

## ECONOMICS

### Overall grade boundaries

#### Higher level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 10	11 - 20	21 - 36	37 - 47	48 - 59	60 - 70	71 - 100

#### Standard level

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 10	11 - 22	23 - 38	39 - 49	50 - 63	64 - 75	76 - 100

### Higher and standard level internal assessment

#### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 2	3 - 5	6 - 9	10 - 11	12 - 14	15 - 16	17 - 20

### The range and suitability of the work submitted

The May 2008 session was the smoothest to date in the view of the IA moderators. The basic requirements were met by the vast majority of centres. Teachers have become much more accurate regarding the awarding of marks. A large number of moderators commented that they are now, more often than not, confirming marks rather than amending them.

Most centres followed the guidelines set by the IB very well and the rubric requirements were attained; if not, then most teachers penalised accordingly. Centres, on the whole, did a good job of preparing their candidates. Articles chosen were usually suitable. There was a heavy reliance on Internet sources reflecting the international nature of the course.

There were still some centres that did little to tackle the UK-USA focus of English language media. There were too many commentaries which focussed solely on USA or UK issues. It seemed a lost opportunity for students, from all corners of the globe, to explore local economic issues at the expense of an interest rate cut by the US Federal Reserve or employment in the city of London. One possible solution to this may be for teachers to encourage their students to take each commentary from a separate country.

At recent workshops, and on the OCC, there has been some debate with regard to whether teachers should, or should not include comments on their students work when they send this for moderation. This can certainly help moderators with their judgements, and so should be encouraged. Comments should only be used to explain decisions on the awarding of marks. There were occasions where teachers had left comments clearly directed at the students on the portfolio.

When comments are made on the student's work, it is important that they are **not** written in red, as this is the colour used by moderators.

## Candidate performance against each criterion

### Criterion A

Most candidates achieved the maximum two marks for Criterion A and when this was not the case, the teachers had deducted a mark accordingly. As is often the case, some students had provided a word count of 750 words when in reality the commentary was longer than this. Moderators **DO** count words. Far too many candidates lost marks for exceeding the word count.

Schools are also reminded that the portfolio should be written throughout the duration of the two-years.

### Criterion B

There are still too many examples of students losing marks because their diagrams are poorly explained. However, the quality of diagrams continues to improve. The old maxim of no diagrams without full, relevant explanations still holds true.

There were an increased number of students who chose to cut and paste their diagrams from websites. This is to be discouraged, but is allowed assuming the diagrams are sourced fully. Students should be encouraged to draw the diagram themselves to illustrate that they fully understand them and can use them in their final examinations.

### Criterion C

This criterion was not a problem for most students. Most understood which terms to define. More able candidates not only used the language of economics appropriately and frequently, but were also able to define terms well. Students should be careful not to define too many or all economic terms. The use of excessive footnotes should be discouraged.

### Criterion D

As usual, this criterion was a good discriminator, allowing more able students to illustrate their economic knowledge and analysis. There were some very good examples, which gained full marks in this area. Those portfolios which were superficial, either described rather than analyzed and/or included economic theory that was not related to the article.

Paraphrasing the article was common by the weakest students.

### Criterion E

Evaluation continues to improve with each examination session. Teachers seem to have come to grips with this, and are able to pass on this skill to their students. The time dedicated to covering this in workshops, the OCC and IA guidance seems to be feeding through into results. However, improvement in this area does not mean that there is not still much to do. Students need to evaluate the economic theory in the context of real-world examples, within their commentaries. This continues to be the least natural skill for students and will not develop without significant input from teachers. It was a pleasure to see students not just evaluating at the end of each commentary, but throughout.

## Recommendations for the teaching of future candidates

These remain the same as for May 2007 with the exception of a recommendation to avoid too much of a USA-UK focus for articles.

- The choice of article continues to be very significant. Better articles allowed students to explain the events within them using economic theory. While students should not avoid local issues, they should also be encouraged to explore issues from an international perspective.
- It is important that teachers continue to include a front cover summary document (example in the teacher support material) and a front cover for each commentary. Long articles should be either highlighted or an extract provided. If it is not in the working IB language of the school then an English translation should be provided. This need not be of the whole article, but simply the relevant sections.
- Schools should be vigilant to make sure that there are not two commentaries on a very similar topic.
- As always, diagrams are an area that often lets students down. Although not always the case, the more diagrams a student used, the better they performed in both Criterion B and Criterion D, as diagrams helped them to analyse and apply their knowledge well. Diagrams should be explained in detail and referred to directly.
- Teachers are encouraged to introduce the internal assessment within the second half of the first term of the course. By this time, candidates will have a basic grasp of economic principles and should be able to find a suitable article to comment on. The first one can be used as a “practice” if necessary. If possible, produce a small booklet/handout all about the coursework, containing the official IB guidelines, the marking criteria, sample articles (good and bad), and perhaps exemplar portfolios and possible “deadline” dates for submission of extracts and commentaries to teachers for advice/comment

- Encourage the reading of different possible sources from the start of the economics course, to get the candidates into the habit of “reading around” the subject and applying the knowledge they have gained to real life situations.

## Higher level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 2	3 - 4	5 - 8	9 - 11	12 - 14	15 - 17	18 - 25

### General comments

Feedback provided by schools was generally positive, with the vast majority expressing satisfaction with the suitability of the paper, its coverage of the syllabus and, the clarity of wording of the questions. Most respondents felt the paper was of a similar standard compared to last year’s paper. Although a minority of centre’s thought that the paper was a little more difficult than last years paper, a similar sized minority thought it was a little easier.

Responses were distributed more evenly across questions than is usually the case. Question two was probably the most popular.

### The areas of the programme and examination that appeared difficult for the candidates

In question one candidates often provided a great deal of relevant information about oligopoly, however, many found it difficult to address how market share might be increased. Candidates who answered question four tended to use the Human Development Index as one measure of development, however a wide array of differing explanations as to what this index is composed of were offered.

Many candidates were unsure as to what a falling rate of inflation is, as posed by question two. In question three whilst candidates could usually outline the relative merits of membership of a trade bloc, not many were able to go on to say how this might impact upon export performance.

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

It was pleasing to see stronger responses to question four than has been the case in recent examinations; a significant number of good candidates tackled this question. Candidates in general exhibited good knowledge of oligopoly theory and many could accurately apply appropriate diagrams. Macroeconomic theory pertinent to question two part (a) was also well

understood with most candidates who attempted the question showing a clear understanding of aggregate demand and supply analysis.

