



# **MARKSCHEME**

**November 2010**

**ECONOMICS**

**Higher Level**

**Paper 3**

20 pages

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

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

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

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is how much is bought of a good or service at a certain price.

2 *Precise definition* 2

An explanation that it is the willingness and ability to purchase a quantity of a good or service at a certain price.

(ii) **cartel (paragraph 2).** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is a group of producers acting together.

2 *Precise definition* 2

An explanation that it is a group of producers in an industry that join together to regulate supply (or fix prices).

(b) Using an appropriate diagram and evidence from the text, explain how “expectation of further price rises” has affected the price of rice (paragraph ①).

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1-2

For drawing a correctly labelled demand and supply diagram for the rice industry, which shows a shift to the right of the demand curve and an increase in price **or** for providing an explanation that the expectation of higher rice prices in the future means people will buy more now and this will lead to an increase in the demand for rice, raising the price of rice.

2 *Correct application of appropriate theory*

3-4

For drawing a correctly labelled demand and supply diagram for the rice industry, which shows a shift to the right of the demand curve and an increase in price **and** for providing an explanation that the expectation of higher rice prices in the future means people will buy more now and this will lead to an increase in the demand for rice, raising the price of rice.

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

The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

Alternatively, students might explain the increase in price being the result of producers’ decisions to withhold supply in order to be able to sell at higher prices in the future. This would be supported by a diagram showing a fall in supply. If the diagram and explanation match, this approach may achieve full marks.

- (c) Using an appropriate diagram, explain how rice producers could implement a “broad price band in the style of a buffer stock scheme” (paragraph 9) to help stabilize prices. [4 marks]

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled demand and supply diagram for the rice industry, which shows a maximum price and a minimum price <b>or</b> for providing an explanation that if the equilibrium price were above the maximum price, the buffer stock scheme would sell stocks to lower the price and if the equilibrium price were below the minimum price, the buffer stock scheme would purchase the excess to raise the price.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled demand and supply diagram for the rice industry, which shows a maximum price and a minimum price <b>and</b> for providing an explanation that if the equilibrium price were above the maximum price, the buffer stock scheme would sell stocks to lower the price and if the equilibrium price were below the minimum price, the buffer stock scheme would purchase the excess to raise the price. | <b>3-4</b> |

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The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the proposal to form a rice cartel.**

*[8 marks]*

Responses **may** include:

Arguments in favour of forming a rice cartel:

- ensure food stability and address food shortages (*paragraph 2*)
- greater bargaining power for producer countries (*paragraph 2*)
- could prevent possible future price wars (*paragraph 2*)
- could improve the exchange of information about food security (*paragraph 2*)
- reduces the danger of hoarding and panic buying (*paragraph 4*)
- benefits accrue to producers because they can access abnormal/economic profit
- market failure arguments, *e.g.* that affordable rice is a merit good.

Arguments against forming a rice cartel:

- the cartel may raise prices, depriving people of basic food (*paragraphs 3 and 5*)
- a cartel is unlikely to be successful because they “cannot control world production” (*paragraph 5*) and buyers could buy from non-cartel countries
- could cause damage to countries that “rely heavily on imported rice” (*paragraph 5*)
- market forces would lead to a more efficient allocation of resources (*paragraph 6*)
- market failure of monopoly power
- a cartel reduces incentives for improvements in productivity/efficiency.

Effective evaluation may be to:

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

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

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

**Level**

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

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

**(i) market (paragraph 4)** *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is a place where you can buy goods and services.	1
2	<i>Precise definition</i> An explanation that it is buyers and sellers coming together in order to exchange a good or service.	2

**(ii) total revenue (paragraph 6).** *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is the total money received.	1
2	<i>Precise definition</i> An explanation that it is equal to price times quantity sold <b>or</b> that it is the total money received by a firm from the sale of a particular quantity of output.	2

**(b) Using a demand and supply diagram, explain how Nintendo is able to maintain low prices for the Wii game console despite the “strong demand worldwide” (paragraph 2).** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled demand and supply diagram for the Wii market, which shows a shift of the demand and supply curves to the right, with a lower or equal price <b>or</b> for an explanation that the only way that price can be kept low, when demand is increasing, is for the supply to be increased as well.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled demand and supply diagram for the Wii market, which shows a shift of the demand and supply curves to the right, with a lower or equal price <b>and</b> for an explanation that the only way that price can be kept low, when demand is increasing, is for the supply to be increased as well. | <b>3-4</b> |

It is possible that students may explain this answer in terms of Nintendo gaining economies of scale, with an appropriate diagram. If correctly done, this may be fully rewarded.

