





## 1 Essential reading

All examiners must be thoroughly familiar with the instructions contained in *Information for examiners and moderators* in addition to these subject specific instructions. This is mandatory reading for all examiners and moderators, regardless of any previous experience as an examiner for the IB Diploma Programme. Examiners for economics must also read the *Economics* guide (February 2003), available on Examnet.

## 2 The structure of the paper

The paper consists of six questions of which candidates are required to answer three. All five sections of the syllabus are covered in this paper. Questions are typically addressed to a single theory, concept, or economic proposition with the invitation to apply it to a particular issue. Each question is worth 10 marks. The maximum mark for the paper is 30.

## 3 Approach to marking

Mark positively and consistently, giving candidates credit for what they have achieved without being influenced too much by omissions.

Use the full range of marks available. Do not use decimals or fractions for individual answers. Do not subtract marks for material that is irrelevant or incorrect: you are looking for evidence of what candidates know and understand. Reward alternative but equally valid answers.

All diagrams used by candidates must be fully labelled and relevant curves identified.

Refer to *Information for examiners and moderators: sections 27-36* for additional guidance on marking scripts.

## 4 Comments on scripts

It is important that you write comments on every script, not just the sample scripts; so that it is possible to see how you arrived at the mark you gave the candidate. These comments should be in the left-hand margin or in the body of the script and should identify well-made points or significant weaknesses in the candidate's answer.

At the end of each answer write a comment which summarizes its general quality and explains the mark awarded, for example:

- an unusually well-sustained argument
- only half the question answered
- a novel and valid approach, well handled
- clearly a prepared answer to a rather different question on the same topic.

These comments are particularly helpful to the senior examiner reviewing your scripts for moderation and at the later stages, including the grade awarding and enquiry upon results.

As a general rule in group 3 examinations there will be a comment of some kind on each page. On those few occasions where you have made no comments you should indicate that you have read each page by writing your initials at the bottom of that page.

Candidates may now request the return of scripts. It is therefore essential that any comments you make are appropriate, constructive and professional.

## 5 Paper-specific instructions

Use both the assessment criteria below and the paper specific markscheme to mark each question.

Mark each question according to the series of points required by the paper-specific markscheme. Given the time constraint for this paper, the style and construction of a polished essay are not expected. Remember that on this paper candidates have approximately 20 minutes per question. Provided that candidates grasp the central point of the question and answer relevantly, they should be rewarded.

Use these assessment criteria as the basis for awarding marks, in addition to the paper-specific markscheme. The candidate's answer should be placed in the level where the majority of descriptors correspond to the candidate's work. Decide which level the answer belongs in and show a ringed mark for each question.

Consult the syllabus to see the area(s) of the course that candidates are required to cover in each question.

The assessment criteria apply to all questions. Each question is worth 10 marks.

| <b>Markband</b> |  | <b>10 marks</b> |
|-----------------|--|-----------------|
| Level 0         | Completely inappropriate answer  | 0 marks         |
| Level 1         | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors                                      | 1–3 marks       |
| Level 2         | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors   | 4–6 marks       |
| Level 3         | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams have been included | 7–8 marks       |
| Level 4         | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors                        | 9–10 marks      |

Where appropriate, diagrams have been included and explained  
Where appropriate, examples have been used

# **MARKSCHEME**

**May 2006**

**ECONOMICS**

**Higher Level**

**Paper 2**

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## Paper Specific Markscheme

*In addition to the assessment criteria use the paper-specific markscheme below. Award up to the maximum marks as indicated. Each question is worth [10 marks].*

**1. Using demand and supply analysis, explain how resources are allocated through changes in price in a market economy.**

Answers may include:

- the notion of scarcity
- allocation of resources via interaction of demand and supply
- no government intervention
- supply and demand diagram to illustrate the signalling effect of a change in demand
- the dynamic process
- supply and demand diagram to illustrate the rationing effect of a change in supply via a change in price
- the dynamic process explained.

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

**2. Define cross elasticity of demand and using diagrams, explain what determines whether cross elasticity of demand is positive or negative.**

Definition of cross elasticity of demand: the % change in quantity demanded of good X in response to a % change in the price of good Y.

Answers may include:

- quantity demanded of any product depends on the price of its substitutes and complements
- assertion that cross elasticity of demand with respect to the price of a complement is negative
- assertion that cross elasticity of demand with respect to the price of a substitute is positive
- explanation of why response of demand is negative or positive
- examples of negative and positive cross elasticity
- the degree to which the quantity of a product demanded changes when the price of substitutes or complements change depends on how close the substitute or complement is
- diagrammatic treatment:
  - a shift in the demand curve right or left
  - positive sloping positive cross elasticity of demand (substitutes)
  - negative sloping negative cross elasticity of demand (complements)

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



**3. Using appropriate diagrams, discuss whether monopoly is more efficient or less efficient than perfect competition.**

Answers may include:

- definitions of efficiency: allocative and productive efficiency
- the firm in perfect competition: in long-run equilibrium the firm is allocatively and productively efficient
- correctly drawn and labelled diagram
- explanation of perfect competition
- the firm in monopoly in long-run equilibrium the firm is neither allocatively nor productively efficient
- correctly drawn and labelled diagram
- explanation of monopoly
- dynamic efficiency: increased profits of monopoly used for investment leading to greater output and lower prices than in perfect competition (economies of scale)
- correctly drawn and labelled diagram

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**4. Using AD/AS diagrams, analyse the likely impact on an economy of the following:**

- (a) a general rise in wage costs**
- (b) the discovery of new raw material sources**
- (c) capital stock increases.**

- a general rise in wage costs will shift the SRAS to the left; illustration of the effect and analysis (some answers may point out that an increase in wages could also result in an upward shift of the AD curve)
- the discovery of new raw material sources will shift the LRAS to the right; illustration of the effect and analysis
- capital stock increases will shift the LRAS curve to the right; illustration of the effect and analysis (some answers may point out that an increase in capital stock could also result in shift in the AD curve to the right)

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**5. Using an appropriate diagram, explain who gains and who loses from the introduction of a tariff.**

- definition of a tariff
- diagrammatic representation of a tariff
- illustration of impact of tariff on the government and analysis
- illustration of impact of tariff on the consumer and analysis
- illustration of impact of tariff on the producer and analysis

Some responses may also refer to losses of foreign producers and to deadweight losses.

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

**6. Explain *two* ways in which the international indebtedness of developing countries might hinder their growth and development.**

Reasons why international trade is restricted answers may include:

- definitions of and distinction between growth and development
- brief discussion of causes of international indebtedness
- ways in which indebtedness can affect growth and development
  - any cuts in demand for exports from OECD countries
  - a fall in the price of primary products as debtor countries try to increase the volume of their exports in order to raise hard currency
  - a rise in real interest rates as capital flows out of the debtor countries to service the debts
  - opportunity costs of debt servicing (such as expenditure on education, public health, infrastructure)
  - balance of payments deficits and the effects of IMF policies on the poor.

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

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