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

### Question 1

(a) Many candidates were able to provide evidence of a detailed knowledge of the theory of oligopoly. Answers tended to be quite consistent in their use of basic definitions. Surprisingly few candidates, however, were inclined to attempt a definition of what they thought market share was. Many candidates utilized an understanding of non price competition, but this tended to be limited to advertising. However, some responses developed a more sophisticated approach usually with the help of well explained examples.

(b) There was a tendency for candidates to write down everything they knew about oligopoly without always establishing its relevance to the question. The most popular approach tended to view oligopoly as “bad” for the consumer and “good” for the producer. A more extensive evaluation was sought by the question. Nevertheless this question was often very successfully attempted by candidates.

### Question 2

(a) This part of the question saw many well thought out and well written responses. This question was probably the most popular. Many candidates were able to fully utilize their understanding of Neoclassical and Keynesian views regarding the shape of the aggregate supply curve to establish what effect there might be on output and the price level following a decrease in aggregate demand. Whilst there were many very good answers to this part of the question, there were also many that simply described changed values of output and the price level rather mechanistically, without offering any reasoning.

(b) Many candidates confused a falling rate of inflation with deflation. However overall there were some very good responses to this question. Better candidates tended to address the causes of a falling rate of inflation as a means to tackle the evaluation in the question. Weaker candidates tended to focus solely on the trade-off between inflation and unemployment and so did not analyze other possible implications. Weaker candidates also tended to offer rather speculative and unsubstantiated arguments regarding possible impacts. Answers that could support the evaluation employed with specific examples were rare but, were also usually very good.

### Question 3

(a) This was probably the least popular question, although there were a number of very good responses. Candidates, appropriately, tended to apply numerical examples to part (a). This was done with varying degrees of success. Weaker candidates had difficulty using numerical information in a consistent manner. Some made up numbers that did not support the explanation given. Good candidates offered very precise and well explained answers which evidenced a great deal of confidence in using numerical information. There was a tendency to

answer the question unevenly, with some candidates ignoring the latter part of the question entirely.

(b) There was a reasonable understanding of what a trading bloc was in most cases with some candidates able to offer detailed explanations of the different levels of economic integration supported by examples. However, there was less confidence demonstrated when addressing what the impact on 'export performance' might be. A large number of candidates did not offer an explanation as to what they thought this was. Many candidates seemed to find this question difficult. Trade creation and trade diversion were often not addressed, when perhaps this might have been the most accessible approach to this question.

#### **Question 4**

(a) The development question produced a larger number of good scripts than has been the case in recent papers. A number of indicators of development were put forward as a response to part (a), the most popular of which was the Human Development Index. Many candidates, however, were unsure as to what it is composed of. Only very good candidates could make reference to the numerical values produced by the index and what they mean. Most candidates could identify suitable measures. Weaker candidates tended to offer only limited explanations.

(b) Good candidates could identify and apply relevant theory; typically they could offer examples and data to support their answer. There was a clear distinction between candidates who were obviously well informed and who followed economic news in the media, versus candidates who had little knowledge of world events. Weaker candidates tended to drift into offering an explanation of how to achieve development rather than evaluating how effective economic growth might be in the pursuit of it.

### **Recommendations and guidance for the teaching of future candidates**

1. Once again candidates do not always use the time available to them in the most effective manner. There was a tendency for some students to write at length on part (a), but then they would offer a very short response to part (b). The merits of effective time management should be emphasized.
2. Many responses employed diagrams very effectively but there remain a significant number who do not do so. Diagrams must be clearly drawn and fully labelled. Their relevance must be established and their meaning must be explained in the text of the answer.
3. The use of examples is greatly enhanced when facts or figures are provided with them.
4. Provide definitions of key terms. This actually helps candidates to focus on what is being asked. It was evident in this examination that where candidates did not define key terms, for example "market share" in question one or "export performance" in question three, it made it more difficult for them to keep focused on the question.

5. Candidates should carefully read what the question is asking, particularly in the part (b). There is a tendency amongst some students to reproduce what appear to be pre-prepared answers. In doing so only vague reference to the set question is established and the answer is limited.

## Higher level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 3	4 - 6	7 - 10	11 - 13	14 - 17	18 - 20	21 - 30

### General comments

While there may be different ways of expressing this concern, learning to answer the question asked is a vital ingredient to a successful student examination response. While many students have this skill, equally many student responses, particularly from the weaker candidates, often appeared as being prepared. Students need to demonstrate their understanding of the concepts and theories that they have been taught, in the context of the question asked. While many students addressed the correct concepts and theories needed to answer the question, often terms were not defined nor were they clearly explained. This is another area that could be improved on. Also evident was lack of depth of understanding, where questions were handled adequately but without real mastery of the topic.

### The areas of the programme and examination that appeared difficult for the candidates

- Technically demanding questions:
  - Accurately explaining the difference between profit maximisation and sales revenue maximisation as objectives of the firm
  - Explaining the supply side consequences of an increase in income tax
  - Explaining exactly how the PED for exports and imports links with depreciation and the balance of payments
- Diagrams generally represented the theory learnt, although the drawing of fully labelled diagrams sometimes proved difficult for some students. Most students were able to use the diagrams and explain the relevance of them in their written response.
- The development question again demonstrated that students have difficulty in this area. Part of this issue stems from the candidate's failure to adequately define terms, and often the examples used took candidates off on tangents.

- When asked to evaluate or explain, candidates again had difficulty to extend these explanations beyond simple statements of theory and vague definitions.

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

### Question 1

This was the most popular question chosen by candidates who at worst provided a basic response. The better candidates were able to draw the PPC diagram and explain the concepts implicitly (and in many cases explicitly) in terms of the diagram. The strongest candidates used numerical examples that were related explicitly to the diagram and explained the concepts of scarcity, choice and opportunity cost. Weaker candidates tended to provide a mechanical or prepared diagram showing points inside, on and outside the PPC.

This tended to be the main problem with question one, as students tended to rush into and give a general description of all aspects of the PPC without specifically addressing the three areas/concepts as required by the question and linking them to the PPC.

Teachers need to stress the application of the PPC to societal choices of resource use.

### Question 2

This again was a very popular question with most candidates successfully using a supply and demand diagram to show the effect of fixing a price (ceiling price) below the equilibrium. A number of students correctly included an inelastic supply curve to indicate limited seating capacity.

A common failing was not to go beyond a fairly superficial treatment of consequences. Use of parallel or black markets was the most popular consequence, with fewer candidates discussing rationing, first come first serve, or the impact on related markets.

Some candidates interpreted the consequence as the shortage itself and then discussed possible policies to overcome such shortages. This was clearly acceptable.