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

The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

**(c) Using information from the text, explain which market structure the video game market most closely represents.** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For introducing the theory of oligopoly, and for explaining the theory behind its structure.   | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For introducing the theory of oligopoly, and for explaining the theory behind its structure <b>and</b> for using applicable examples from the text, such as: <ul style="list-style-type: none"> <li>• small number of firms – “leading position in a three-way game console battle” (paragraph 2)</li> <li>• lack of price competition – “low price” (paragraph 2)</li> <li>• non-price competition – “increased innovation in the industry” (paragraph 3)</li> <li>• “high supernormal (abnormal) profits” (paragraph 3).</li> </ul> | <b>3-4</b> |



**(d) Using information from the text/data and your knowledge of economics, evaluate the likelihood (chances) of Nintendo being able to maintain its “high supernormal (abnormal) profits” in the future (paragraph 3).**

**[8 marks]**

Responses **may** include:

Factors to support likelihood of maintaining high supernormal (abnormal) profits:

- profits are on an upward trend (paragraph 1)
- strong demand worldwide (paragraph 2)
- high innovation and low price (paragraph 2)
- market leader (paragraph 2)
- diverging to new market segments (paragraph 4)
- barriers to entry.

Factors to support likelihood of not maintaining high supernormal (abnormal) profits:

- Nintendo predicting lower profits than those forecast by economists (paragraph 1)
- three-way battle – high competition (paragraph 2)
- soaring oil prices will increase costs of production (paragraph 5)
- eventual problems of economic slowdown, sluggish consumer spending (paragraph 5)
- the market could be contestable
- the risks associated with rapid technological change.

Effective evaluation may be to:

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

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

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

**Level**

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

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

(i) **depreciation (paragraph 5)** [2 marks]

level

0 *Wrong definition* 0

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

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

(ii) **consumption (paragraph 5).** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1  
The idea that it is spending by consumers.

2 *Precise definition* 2  
An explanation that it is spending by households (consumers) on consumer goods and services.

**(b) Using an AD/AS diagram, explain the likely impact on the UK economy of falling consumer confidence (paragraph 4).** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram which shows a shift of the AD curve to the left, reducing the average price level and national output <b>or</b> for providing an explanation that consumer confidence is a determinant of consumption which is a component of AD, and that falling consumer confidence leads to a fall in consumption and so a fall in AD and output.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram which shows a shift of the AD curve to the left, reducing the average price level and national output <b>and</b> for providing an explanation that consumer confidence is a determinant of consumption which is a component of AD, and that falling consumer confidence leads to a fall in consumption and so a fall in AD and output. | <b>3-4</b> |

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

For AD/AS, the vertical axes may be price level or average price level. The horizontal axes may be output, real output, national output, real national output, national income, or GDP. A title is not necessary.

(c) Using a business cycle diagram and information from the text, explain in which phase of the business cycle (trade cycle) the UK economy appears to be.

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1-2

For drawing a correctly labelled business or trade cycle diagram showing the states of the cycle and indicating a point where the economy is about to reach the peak and then fall into negative values **or** for providing an explanation that the UK economy is still experiencing positive growth and is about to reach the peak of the cycle and then is likely to move into the start of a recession and towards a trough (or slump).

2 *Correct application of appropriate theory*

3-4

For drawing a correctly labelled business or trade cycle diagram showing the states of the cycle and indicating a point where the economy is about to reach the peak and then fall into negative values **and** for providing an explanation that the UK economy is still experiencing positive growth and is about to reach the peak of the cycle and then is likely to move into the start of a recession and towards a trough (or slump).

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

The vertical axes may be labelled GDP, real GDP or total output. The horizontal axes should be labelled time. The labelling on the vertical axes will determine what the cycle looks like and where the correct point asked for is located. A title is not necessary.

**(d) Using information from the text/data and your knowledge of economics, evaluate the consequences for the UK economy if the Bank of England were to raise interest rates from 5% as suggested in paragraph 7.**

**[8 marks]**

Responses **may** include:

Negative consequences:

- may move to a recession (*paragraph 1*)
- consumer confidence will fall further (*paragraph 4*)
- C and I will fall, affecting AD (*paragraph 5*)
- unemployment will increase further (*paragraph 5*)
- household spending will fall as debt repayments increase
- the exchange rate may increase, harming export competitiveness
- rise in business costs, which may cause cost push inflation
- negative wealth effects.

Positive consequences:

- inflation may fall
- an increase in the exchange rate may lead to cheaper imports of raw materials, semi-finished goods, and finished goods, further reducing inflation
- savings may increase.

Effective evaluation may be to:

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

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

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

**Level**

0	No valid discussion.	<b>0</b>
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3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

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

(i) **dumping (paragraph 3)** **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that it involves selling exports at a low price.

2 *Precise definition* **2**

An explanation that it is the selling of a good in another country at a price below the domestic price or below its cost of production.

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

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that it is an indirect tax placed on a good.

2 *Precise definition* **2**

An explanation that it is a duty (tax) that is placed upon imports.

