is likely to be mostly structural and frictional unemployment, which cannot be helped by expansionary demand-side policies
- growth is reasonable at almost 3 % (*Figure 1*), so perhaps a laissez-faire approach should be taken in terms of demand-side policies
- lowering interest rates (by the European Central Bank) may lower the value of the Euro, which may help exports (*Text A*)
- lowering interest rates (by the European Central Bank) would increase consumption and investment, but may be inflationary (*Text A*)
- current account is in surplus (*Figure 4*) but may be damaged by the strength of the Euro (*Text A*), so supply-side policies could be used to maintain competitiveness of exports
- supply-side policies may be the answer, such as increasing labour market participation and the number of hours worked (*Text A*), thus avoiding the danger of excessive growth.

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

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

Effective evaluation may be to:

- consider short-term versus long-term 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:

(i) gross domestic product (paragraph 2) *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is a measure of output.	1
2	<i>Precise definition</i> An explanation that is the value of all final goods and services produced in an economy in a given time period.	2

(ii) NGOs (paragraph 3). *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that they are non-government organizations involved in economic activity.	1
2	<i>Precise definition</i> An explanation that they are non-government organizations that exist to: (i) promote economic development (ii) and/or humanitarian ideals (iii) and/or sustainable development. Any one of the above points is sufficient for full marks.	2

(A weak explanation with an example of an NGO would be sufficient for full marks.)

(b) Using a poverty cycle diagram, explain *one* of Malawi’s obstacles to development. **[4 marks]**

level

- | | | |
|---|--|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For giving an example of a poverty cycle or for providing an explanation of how an obstacle chosen (<i>e.g.</i> low savings) leads, through a circular process, to its own creation and so people are caught in a poverty trap. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For giving an example of a poverty cycle and for providing an explanation of how an obstacle chosen (<i>e.g.</i> low savings) leads, through a circular process, to its own creation and so people are caught in a poverty trap. | 3-4 |

(c) Using an appropriate diagram, explain why the activities of the mining company might create negative externalities. **[4 marks]**

level

- | | | |
|---|---|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a MSC/MSB diagram showing that the mining operation may lead to MSC being greater than MPC and thus over-production of uranium or for providing an explanation of how private costs will be less than the social costs, thus creating negative externalities to third parties, <i>i.e.</i> the local communities, and over-production of uranium. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a MSC/MSB diagram showing that the mining operation may lead to MSC being greater than MPC and thus over-production of uranium and for providing an explanation of how private costs will be less than the social costs, thus creating negative externalities to third parties, <i>i.e.</i> the local communities, and over-production of uranium. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

An alternative diagram might be a demand and supply diagram, with S_{private} and S_{social} .

The vertical axis may be price, but could be costs or benefits. The horizontal axis is quantity.

(d) Using information from the text/data and your knowledge of economics, evaluate the possible effects of the mining project on economic development in Malawi.

[8 marks]

Responses may include:

- a definition of economic growth and economic development.

Positive effects:

The effects on development of:

- increased tax revenue for the government (paragraph 2)
- greater annual income (paragraph 2)
- increased employment (paragraph 2)
- better education facilities (paragraph 2)
- better health facilities (paragraph 2).

Negative effects:

The effects on development of:

- the company is Australian and may repatriate much of its profits (paragraph 1)
- the MNC and its influence/bargaining power (paragraph 1)
- the possible consequences when the company pulls out after its lease expires and the uranium is gone (paragraph 1)
- the health dangers (paragraph 3).

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Effective evaluation may be to:

- consider short-term versus long-term 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) **real price (paragraph 2)** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that it is to do with inflation.

2 *Precise definition* 2
An explanation that it is the price of something, where the effect of inflation has been eliminated from the nominal value. (A vague definition with a simple numerical example would be sufficient for full marks.)

(ii) **supply (paragraph 7).** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that it is to do with firms producing goods and services for people.

2 *Precise definition* 2
An explanation that it is the willingness and ability of a producer to produce a quantity of a good or service at a given price (in a given time period).

(b) **Using an appropriate diagram, explain the main reason for the change in the real price of tea since 1977 (paragraph 2).** *[4 marks]*

level

- | | | |
|---|---|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a demand and supply diagram for the tea market, where the supply curve for tea is shifted to the right, thus lowering the price of tea or for providing an explanation of how increases in the world supply of tea are pushing down the price of tea and the real price of tea when adjusted for inflation. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a demand and supply diagram for the tea market, where the supply curve for tea is shifted to the right, thus lowering the price of tea and for providing an explanation of how increases in the world supply of tea are pushing down the price of tea and the real price of tea when adjusted for inflation. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axes is sufficient for a demand and supply diagram.

(c) Using a production possibility curve (PPC) diagram, explain why the reduced levels of planned investment are likely to result in a less than expected rate of economic growth (paragraph 5). [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2

For drawing a PPC diagram showing one or two outward shifts of the PPC **or** for providing an explanation referring to the diagram of how the reduced levels of planned investment will lead to a smaller increase in economic growth (the first PPC shift) than would have occurred (the second PPC shift) had there not been reduced levels of planned investment.

2 *Correct application of appropriate theory* 3-4

For drawing a PPC diagram showing one or two outward shifts of the PPC **and** for providing an explanation referring to the diagram of how the reduced levels of planned investment will lead to a smaller increase in economic growth (the first PPC shift) than would have occurred (the second PPC shift) had there not been reduced levels of planned investment.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For a PPC, the axes could be two alternative products, one on each axis, e.g. Good A and Good B or Schools and Motor Cars; or two groups of products, e.g. Consumer Goods and Producer Goods.

(d) Using information from the text/data and your knowledge of economics, evaluate *two* possible measures which might be used to improve the standard of living of tea farmers. [8 marks]

Answers **may** include:

- a definition of standard of living.

Possible measures **may** include:

- increased investment in infrastructure in the tea industry in order to grow and increase revenue for tea farmers, as implied in paragraph 5
- agreements to reduce global production, as suggested by paragraph 6 and 7, such as a commodity agreement
- the adoption of more fair trade involvement as mentioned in paragraph 9
- subsidies for tea farmers.

In order to gain the top level of response, candidates must display an evaluation of the two measures chosen in terms of their effects on tea farmers' standards of living.

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Effective evaluation may be to:

- consider short-term versus long-term 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
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3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8