### Question 3

One of the least popular questions, with responses being split between those who had a good knowledge of MC/MR and  $MR=0$ , and those who had a vague knowledge of the theory involved, especially in relation to sales revenue maximisation. Most candidates could explain that profit maximising level of output takes place where  $MR=MC$ , with some candidates using perfect competition to identify the level of profit maximisation. Generally students used the correct monopoly diagram and showed supernormal profits. Where problems arose, it was a result of candidates inability to identify  $MR=0$ , and an inability to identify this point on a diagram.

This resulted in the question of the 'goals' of the firm being side-stepped, with only the best candidates being able to contrast the goals of the firm in terms of price and output, and why a firm may chose one goal over another.

#### **Question 4**

The surprise perhaps with this question was the number of candidates who did not understand the demands of the question, using micro-analysis to illustrate changes in demand and supply rather than the macro-analysis of aggregate demand and aggregate supply. Most candidates who recognised that it was a macro question were more confident with the demand side effect than the supply side.

Often students missed defining aggregate demand and disposable income, but were still able to discuss the effects on price level and GDP, with many making the connection to contractionary fiscal policy. Those who showed a good understanding of supply-side consequences usually showed a decrease in AS through the disincentive effect or collective bargaining power of unions trying to reverse the fall in disposable incomes. Some students also used the Laffer curve to further explain the disincentive effect.

A number of candidates made a good case for an increase to AS if the increased taxation revenue was used for such things as infrastructure development. Weaker candidates tended not to explain the relevant concepts in direct reference to their diagrams.

#### **Question 5**

A well answered question, with candidates being aware of, and able to, explain the Marshall-Lerner condition. However, many candidates failed to explain the importance of PED for exports and imports, and fewer were able to explain the Marshall-Lerner condition in terms of the PED and the impact on export revenue and import expenditure. It was not uncommon for there to be little if any explanation on the importance of PED.

Stronger students clearly defined the current account and depreciation as it exists under a floating exchange rate regime, while weaker students referred to the trade balance and did not explain the current account, not going much beyond an explanation of increased exports and decreased imports.

#### **Question 6**

Few students attempted this question, but those attracted to it tended to be very strong or very weak candidates. The most common mistake was not to define development and not relating the discussion of indebtedness, non convertible currencies and capital flight to development.

Some students included the poverty cycle in their discussion, and most understood the opportunity cost of indebtedness. The strongest candidates gave clear explanations of each concept being discussed and appropriate use of real world examples.

## Higher level paper three

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 6	7 - 12	13 - 21	22 - 28	29 - 34	35 - 41	42 - 60

### General Comments

This paper proved to be challenging for many candidates, testing concepts that perhaps may not have been expected. Nonetheless, there was the expected range of results, with many outstanding results showing a firm grasp of economic knowledge and skills alongside weaker candidates with superficial understanding.

It is repeatedly reported that students often include diagrams that are poorly drawn and labelled. Given the importance of modelling in economics, this continues to worry examiners. The information provided in diagrams represents vital information that is often the key to a solid answer, yet the lack of care that many students take undermine this importance. Many candidates continue to draw the diagrams freehand, without a ruler. They are often very small, and tucked into tiny spaces on the scripts. As a result, they are difficult to interpret. Correct labelling and arrows to show changes are also vital to successful diagrams, and yet this message may not be getting through to the students. Lastly, diagram **must** be referred to and used in the text, in order to provide a complete answer. Unfortunately, they often appear as add-ons, rather than an integral part of a framed answer.

The concept of evaluation is still not well understood by many candidates. Many are presenting lists of advantages and disadvantages but are not weighing the importance or significance of such points or prioritising the arguments. Effective evaluation does require some form of conclusion to be drawn or judgement to be made.

### The areas of the programme and examination that appeared difficult for the candidates

Few students were able to define allocative efficiency correctly. The concept of 'nominal' was not well understood. There were many confused explanations of tied aid and definitions of infrastructure often went no further than a simple listing of examples. Many candidates confused a budget deficit with a trade deficit. There were significant weaknesses in evaluating the economic performance of countries. A large number of candidates confused slowing growth and declining output. There was much confusion as to appropriate labelling on PPC diagrams and on the reasons for movements within a PPC curve and shift of a PPC curve.

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

Candidates seem very comfortable with the tariff diagram. It was largely well-drawn and correctly interpreted. The concept of economies of scale was correctly identified in a majority of answers. Candidates also seemed confident in the drawing of an exchange rate diagram, with appropriate shifts, labels and terminology. The effect of a change in interest rates was well understood.

## The strengths and weaknesses of the candidature in the treatment of individual questions

### Question 1

(a)(i) Most students were able to explain this as the price where the quantity supplied is equal to the quantity demanded. Strong candidates supported this initial claim by adding that it was the market clearing price. Although it is not widely encouraged to include extra information in the definitions, many students drew a diagram to illustrate the concept of an equilibrium price. Given that this would not have taken a lot of time, it was a good decision in terms of ensuring full marks.

(a)(ii) This was not well handled by the majority of candidates. Although a range of responses to do with efficient allocation of resources was eligible for at least one mark, few managed full marks by saying that it occurs where the price charged to consumers is equal to the marginal cost to producers. An alternative approach was to say that it is where resources are allocated in such a way that neither too much nor too little is produced from society's point of view.

(b) Most students were able to show that the removal of a tax is shown as a downwards shift in the supply curve due to the fall in costs to firms. If they then went on to say that this meant an increase in the quantity of wine demanded, they were eligible for full marks. However, there were two common errors. A rather smaller error was to draw the two supply curves as parallel, rather than divergent, as an ad valorem tax should be shown. A more significant, but worryingly frequent error was to claim that the increase in supply would lead to an increase in demand, accompanied by a rightward shift of the demand curve. This represents a rather significant misunderstanding about changes in equilibrium.

(c) Better candidates recognised that vines are a factor of production and so the pulling out of vines would represent a reduction in the quantity of factors of production and thus reduce the productive potential of the economy and an inwards shift of the PPC. A very common error in this question was in the labelling of the axes. Any combination of competing categories of output was acceptable, but it was not uncommon to see 'grapes' and 'vines', which was not valid. Weaker candidates used 'price' and 'quantity' or 'price level' and 'real output', showing a real misunderstanding of the model. Examiners accepted 'Good A' and 'Good B', but teachers really should encourage students to use categories that are more appropriate to the case/text, as a way of conveying an appropriate level of understanding.