(b) Using a demand and supply diagram, explain why dry cleaners might have to increase the price of their services (*paragraph 5*). [4 marks]

level

- |   |  |     |
|---|--|-----|
| 0 | <i>Inappropriate answer</i>  | 0   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled demand and supply diagram for dry cleaning, which shows a shift of the supply curve to the left and an increase in price <b>or</b> for providing an explanation that the higher price of coat hangers is a cost increase for dry cleaners, which will be passed on to an extent to the consumers in the form of higher prices.       | 1-2 |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled demand and supply diagram for dry cleaning, which shows a shift of the supply curve to the left and an increase in price <b>and</b> for providing an explanation that the higher price of coat hangers is a cost increase for dry cleaners, which will be passed on to an extent to the consumers in the form of higher prices. | 3-4 |

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

The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

(c) Using a cost/revenue diagram, explain how increased costs are having a negative effect on profits of dry cleaners (*paragraph 7*). [4 marks]

level

- |   |   |     |
|---|---|-----|
| 0 | <i>Inappropriate answer</i>   | 0   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled cost and revenue diagram showing an upward shift of AC and MC and a smaller profit box at the profit maximizing level of output (MC = MR) <b>or</b> for explaining that the costs of dry cleaners have increased (due to the tariff and higher energy costs), which reduces their profit.       | 1-2 |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled cost and revenue diagram showing an upward shift of AC and MC and a smaller profit box at the profit maximizing level of output (MC = MR) <b>and</b> for explaining that the costs of dry cleaners have increased (due to the tariff and higher energy costs), which reduces their profit. | 3-4 |

Candidates may draw two diagrams side by side. If this accurately shows a fall in profits, this may be fully rewarded.

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

The vertical axes may be price, costs, or costs and revenues. The horizontal axes is quantity. A title is not necessary.



**(d) Using information from the text/data and your knowledge of economics, evaluate the decision to impose a wire coat hanger tariff.**

**[8 marks]**

Responses **may** include:

Positive consequences of the decision:

- domestic firms may re-enter the industry having been forced out (*paragraphs 2 and 6*)
- may reduce import expenditure (*paragraph 2*)
- eliminates dumping (*paragraph 3*)
- increased domestic employment (*paragraph 4*)
- government revenue.

Negative consequences of the decision:

- higher costs of hangers and dry cleaning for domestic consumers (*paragraph 1*)
- the negative effect on the dry cleaning industry (*paragraph 5*) as they have to pay more for coat hangers
- damage to Chinese producers
- misallocation of resources
- retaliation.

Effective evaluation may be to:

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

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**Level**

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1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
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3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

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

(i) **infrastructure** (*paragraph 2*) **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**  
The idea that the government provides things like roads.

2 *Precise definition* **2**  
Any of the following:  

- essential facilities that add to the capital stock of the economy
- capital typically provided by government to make economic activity possible.

An answer that simply gives examples should not get any marks.  
An answer that falls just short of being precise may get full marks if supported by an appropriate example.

(ii) **bilateral aid** (*paragraph 5*). **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**  
The idea that two countries are involved.

2 *Precise definition* **2**  
An explanation that it is aid that is given directly from one country to another.

**(b) Using an appropriate diagram, explain why it remains difficult for “Haitian households to break out of the poverty cycle” (paragraph 4).** [4 marks]

level

- 0 *Inappropriate answer* **0**
- 1 *Identification of appropriate theory* **1-2**  
 For drawing a correctly labelled poverty cycle diagram, which shows a suitable circular argument beginning and ending with poverty and/or low incomes **or** for providing an explanation that there are factors that are connected that will perpetuate poverty and for describing such a series of circumstances for Haitian households.
- 2 *Correct application of appropriate theory* **3-4**  
 For drawing a correctly labelled poverty cycle diagram, which shows a suitable circular argument beginning and ending with poverty and/or low incomes **and** for providing an explanation that there are factors that are connected that will perpetuate poverty and for describing such a series of circumstances for Haitian households.

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

**(c) With reference to Figure 1, explain why there is a difference between the Human Development Index (HDI) figures for Haiti and Madagascar.** [4 marks]

level

- 0 *Inappropriate answer* **0**
- 1 *Identification of appropriate theory* **1-2**  
 For noting that Madagascar has a higher HDI and that the HDI includes more than just GDP *per capita*.
- 2 *Correct application of appropriate theory* **3-4**  
 For noting that Madagascar has a higher HDI and that the HDI includes more than just GDP *per capita* **and** for explaining that education and healthcare in Madagascar are presumably better than in Haiti, thus leading to a relatively higher HDI position, despite its lower GDP *per capita*.

**(d) Using information from the text/data and your knowledge of economics, evaluate aid as a means of achieving economic development in Haiti. [8 marks]**

Responses **may** include:

- a definition of economic development
- some types of aid.

Factors relating to the aid include:

- food aid is essential in the short-run (*paragraph 2*)
- aid is of little use if it cannot be distributed (*paragraph 2*)
- rural areas suffer more than urban areas (*paragraph 3*)
- food aid is a temporary measure (*paragraph 4*)
- development aid is critical (*paragraph 4*)
- rebuilding roads and schools (*paragraph 5*)
- importance of aid to help education and health (*Figure 1*)
- aid is no use without infrastructure and solving corruption
- other factors – institutional
- alternative of trade
- criticism of aid schemes
- discussion of the difference between multilateral and bilateral aid in the Haitian context
- evaluation of long-term aid as opposed to food aid (*paragraph 5*).

Effective evaluation may be to:

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

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

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

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