



INTERNATIONAL BACCALAUREATE ORGANIZATION

ECONOMICS

*Economics*  
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The online version of this publication contains glossary definitions and diagrams. It is available on the online curriculum centre (OCC) at [www.online.ibo.org](http://www.online.ibo.org), the password-protected web site for IB teachers.

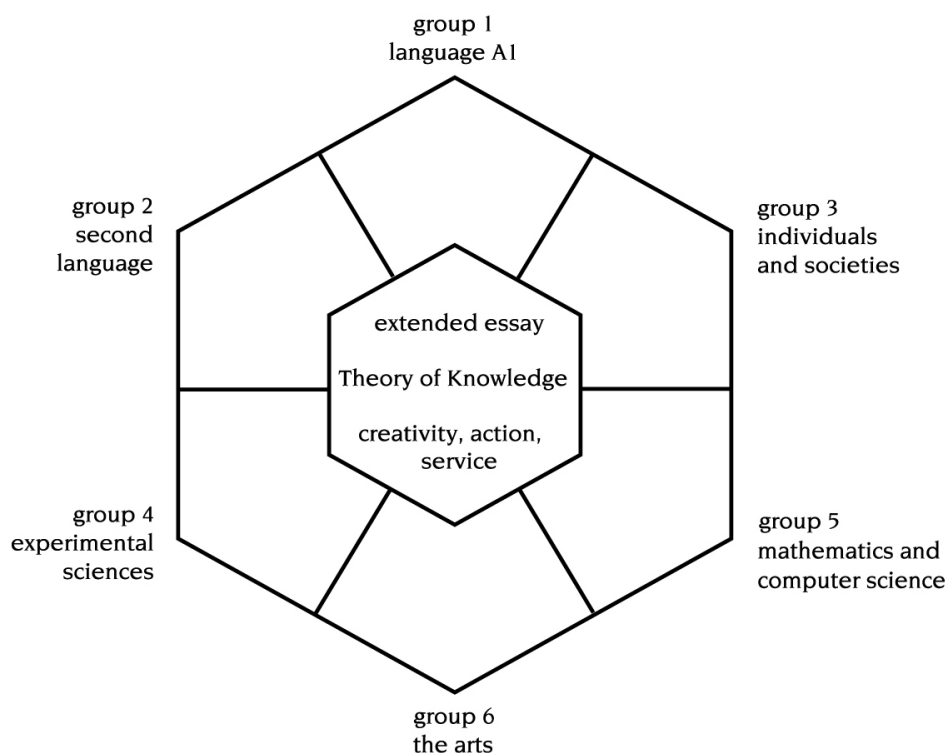


# INTRODUCTION

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The International Baccalaureate Diploma Programme is a rigorous pre-university course of studies, leading to examinations, that meets the needs of highly motivated secondary school students between the ages of 16 and 19 years. Designed as a comprehensive two-year curriculum that allows its graduates to fulfill requirements of various national education systems, the Diploma Programme model is based on the pattern of no single country but incorporates the best elements of many. The Diploma Programme is available in English, French and Spanish.

The curriculum is displayed in the shape of a hexagon with six academic areas surrounding the core. Subjects are studied concurrently and students are exposed to the two great traditions of learning: the humanities and the sciences.



Diploma Programme candidates are required to select one subject from each of the six subject groups. At least three and not more than four are taken at higher level (HL), the others at standard level (SL). Higher level courses represent 240 teaching hours; SL courses cover 150 hours. By arranging work in this fashion, students are able to explore some subjects in depth and some more broadly over the two-year period; this is a deliberate compromise between the early specialization preferred in some national systems and the breadth found in others.

Distribution requirements ensure that the science-orientated student is challenged to learn a foreign language and that the natural linguist becomes familiar with science laboratory procedures. While overall balance is maintained, flexibility in choosing higher level concentrations allows the student to pursue areas of personal interest and to meet special requirements for university entrance.

Successful Diploma Programme candidates meet three requirements in addition to the six subjects. The interdisciplinary Theory of Knowledge (TOK) course is designed to develop a coherent approach to learning which transcends and unifies the academic areas and encourages appreciation of other cultural perspectives. The extended essay of some 4000 words offers the opportunity to investigate a topic of special interest and acquaints students with the independent research and writing skills expected at university. Participation in the creativity, action, service (CAS) requirement encourages students to be involved in creative pursuits, physical activities and service projects in the local, national and international contexts.