(d) The question was quite open-ended and a wide range of responses were seen. Most candidates explained the reason for the fall in wine prices. Better answers looked at the signalling and incentive functions of price in allocating resources, observing that the falling prices would lead farmers to “pull up some of their vines and “adjust output according to demand requirements” (par. ⑤). At the very top end, effective evaluation referred to the time lag in the reallocation of resources, noting that resources may not be (geographically or occupationally) mobile enough to be reallocated in the short run.

## Question 2

This was definitely the most popular question on the paper, and may reflect confidence that the students feel in working with the tariff diagram.

(a)(i) There are a number of different possible approaches to this definition and so many were considered valid for two marks. (e.g. unemployment due to changes in the structure of the economy resulting in a permanent fall in the demand for a particular type of labour; a type of natural unemployment caused by changes in the structure of the economy; unemployment that exists when there is a mismatch between jobs that are available in the economy and the skills of those unemployed). Many students simply confused it with a different type of unemployment.

(a)(ii) Most students were able to define these as the total costs divided by the quantity produced **or** the costs of production per unit.

(b) This was a fairly straightforward application of PPC theory, and was fairly well handled, although as in 1(c) above, there was some problem with labelling. Correct answers explained that increased unemployment means that all resources in the economy are not being fully employed and would be shown as a movement to a point closer to the origin representing a fall in the output of a nation. This is a fairly standard diagram used to show the costs of unemployment. A worrying number of candidates showed an inwards shift in the PPC, which was not credited.

(c) The majority of students correctly identified the concept of economies of scale to explain the fall in average costs in the long run, and correctly drew a diagram illustrating a fall in the LRAC. However, there were also a number who drew the LRAC, but explained it using the short run concept of diminishing marginal returns. In many cases, there was absolutely no link between the diagram and the explanation; ideally, there should have been a movement from one level of costs at an original level of output to a lower level of costs at a higher level of output, and this should have been referred to in the answer.

(d) As noted above, it would appear that the tariff diagram is being well taught and is giving the students confidence to apply economic theory. Most answers contained the diagram and systematically worked through the effects of lowering the tariff on the various stakeholders.

One danger was in delivering a rather pre-learned essay on tariffs without linking the points to the actual case study. This resulted in mechanistic answers that did not show a genuine ability to apply the theory effectively. The other main danger was in not demonstrating

effective evaluation; that is, not coming to any *reasoned judgments* about the effects of the tariff removal.

In some centres, the 'standard' tariff diagram does not appear to be taught and candidates are showing a tariff with an indirect tax diagram. While this is not technically incorrect, it does not really allow for much depth of discussion. Nonetheless, students who used this were credited, if the explanation was correct.

Part (d) answers do not *require* a diagram, and so candidates who do not use a diagram are not penalised. However, in most cases, the economic analysis is so much more effective when supported by a diagram that teachers must really encourage students to try and include one if relevant.

### Question 3

*This was the second most popular question on the paper.*

(a)(i) This concept was not well understood. Although many candidates knew that it had something to do with inflation, there was some confusion between nominal and real values. Full marks were given where candidates were able to explain that it was the value of an economic variable that has not been adjusted for the effects of inflation.

(a)(ii) The best responses explained this as the situation which arises when aggregate demand exceeds potential output or where the short run equilibrium is above the long run equilibrium. A very large number of candidates supported a brief definition with a diagram, and if correct, this ensured the full marks.

(b) This question was generally well done. Many candidates explained that the growing current account deficit implied that import expenditure was greater than export revenues and would mean an increase in supply of the NZ currency to buy more imports or a decrease in demand for the NZ currency as less exports were demanded. Only one shift was necessary to show the depreciation of the currency. As is always the case, it was necessary that the label on the y-axis reflected that it was an exchange rate diagram, not a generic microeconomic diagram.

(c) This question was generally poorly done, with many candidates not observing or not understanding that the forecast was for a fall in *growth* rather than a fall in *output*. Better candidates noted that the fall in the rate of growth would mean that the amount of goods and services produced would increase by (only) 2.8%. Though not requested, many candidates supported their response with an AD/AS diagram, showing a relatively small increase in AD or showing a diminishing increase in AD from one year to the next.

(d) This is a standard question asked on IB exams and a very important area of study. Candidates seem largely well-prepared to explain the consequences of a tighter monetary policy and diagrams were well-used to support the explanations.

The most obvious significant error occurred where weaker candidate confused the direction of the changes and explained the consequences in terms of rising AD rather than falling AD.

To move into higher mark bands, it was necessary for candidates to **use** the economic theory to explain the consequences, rather than just state that AD would fall and that the exchange would rise. It was necessary to provide the steps in the explanation. It was also important to qualify the consequences as being possible, or likely, rather than inevitable. (e.g. “higher interest rates might cause consumption to fall because . . .”, rather than “higher interest rates will cause consumption to fall because . . .”)

The main reason for not reaching the top mark band was a lack of effective evaluation. It was not sufficient to simply list/explain the consequences; candidates had to show the ability to make some conclusion, and in this case, the better candidates often noted that while the fight against inflation has many drawbacks, it is often considered to be the most important policy objective for the long run health of the economy. Evaluation could also take the form of discussing why the higher interest rates would not result in the expected outcomes.

#### Question 4

(a)(i) Most candidates were able to earn full marks by explaining indirect taxes as a tax on goods and services. The strongest answers referred to indirect taxes as expenditure taxes.

(a)(ii) This proved to be a difficult concept for many to explain. Full marks were awarded if candidates correctly explained either monetary crowding out where government borrowing forces up interest rates and reduces private sector spending or resource crowding out where the government uses the economy’s factors of production, thereby reducing the ability of the private sector to use those resources.

(b) Given the contradictory nature of the question and data, two answers were given credit in this question. Candidates could either illustrate and explain a fall in AD due to a fall in exports (as suggested by the question), or they could show a small increase in AD due to a small rise in net exports (as implied by the data). For full marks, it was necessary for the explanation to match the diagram.

(c) A number of candidates confused a budget deficit with a trade deficit and were therefore awarded no marks. Those who did understand the concept of a budget deficit were able to show and explain that a government could stimulate an economy by spending more than it earned, thus resulting in an increase in AD.

(d) This sub-question was generally not very well done, with a majority of candidates not able to analyse the statistical data. It is evident that many candidates do not have the skills to evaluate the economic performance of a country. A great many did little more than describe the data.

Better candidates looked at each of the sets of data, analysed the significance of the changes in each variable in terms of each country, compared the countries and came to conclusion(s) about the relative performance.

While most candidates did seem aware of the relative income levels of the two countries, this knowledge was not required for effective analysis and evaluation. That is, the responses were assessed on the nature of the analysis, rather than previous knowledge.

