International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

MARKSCHEME

May 2010

ECONOMICS

Higher Level

Paper 2

8 pages

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

1. With the aid of a diagram, explain the impact on producers and consumers of a subsidy on a good.

Candidates **may** include:

- a definition of a subsidy
- an explanation that a subsidy, by lowering firms' costs of production, shifts the supply curve downward (or to the right), with the vertical difference between the two supply curves representing the subsidy per unit of the good
- a correctly labelled supply and demand diagram, showing initial equilibrium price and quantity, and the equilibrium price and quantity that result after the supply curve shift
- explanation that the benefits (or incidence) of the subsidy are shared by consumers and producers
- use of the diagram to show that the price paid by consumers for the good falls (relative to the initial price), while the price received by firms rises (relative to the initial price)
- an explanation that the difference between the new lower price paid by consumers and the initial price is the benefit to consumers (per unit of the good), while the difference between the new higher price received by firms and the initial price is the benefit to firms (per unit of the good)
- the benefits for consumers and producers may be shown by correctly drawn rectangles in the diagram, indicating the total benefits of the subsidy received by consumers and firms respectively.

There is no need for the candidate to consider price elasticity of demand (PED) for full marks.

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

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

Assessment Criteria

Level	Marks	
0	Completely inappropriate answer.	0
1	Little understanding of the specific demands of the question Very little recognition of relevant economic theory Relevant terms not defined Significant errors	1–3
2	Some understanding of the specific demands of the question Some recognition of relevant economic theory Some relevant terms defined Some errors	4–6
3	Understanding of the specific demands of the question Relevant economic theory explained and developed Relevant economic terms defined Few errors Where appropriate, diagrams included	7–8
4	Clear understanding of the specific demands of the question Relevant economic theory clearly explained and developed Relevant economic terms clearly defined No major errors Where appropriate, diagrams included and explained Where appropriate, examples used	9–10

2. With the aid of *at least one* diagram, explain *one* way a consumer might gain from the behaviour of a monopolist and *one* way a consumer might lose from the behaviour of a monopolist.

Candidates **may** include:
- a definition of a monopolist
- graphical representation of a monopoly market structure.

Gains to the consumer:
- economies of scale
- innovation
- use of a diagram to illustrate how the above can lead to gains for the consumer.

Losses to the consumer:
- compared to a competitive industry, it will charge consumers a higher price
- compared to a competitive industry, it will have a lower level of output
- compared to a competitive industry, it will result in lower consumer surplus
- it will give rise to productive and allocative inefficiency
- use of a diagram to illustrate consumer losses, or productive and allocative inefficiency.

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3. Explain how inflation can be measured and explain *three* problems associated with the measurement of inflation.

Candidates **may** include:
- a definition of inflation
- measures of inflation such as a price index, retail price index, deflator, price deflator
- discussion of basket of goods (regimen), weighting, base year, regional issues (country and city).

Problems associated with the measurement of inflation:
- price index based on purchasing preferences of "typical" household
- errors in the collection of data
- changes in consumption habits over time
- quality and types of goods and services change over time
- changes in producer prices are excluded
- one-off events such as seasonal variations, oil price shocks
- international comparisons.

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4. With the aid of a diagram, explain how an increase in transfer payments to the poorest households in a nation is likely to affect the Lorenz curve and the Gini coefficient of that nation.

Candidates **may** include:

- a definition of transfer payments
- a definition of the Lorenz curve
- a definition of the Gini coefficient
- a diagram illustrating a Lorenz curve and the Gini coefficient
- an explanation that an increase in transfer payments to the poorest households can lead to an improvement in income distribution, by increasing the incomes of lower income groups
- an explanation that an improvement in income distribution will cause the Lorenz curve to move towards the line of absolute equality
- an explanation that the Gini coefficient (index) will become lower indicating a more equitable distribution of income.

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5. Explain the difference between a fixed exchange rate and a floating (flexible) exchange rate.

Candidates **may** include:

- a definition of an exchange rate
- a definition of a fixed exchange rate
- a definition of a floating (flexible) exchange rate.
- Explanation of the difference between a fixed exchange rate and a floating (flexible) exchange rate in terms of how they function:
  - explanation of how a fixed exchange rate is maintained at a fixed level: buying and selling by the government of a country of its domestic currency in the foreign exchange market
  - explanation of the factors causing variations of a floating (flexible) exchange rate: changes in the demand for and supply of a currency resulting from changes in trade flows, international interest rate differentials, international price level differentials and speculation.

Diagrams may be used in response to this question but are not essential for the achievement of full marks.

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6. Explain the difference between outward-oriented growth strategies and inward-oriented growth strategies.

Candidates **may** include:
- an explanation that an outward-oriented growth strategy relies on increasing exports as the basis of growth, while an inward-oriented growth strategy relies on protection and increased self-reliance
- an explanation that outward-oriented growth strategies are based on free trade whereas inward-oriented growth strategies are based on import substitution
- an explanation that outward-oriented growth strategies are based on market liberalization whereas inward-oriented growth strategies based on government intervention to regulate domestic industries and protect infant industries
- an explanation of the advantages and disadvantages of outward-oriented growth strategies and inward-oriented growth strategies.

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