**For first examinations in 2005**

# AIMS

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The aims of all subjects in **group 3, individuals and societies** are to:

- encourage the systematic and critical study of: human experience and behaviour; physical, political, economic and social environments; the history and development of social and cultural institutions
- develop in the student the capacity to identify, to analyse critically and to evaluate theories, concepts and arguments about the nature and activities of the individual and society
- enable the student to collect, describe, analyse and interpret complex data and source material and to test hypotheses
- develop an awareness in the student that human attitudes and beliefs are widely diverse and that the study of society requires an appreciation of such diversity
- enable the student to recognize that the knowledge and methodologies of the subjects in group 3 are contestable and that their study requires the acceptance of uncertainty.

The aims of the **economics** course at higher level and standard level are to:

- provide students with a core knowledge of economics
- encourage students to think critically about economics
- promote an awareness and understanding of internationalism in economics
- encourage students' development as independent learners
- enable students to distinguish between positive and normative economics
- enable students to recognize their own tendencies for bias.

# NATURE OF THE SUBJECT

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Economics is a dynamic social science, forming part of the study of individuals and societies. The study of economics is essentially about the concept of scarcity and the problem of resource allocation.

Although economics involves the formulation of theory, it is not a purely theoretical subject: economic theories can be applied to real-world examples. Neither is economics a discrete subject, since economics incorporates elements of history, geography, psychology, sociology, political studies and many other related fields of study.

Economics does not exist in a vacuum, because it naturally must consider how economic theory is to be applied in an international context.

The scientific approach characterizes the standard methodology of economics. This methodology can be summarized as a progression from problem identification, through hypothesis formulation and testing, arriving finally at a conclusion.

Alongside the empirical observations of positive economics, students of the subject are asked to formulate normative questions. Encouraging students to explore such questions forms the central focus of the economics course.



# INTERNATIONALISM IN THE ECONOMICS COURSE

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Internationalism can be defined as the ideal or practice of cooperation and understanding among countries. Economics has an important role to play in promoting such international cooperation and mutual understanding because of its focus on global issues.

Teachers of the course must aim to promote an awareness in their students of how the impact of economics can both improve cooperation and understanding between countries and, unfortunately, cause extensive damage.

If all participants in the global economy are to achieve a better quality of life for their populations, there must be economic cooperation between all countries. This does not mean that developed countries must control the destinies of less-developed countries. Instead, it means sharing concepts across cultures, against a background of economic awareness.

To achieve this understanding, students must be taught to consider economic theories, ideas and happenings from the points of view of different individuals, nations and cultures in the world economy. Although complete knowledge is impossible, students can search for understanding through a wide range of different aspects of the global economy. Their search may inspire a lifelong interest in the promotion of international understanding.

# OBJECTIVES

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Having followed the Diploma Programme course in economics, candidates will be expected to:

1. have an understanding and knowledge of economic concepts and theories
2. apply economic theory to a range of circumstances and a variety of situations
3. analyse information through the use of economic concepts and theories
4. evaluate concepts and theories from different economic perspectives.

# SYLLABUS OUTLINE

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## Higher level and standard level

### Section 1: Introduction to economics

### Section 2: Microeconomics

- 2.1 Markets
- 2.2 Elasticities
- 2.3 Theory of the firm (higher level only)
- 2.4 Market failure

### Section 3: Macroeconomics

- 3.1 Measuring national income
- 3.2 Introduction to development
- 3.3 Macroeconomic models
- 3.4 Demand-side and supply-side policies
- 3.5 Unemployment and inflation
- 3.6 Distribution of income

### Section 4: International economics

- 4.1 Reasons for trade
- 4.2 Free trade and protectionism
- 4.3 Economic integration
- 4.4 World Trade Organization (WTO)
- 4.5 Balance of payments

- 4.6 Exchange rates
- 4.7 Balance of payment problems
- 4.8 Terms of trade

## **Section 5: Development economics**

- 5.1 Sources of economic growth and/or development
- 5.2 Consequences of growth
- 5.3 Barriers to economic growth and/or development
- 5.4 Growth and development strategies
- 5.5 Evaluation of growth and development strategies

# SYLLABUS DETAILS

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## Higher level and standard level topics

### Section I : Introduction to economics

The purpose of this section is to introduce the basic terminology and concepts of economics. Students are encouraged to consider what markets and governments can and cannot do. This section of the syllabus gives them an early opportunity to begin to explain economic phenomena through the use of diagrams, data analysis and the evaluation of economic material. This section is intended to make students aware of the role of economics in real-world situations. Even at this initial stage teachers and students should consider the application of economic theories to developing countries, since development economics is integral to the course.