### Question 5

(a)(i) Many students correctly defined tied aid as aid granted on the condition that it is used to buy goods and services from the donor country. However, a large number seemed to feel that it was aid that was linked to conditions set by a donor country or organisation.

(a)(ii) This was not well-defined by many candidates and many simply listed examples of types of infrastructure. Better candidates explained that infrastructure involves essential facilities and services that are necessary for economic activity, and then gave relevant examples.

(b) Candidates seem largely very comfortable in drawing a subsidy diagram and therefore, this should have been a fairly straightforward question. However, many candidates launched into a discussion of the problems of subsidies for developing country farmers, and neglected the question that was asked.

Better candidates were able to use the diagram to explain that the removal of subsidies would raise farmers' production costs, and result in lower incomes for such farmers.

(c) A large number of candidates looked at investment as simply a component of AD and showed a shift in AD to the right. However, this was not what the question asked. Better candidates showed and explained how an increase in investment can expand the productive capacity of the LDC, thus shifting the LRAS to the right. A very large number of candidates shifted the SRAS to the right and were given partial credit, depending on the written explanation.

(d) Good responses considered the positive and negative consequences of debt relief and came to a reasoned conclusion as to the effect on the alleviation of poverty. Another good approach was to consider the consequences of debt relief and then look at alternative ways of fighting poverty.

There was a worrying tendency to equate debt relief with aid and then write a pre-learned essay on the advantages and disadvantages of aid. While there is clearly a link between the two, many candidates lost sight of the actual question with this approach.

To reach the top mark band, candidates had to make the link between debt relief and poverty alleviation. That is, it was not enough to simply discuss debt relief in general terms.

## Recommendations and guidance for the teaching of future candidates

The recommendations and guidance that appear below are likely to have appeared elsewhere in this report and/or in previous reports. Since the expectations and skills required of IB students remain the same, so does the advice!

- It is imperative that economics students practice the skill of statistical analysis. They must know how to interpret numerical and graphical data and they need to learn how to analyse and evaluate such data.

- Teachers should really encourage their students to learn precise definitions, as the use of precise and accurate economic terminology will enhance performance on all assessment components. If the students are confident in their knowledge of definitions, they can proceed quickly through the first part of each data response question. To help students in this important skill, candidates might be encouraged to compile a glossary of terms. Students 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.
- 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.
- Following on from this, however, diagrams should be made appropriate to the question. For example, a question about the market for the New Zealand currency should have as its *y*-axis label, *price of NZ dollar in other currencies*. Students must also be able to distinguish between macroeconomic and microeconomic labelling. Failure to label diagrams appropriately prevents students from achieving full marks.
- Where diagrams are used in parts (b) and (c), students should be sure to use/explain the diagram by making references to the diagram in the response. The diagram and the explanation must be integrated with each other. Students 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.
- The questions must be carefully read. Too often, candidates seem to take a cue from one of the words or phrases in the question and start answering without stopping to consider exactly what is being asked. This causes them to skirt around the correct approach. The inevitable result is a misuse of time and the risk of not actually answering the set question.
- To achieve top marks in questions (d), students must make reference to the text. It is important that they are aware of this. They should be encouraged to quote from the text, and/or cite statistics from the data. Encourage students to use quotation marks, or make references to the paragraphs or texts.
- Part (d) answers also require students 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 must be aware of the different ways that they can carry out the skill of evaluation. To start, students 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 of the long run. A key way to show that evaluation is being done is to make a judgment regarding the information by using expressions such as “the most important effect is . . .” or “the most significant consequence is . . .”

For example, “*The most important effect that a reduction in tariffs may have on the U.S. timber industry is the long term improvement in efficiency as a result of the increased competition. While there might be short term adjustment problems for those who are made unemployed, the government could allocate some resources to retraining and allow for a more efficient allocation of resources.*”

- Theory provided in part (d) questions must be directly linked to the case study to avoid delivering a pre-learned mini-essay. Students must avoid copying out excessive excerpts from the text without drawing conclusions about the significance of the information.
- As noted often in workshops and examiner reports, time management is a key skill here. Students should be given as much practice as possible at answering this type of question under timed circumstances. If they have learned the definitions and diagrams, they will be much more able to get through parts (a), (b) and (c) in good time, leaving appropriate time for part (d). Definitions should not be any more than two meaningful statements, and the explanations for parts (b) and (c) should focus on a clear but brief explanation **using** the diagram to answer the specific question.
- It may seem like obvious advice, but the full syllabus needs to be taught. Incomplete teaching of some sections of the syllabus will disadvantage students when they come to choosing their data response questions.

## Standard level paper one

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 2	3 - 4	5 - 8	9 - 11	12 - 15	16 - 18	19 - 25

### General comments

This year’s Paper 1 was generally viewed as a fair test for candidates and the quality of their responses reflected this. It was pleasing to see a relatively even spread of attempts at different questions on the paper without one question being favoured too much against the others. The only change from last year on the overall standard of answers was fewer really top level responses in the 20-25 mark range. The feedback from schools and examiners suggested the clarity of the wording in the questions and the coverage of the syllabus was appropriate. Time management by candidates seemed to be reasonably well handled with most answers being appropriately weighted between parts (a) and (b). A key weakness in the answers of some candidates lies in presentation where there is a tendency for students to

overuse shorthand when writing their answers with arrows and terms that are not clearly explained and some answers read a bit like notes with lists of points rather than fully developed answers. Whilst large numbers of candidates illustrate their answers with well drawn, clearly labelled diagrams using correct terms on the axis, there are too many candidates who fail to do this. In some centres candidates do all their diagrams at the end of their written text which is not an effective way of supporting their answers. It would be good to see more students using examples to illustrate the points they make; it is an excellent way to show understanding and take answers into the higher mark bands.

## The areas of the programme and examination that appeared difficult for the candidates

Whilst students understand elasticity of demand and supply, they found it difficult to apply these concepts to price instability. The application of elasticity and economic theory in general is something teachers need to work on with their students. The balance of payments section of international trade is an area students often find difficult. In paper 1, students understood the balance of payments current account and the concept of a deficit but they struggled to discuss the consequences of a deficit.

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

Judging by the number of good answers to question 2 (a) on fiscal policy it seems that centres are covering this area of the syllabus effectively and students have a good understanding of the material. In question 3 on methods of protectionism, students produced some clear well developed explanations of the different methods and illustrated them with effective diagrams. It was also pleasing to see some good answers on economic development in question 4, where students were able to consider how development is measured and the link between development and economic growth.

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

### Question 1

(a) This question was the least popular on the paper and caused some difficulties to candidates. Some students struggled with the term commodity and were unable to explain the demand and supply conditions of products like oil, coffee and wheat, etc. A large number of answers considered the concept of price elasticity of demand and supply, but found it difficult to make the link between inelastic (low price elasticity) demand and price instability. Too many students were unable to express precisely what low elasticity means; it is important to state that low or inelastic demand means a change in price causes a less than proportionate change in quantity demanded rather than saying a price change cause a small change in demand. The question wanted students to show how inelastic demand and/or supply will lead to unstable prices and the use of an example would be a very effective way of doing this. The

rising price of oil, for example, has been caused to an extent by its inelastic supply, which is caused by the difficulties of increasing the rate of extraction and refining.

(b) This question was probably the most difficult on the paper. It was looking for students to discuss the difference between commodity prices being determined by the market compared to the different types of state and institutional intervention through mechanisms such as buffer stocks, maximum and minimum prices, subsidies, etc. The best answers looked at the costs and benefits of the markets by considering the problems of fluctuating prices for consumers and producers compared to the difficulties of intervention. The very best answers drew on current examples such as the high price of products such as rice and wheat and looked at cases of intervention such as the Common Agricultural Policy. Weaker candidates struggled to understand what the question was asking for and their answers just tended to consider the types of intervention.

### **Question 2**

(a) This was a popular question and it produced some very good answers. It was encouraging to see precise definitions of fiscal policy and aggregate demand. Good answers included effective use of aggregate demand and aggregate supply diagrams to show how changes in tax and government expenditure can increase aggregate demand. The best answers considered how reducing tax increases consumption spending and how increasing government spending directly raises aggregate demand. Some candidates did get confused between fiscal and monetary policy and looked at changing interest rates to affect aggregate demand rather than taxation and government spending.

(b) There were some very good evaluative answers to this question. Some candidates looked effectively at how interventionist and market-based supply-side policies can be used to improve economic performance (stable growth, price stability, low unemployment and balance of payments equilibrium) by shifting the LRAS curve to the right. They went on to consider the problems of applying this type of policy such as the cost of intervention or the inequities caused by market-based solutions. There were also some good answers which considered the difficulties of using demand-side policies to improve economic performance. Weaker answers struggled to explain economic performance and consider the difference between short-run and long run aggregate supply.

### **Question 3**

(a) This question was generally well done by candidates. Students were helped by the natural structure of the question because they were asked for '3 types of protectionism'. The best answers defined and explained the balance of payments current account deficit and then looked at the different methods of protectionism such as tariffs, quotas, subsidies, etc., which could be used to try and correct the deficit; these answers were supported with effective, clearly explained diagrams. Weaker answers often occurred when students only looked at one of two methods of protectionism effectively and did not make the link between protectionism and the current account deficit. A number of students used embargo as a method of protectionism which is not really a method used to protect domestic industry; it tends to be used in extreme political circumstances.

(b) Many candidates struggled to explain the costs and benefits that a current account deficit causes an economy, and in some cases students got confused between a current account deficit and a budget deficit. The best answers discussed problems such as the impact on the exchange rate, aggregate demand, capital account, etc, but also considered how a deficit caused by imported capital may be beneficial to an economy in the long term. This is an area of the syllabus students find difficult and something teachers need to cover carefully.

#### Question 4

(a) This was a popular question of economic development and it drew out some very pleasing answers. The strongest students gave good definitions of development and went on to explain a variety of methods which could be used to measure it. This included answers which looked at GDP per capita, HDI and broader measures which considered things like income distribution and poverty. Weaker answers lacked accuracy and looked in broader terms at issues relating to development without really considering how they would actually be used to measure development.

(b) There were many good answers to the second part of this question with candidates evaluating how government policy to encourage economic growth can improve the welfare of a nation's citizens. The best answers looked at the benefits of higher incomes, rising employment levels, lower prices and better public services resulting from higher tax revenues; and contrasted this with widening income inequalities, external costs and sustainability. Weaker answers lacked a coherent structure and tended to focus more on the problems of growth for welfare and ignored the benefits of growth for development. This type of question often generates generalised responses which lack the accuracy needed to answer the question precisely.

## Recommendations and guidance for the teaching of future candidates

There are some key issues teachers should concentrate on when preparing candidates for Standard Level paper 1

- Students need to use precise definitions to key economic terms used in the questions. In this year's paper good definitions of economic growth, current account deficit, fiscal policy, price elasticity of demand and supply, etc, were important basic foundations on which to build good answers.
- It would be good to see more candidates using effective examples to illustrate their arguments. Students can really illustrate their understanding of a topic by drawing on examples. In question 1, for example, the use of oil price volatility would have been an excellent way of answering part (a).
- The use of effective diagrams to support answers is extremely important. Diagrams are an integral part of the subject; they need to be drawn clearly and accurately as part of an answer and must be referred to in the text of an answer. In question 3, for

example, an effective tariff diagram is important in illustrating the consequences of this type of protectionism.

- It is important for students to always focus each part of their answer on the question being asked. In question 4 (b), for example, each part of the answer needs to consider how economic growth may or may not contribute to welfare. If the candidate looks at other issues, such as the difficulties of measuring welfare, they are not answering the question and this point does not add anything to their answer.
- Time management needs to be considered in preparation for this paper. With a 10 and 15 mark split, it is important for candidates to divide up their time appropriately when answering the question. As a 1 hour paper, approximately 24 minutes should be allocated to part (a) and 36 minutes to part (b).
- It would be useful for students to try and present their answers as clearly as possible. We have already considered diagrams, but it would also be useful for candidates to work at the way they lay out text in paragraphs. Short hand can be used in place of economic terms, for example: AD, PED, SRAS , but its over use, for example where arrows are used in place of writing rise or fall, makes the answer difficult to read and to interpret.
- It is very important for centres to prepare candidates for this paper by using the paper 1 marking criteria used to assess candidates' work. In part (b) of questions, for example, students need to be evaluative in order to reach levels 3 and 4 and achieve the marks needed to reach top grade answers.

## Standard level paper two

### Component grade boundaries

<b>Grade:</b>	1	2	3	4	5	6	7
<b>Mark range:</b>	0 - 7	8 - 14	15 - 22	23 - 29	30 - 37	38 - 44	45 - 60

### General comments

The paper seemed to be accessible to all levels of ability and seemed to distinguish well between them. Definitions were often rather imprecise and lacked detail and example. As always, labelling on diagrams was often disappointing and diagrams tended to be somewhat messy. It is pleasing to report that there seemed to be fewer centres that placed all of their diagrams at the end of the scripts.

Evaluation in the final part of each question, part (d), was often lacking and the ability to analyse raw data is clearly something that centres need to work on.