- Definitions of social science and economics
- Definitions of microeconomics and macroeconomics
- Definitions of growth, development, and sustainable development
- Positive and normative concepts
- *Ceteris paribus*
- Scarcity
  - factors of production: land, labour, capital and management/entrepreneurship
  - payments to factors of production: rent, wages, interest, profit
- Choice
  - utility: basic definition
  - opportunity cost
  - free and economic goods
  - production possibility curves: definition
    - diagrams showing opportunity cost, actual and potential output
    - diagrams showing economic growth and economic development

- Rationing systems
  - basic economic questions
    - what to produce?
    - how to produce?
    - for whom to produce?
  - mixed economies
    - public
    - private
    - central planning versus free market
    - economies in transition

## Section 2: Microeconomics

The purpose of this section is to identify and explain the importance of markets and the role played by demand and supply. The roles played by consumers, producers and the government in different market structures are highlighted. The failures of a market system are identified and possible solutions are examined.

The concepts learned here have links with other areas of the economics syllabus; for example, elasticity has many applications in different areas of international trade and development.

### 2.1 Markets

- Definition of markets with relevant local, national and international examples
- Brief descriptions of perfect competition, monopoly and oligopoly as different types of market structures, and monopolistic competition, using the characteristics of the number of buyers and sellers, type of product and barriers to entry
- Importance of price as a signal and as an incentive in terms of resource allocation

#### Demand

- Definition of demand
- Law of demand with diagrammatic analysis
- Determinants of demand
- Fundamental distinction between a movement along a demand curve and a shift of the demand curve

## Higher level extension topic

- Exceptions to the law of demand (the upward-sloping demand curve)
  - ostentatious (Veblen) goods
  - role of expectations
  - Giffen goods

**Supply**

- Definition of supply
- Law of supply with diagrammatic analysis
- Determinants of supply
- Effect of taxes and subsidies on supply
- Fundamental distinction between a movement along a supply curve and a shift of the supply curve

**Interaction of demand and supply**

- Equilibrium market clearing price and quantity
- Diagrammatic analysis of changes in demand and supply to show the adjustment to a new equilibrium

**Price controls**

- Maximum price: causes and consequences
- Minimum price: causes and consequences
- Price support/buffer stock schemes
- Commodity agreements

**2.2 Elasticities****Price elasticity of demand (PED)**

- Formula  $\frac{\% \Delta \text{ in } Q_d}{\% \Delta \text{ in price}}$
- Definition
- Possible range of values
- Diagrams illustrating the range of values of elasticity
- Varying elasticity along a straight-line D curve
- Determinants of price elasticity of demand

**Cross-elasticity of demand**

- Definition
- Formula
- Significance of sign with respect to complements and substitutes

**Income elasticity of demand**

- Definition
- Formula
- Normal goods
- Inferior goods

**Price elasticity of supply**

- Definition
- Formula
- Possible range of values
- Diagrams illustrating the range of values of elasticity
- Determinants of price elasticity of supply

**Applications of concepts of elasticity**

- PED and business decisions: the effect of price changes on total revenue
- PED and taxation
- Cross-elasticity of demand: relevance for firms
- Significance of income elasticity for sectoral change (primary › secondary › tertiary) as economic growth occurs

**Higher level extension topics**

- Flat rate and *ad valorem* taxes
- Incidence of indirect taxes and subsidies on the producer and consumer
- Implication of elasticity of supply and demand for the incidence (burden) of taxation

## 2.3 Theory of the firm

**Higher level topics****Cost theory**

- Types of costs: fixed costs, variable costs (distinction between short-run and long-run)
- Total, average and marginal costs



- Accounting cost + opportunity cost = economic cost

### Short-run

- Law of diminishing returns
- Total product, average product, marginal product
- Short-run cost curves

### Long-run

- Economies of scale
- Diseconomies of scale
- Long-run cost curves

### Revenues

- Total revenue
- Marginal revenue
- Average revenue

### Profit

- Distinction between normal (zero) and supernormal (abnormal) profit
- Profit maximization in terms of total revenue and total costs, and in terms of marginal revenue and marginal cost
- Profit maximization assumed to be the main goal of firms but other goals exist (sales volume maximization, revenue maximization, environmental concerns)