There was little evidence of any time problem and, when there were signs, it tended to be candidates who had written at far too much length in parts (a), (b) and (c). Some candidates wrote twice as much for definitions in (a) as they did for evaluations in (d).

## The areas of the programme and examination that appeared difficult for the candidates

Many students seemed to find it difficult to use AD/AS diagrams effectively, especially in the long run.

Students find it difficult to explain the relationship between externalities and market failure. Many of them can show it on a diagram, but the concept of over/under provision is difficult for many.

Students found it hard to draw an accurate circular flow of income diagram and to define/distinguish between savings and investment. They also found it hard to analyse the costs and benefits of strong economic growth.

Exchange rates and currency appreciation were areas of obvious weakness for many centres.

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

In terms of microeconomics, most candidates seemed to be fairly confident when dealing with basic demand and supply. In macroeconomics, the theory of inflation seemed to be quite well understood on the whole, as was unemployment. Monetary policy was mostly well dealt with.

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

### Question 1

(a)(i) This was surprisingly poorly answered. Most candidates were aware that they are goods that have positive side effects or are beneficial. However, it was only the stronger candidates who went on to explain that they would be under-provided by the market and so under-consumed.

(a)(ii) This was generally well answered. Most candidates were able to explain that they are the costs suffered by a third party when a good or service is produced or consumed. Weaker candidates wrote about 'bad' effects and little else.

(b) There were mixed responses to this question. Better candidates drew a correctly labelled externalities diagram, where the marginal private benefit curve was to the right of the marginal social benefit curve and indicated either the vertical distance representing the externality or the welfare loss triangle. They then explained that this was a market failure because the costs of traffic congestion are external costs affecting third parties. Examples such as air pollution were used.

Some candidates used a straight supply and demand diagram, with supply curves  $S_{\text{Private}}$  and  $S_{\text{Social}}$  and this was also rewarded. Weaker candidates were confused about the labelling of the various curves, drawing inaccurate diagrams and then failing to explain the concept of market failure.

(c) This question was well answered on the whole. Better candidates explained that public transport is a substitute for private cars and so a fall in the price of public transport would lead to a fall in the demand for cars. They then drew a diagram showing that situation in the market for private cars. Some candidates drew the diagram and then explained that there was a positive cross elasticity of demand between public transport and private cars and this was also acceptable.

(d) This question was generally well answered by the majority of candidates. Most candidates identified positive impacts, such as boosted demand for public transport services (paragraph 2), reduced negative externalities (paragraph 2), higher demand for services located near public transport facilities (paragraph 3), and improvements in the quality of life in Melbourne (paragraph 3). Negative impacts were also identified, such as additional costs to the government (paragraph 4), opportunity costs (paragraph 4), price not being the main determinant of demand (paragraph 5), public transport would not be more attractive to those who live in the suburbs (paragraph 5), there are other more effective strategies (paragraph 5), and the possibilities of government revenue and lower costs if alternative strategies are adopted (paragraph 5). Evaluation often took the form of examining the impact on the different stakeholders or weighing up the advantages against the disadvantages.

## Question 2

(a)(i) This was well answered by most candidates, who defined inflation as a sustained rise in the general or average level of prices (and a fall in the value of money). Some ignored the concept of sustained increase and wrote vaguely about prices going up.

(a)(ii) This was usually very well answered. Most candidates explained that these were reserves of foreign currency held by the central bank or the government of a country (in order to support international trade or to use for adjusting the exchange rate of the country's currency).

(b) Better candidates drew an AD/AS diagram showing a shift in the AS curve to the left and explaining that the rising price of oil would be an increased cost for Vietnamese firms, increasing their production costs and thus forcing them to raise prices. Interestingly, a few candidates were aware that Vietnam is a net oil exporter and they explained that this would lead to increased oil export revenues, shifting AD to the right and thus causing inflation. They were, obviously, fully rewarded.

(c) This question was not well answered. Better candidates drew a diagram using  $AD_L$  and  $AS_L$ , correctly labelled, with a minimum wage above the equilibrium and then an increase in the minimum wage. They showed the fall in employment and explained that the increase in minimum wage would lead to employers hiring fewer workers. Weaker candidates did not seem to be aware of labour markets and often drew simple demand and supply diagrams with the minimum wage below the equilibrium. They seemed to think that 'minimum' meant low.

(d) Obviously, there is no correct answer here and it all depends upon the candidate's logic, analysis, and evaluation. Some candidates selected Thailand as having the strongest economy because of its rate of economic growth, high GDP *per capita*, low level of inflation, low level of unemployment and surplus in the balance of payments current account. Some selected Vietnam because of its high rate of economic growth, low rate of unemployment, low foreign debt, and a more even distribution of income than Thailand. Others selected Indonesia because of its more moderate rate of economic growth, high surplus in the balance of payments current account, good level of foreign currency reserves, and most even distribution of household income.

Evaluation often took the form of considering the short term and long term implications of the figures or of weighing up the relative importance of the different variables offered.

### Question 3

(a)(i) This was not at all well answered. Better candidates explained that inward-oriented policies are designed to encourage the domestic production of goods, rather than importing them, and that they encourage protectionism. However, many candidates did not really have any idea and this was obviously an area that had been ignored in many centres.

(a)(ii) This was also poorly answered. Candidates tended to be very vague and simply to give examples from the text, without defining the term. Better candidates explained that infrastructure involves essential facilities and services that are necessary for economic activity, and then gave relevant examples.

(b) Many candidates were unable to draw a circular flow of income diagram and to include savings and investment. Although it is clearly in the syllabus it was clear that a number of centres had not covered this topic. Many attempts were simplistic in the extreme and were obviously made up on the spot. Better candidates drew a circular flow diagram (2, 3 or 4 sector), and showed savings as a leakage and investment as an injection. They then explained that savings are present consumption foregone and so are taken out of the system and that investment was then that money put back into the system in the form of business expenditure on capital items.

(c) This was the best answered part of this question. Most candidates drew an AD/AS diagram showing a shift to the left of AD and a fall in output as measured by real GDP and explained that an increase in interest rates will discourage borrowing by consumers and investment by firms, thereby reducing aggregate demand and economic growth. Some candidates shifted the SRAS to the left, indicating an increase in firms' costs, with the same outcome. If properly explained, this was fully rewarded.

(d) Candidates seemed to be better on the possible benefits of an "even stronger growth of 10% per annum" than they were on the possible costs. Indeed, weaker candidates rarely identified possible problems associated with high growth rates. Better candidates identified possible benefits as being increased FDI (paragraph 1), increases in employment (paragraph 2), increased government revenue (paragraph 3), increases in incomes, reductions in the level of poverty, and increased demand for goods and services.

Possible costs that were identified were increases in the budget deficit (paragraph③), increases in interest rates (paragraph④), higher inflation (paragraph④), increase in debt (paragraph④), increased levels of pollution (paragraph④), increases in the current account deficit, urbanization, and increased resource use.

Evaluation most often took the form of considering the short term and long term consequences, the impact on different stakeholders, and weighing up and prioritising the possible costs and benefits.

#### Question 4

(a)(i) Most candidates explained that a currency appreciation is the increase in the value of one currency, expressed in terms of another currency, in a floating exchange rate system. Weaker candidates were confused between internal and external and wrote about increases in the value of money within an economy, implying lower prices (deflation).

(a)(ii) This was mostly well answered. The majority of candidates explained that monetary policy was the use by the central bank of changes in interest rates or the money supply to affect AD. A few weaker candidates confused monetary policy with fiscal policy and wrote about taxation and government expenditure.

(b) This question discriminated very well. Better candidates were aware that the central bank could influence the value of the peso by selling Philippines currency on the foreign exchange market and showed a diagram where the supply of the peso shifted to the right, thus bringing down its exchange rate, decreasing the value of the peso relative to the US dollar. Weaker candidates struggled to explain the concepts involved and diagrams were very poor, often in the inappropriate form of AD/AS analysis.

(c) The majority of candidates drew a demand and supply curve for the Mexican mango market, with the demand curve shifting to the right, leading to higher quantities bought and sold and higher prices and explained that an increase in the value of the peso will make exports from the Philippines more expensive and Mexican mangos relatively cheaper, hence increasing the demand for Mexican mangos. Some candidates only considered the Mexican domestic market, where supply will have been reduced by increased exports of Mexican mangos. If properly explained, they were also fully rewarded.

(d) This question tended to be well handled, possibly aided by the abundance of information offered in the text. Candidates identified a number of positive impacts, such as the decreasing cost of debt (paragraph⑥), increased public funds to improve welfare (paragraph⑥), cheaper imports (paragraph⑦), lower inflationary pressures (paragraph⑦), more employment from importing firms, and possible improvements in income distribution. Negative impacts identified were loss of revenue for exporters (paragraph⑤), reduced export profit margins (paragraph⑤), decreased value for remittances from abroad (paragraph④), knock on effect of problems with exports (paragraph⑤), negative impact on the current account (depending on PED), and reduced demand for domestic goods as imports become less expensive.

Evaluation most often took the form of weighing up the positive and negative impacts and coming to a supported decision as to which had the greater weight in total.

**Question 5**

(a)(i) Answers here tended to be either completely right or completely wrong. Stronger candidates explained that the World Bank is an organisation whose main aims are to provide aid and advice to developing countries. Some went further to talk about reduction of poverty levels and encouraging and safeguarding international investment, but this was not necessary for full marks. Weaker candidates seemed to be guessing and thought that the WTO was either the IMF or, more commonly, that it was an international central bank!

(a)(ii) This was well answered and almost all candidates explained that MNCs are companies that conduct an economic activity, the production of a good or service, in more than one country.

(b) The majority of candidates drew a demand and supply diagram for the Australian furniture market showing a shift to the left of the supply curve and a subsequent increase in prices. They explained that due to a reduced supply of wood suitable for the manufacture of furniture, the cost of a raw material would rise, leading to less furniture being produced at a higher price. Weaker candidates did not really understand the link between a fall in the supply of wood and higher costs for Australian furniture makers.

(c) This question was generally well answered. Candidates drew an AD/AS diagram showing a shift to the left in LRAS and explained that the LRAS will decrease due to the depletion of natural resources and so the productive capacity of the nation would fall. Some candidates took a short run approach, explaining that the unsustainable logging could shift SRAS to the right in the short run, since lumber costs would be lower. Others approached the question from an AD point of view, showing that continued logging would keep AD high in the short run, but that in the long run, there will be a leftward shift in AD with subsequent negative growth consequences for the economy. Both alternative explanations, if correctly illustrated and explained, were fully rewarded.

(d) Better candidates identified the fact that the question was asking for an evaluation of “the impact on economic development” and answered accordingly. They defined economic development and then identified positive impacts, such as export revenue (paragraph 2), revenues for the government (paragraph 4), income for landowners (paragraph 5), the use of government revenue to improve health care, education, and social services, possible infrastructure improvements, and employment in the timber industry. Negative impacts were also identified, such as exploitation of forests and environmental damage (paragraph 2), holding back of aid from the World Bank (paragraph 3), continued illegal practices and corruption (paragraph 4), negative externalities from timber processing (paragraph 4), continued social conflict (paragraph 4), MNC industry domination and political influence (paragraph 5), and revenues mostly going to MNCs (paragraph 5).

Evaluation most often took the form of comparing the positive and negative impact on development and coming to a conclusion as to the relative weights. Some candidates considered the most important positive and negative impacts, and others looked at the impacts on different stakeholders.

## Recommendations and guidance for the teaching of future candidates

- Teachers should attempt to ensure that candidates are able to define the economic terms in the syllabus accurately. Candidates should also be able to give supporting diagrams or real world examples, where appropriate. Building up a 'glossary of terms' as the course evolves is one possible way of achieving this. For each term in the glossary, there could be a concise definition, a real world example and, where necessary, a diagram.
- Teachers should attempt to ensure that candidates are able to draw neat, relevant, correctly labelled diagrams. This can be achieved by using diagrammatic representation throughout the teaching of the course and by continual testing. It is important that candidates understand the diagrams and what the curves mean, rather than simply trying to remember what the diagrams look like and learning them in rote fashion. The use of diagrammatic models in economics is an essential part of the economist's role.
- Teachers should attempt to ensure that candidates use the text provided with the questions when giving their answers, especially in part (d). This can only be achieved by giving candidates a lot of practice in the answering of data response questions. They should also be encouraged to give relevant real world examples to support their application of theory and their analysis.
- As has been stated many times before, evaluation is essential in part (d) if candidates are to reach the highest levels of response. Candidates need to be aware of the meaning of evaluation and be able to evaluate in a data response situation. There are many ways to evaluate, but some of the more straightforward ways to achieve effective evaluation are to:
  - consider short run versus long run consequences
  - examine the impact on different shareholders
  - evaluate advantages
  - evaluate disadvantages
  - evaluate advantages versus disadvantages
  - prioritise the arguments

However, it must be remembered that effective evaluation gives justified reasons for the evaluation and does not simply say that one particular factor, for example, is the most important. Students must justify **why** it is the most important.