### Perfect competition

- Assumptions of the model
- Demand curve facing the industry and the firm in perfect competition
- Profit-maximizing level of output and price in the short-run and long-run
- The possibility of abnormal profits/losses in the short-run and normal profits in the long-run
- Shut-down price, break-even price
- Definitions of allocative and productive (technical) efficiency
- Efficiency in perfect competition

### Monopoly

- Assumptions of the model
- Sources of monopoly power/barriers to entry
- Natural monopoly
- Demand curve facing the monopolist

- Profit-maximizing level of output
- Advantages and disadvantages of monopoly in comparison with perfect competition
- Efficiency in monopoly

### **Monopolistic competition**

- Assumptions of the model
- Short-run and long-run equilibrium
- Product differentiation
- Efficiency in monopolistic competition

### **Oligopoly**

- Assumptions of the model
- Collusive and non-collusive oligopoly
- Cartels
- Kinked demand curve as one model to describe interdependent behaviour
- Importance of non-price competition
- Theory of contestable markets

### **Price discrimination**

- Definition
- Reasons for price discrimination
- Necessary conditions for the practice of price discrimination
- Possible advantages to either the producer or the consumer

## **2.4 Market failure**

### **Reasons for market failure**

- Positive and negative externalities, with appropriate diagrams
- Short-term and long-term environmental concerns, with reference to sustainable development
- Lack of public goods
- Underprovision of merit goods
- Overprovision of demerit goods
- Abuse of monopoly power

### **Possible government responses**

- Legislation
- Direct provision of merit and public goods
- Taxation

- Subsidies
- Tradable permits
- Extension of property rights
- Advertising to encourage or discourage consumption
- International cooperation among governments

## Section 3: Macroeconomics

The purpose of this section is to provide students with the opportunity for a detailed examination of the major macroeconomic issues facing countries' economic growth, economic development, unemployment, inflation and income distribution.

Section 4 deals with external equilibrium. Income distribution is introduced here in section 3 but is addressed in greater detail in section 5.

The economic strategies available to governments—demand-side policies, supply-side policies, direct intervention—are introduced and evaluated. These policies are applicable to almost all areas of macroeconomics, international economics and development economics.

### 3.1 Measuring national income

- Circular flow of income
- Methods of measurement—income, expenditure and output
- Distinction between:
  - gross and net
  - national and domestic
  - nominal and real
  - total and *per capita*

### 3.2 Introduction to development

- Definitions of economic growth and economic development
- Differences in the definitions of the two concepts
- Gross Domestic Product (GDP) versus Gross National Product (GNP) as measures of growth
- Limitations of using GDP as a measure to compare welfare between countries
- Allowance for differences in purchasing power when comparing welfare between countries
- Alternative methods of measurement
- Problems of measuring development

### 3.3 Macroeconomic models

- Aggregate demand—components
- Aggregate supply
  - short-run
  - long-run (Keynesian versus neo-classical approach)
- Full employment level of national income
- Equilibrium level of national income
- Inflationary gap
- Deflationary gap
- Diagram illustrating trade/business cycle

### 3.4 Demand-side and supply-side policies

- Shifts in the aggregate demand curve/demand-side policies
  - fiscal policy
  - interest rates as a tool of monetary policy
- Shifts in the aggregate supply curve/supply-side policies
- Strengths and weaknesses of these policies

#### Higher level extension topics

- Multiplier
  - calculation of multiplier
- Accelerator
- “Crowding out”

### 3.5 Unemployment and inflation

#### Unemployment

- Full employment and underemployment
- Unemployment rate
- Costs of unemployment
- Types of unemployment
  - structural
  - frictional
  - seasonal
  - cyclical/demand-deficient
  - real wage
- Measures to deal with unemployment

## Inflation

- Definitions of inflation and deflation
- Costs of inflation and deflation
- Causes of inflation
  - cost push
  - demand pull
  - excess monetary growth

### Higher level extension topics

- Methods of measuring inflation
- Problems of the methods of measuring inflation
- Phillips curve
  - short-run
  - long-run
- Natural rate of unemployment
- Non-Accelerating Inflation Rate of Unemployment (NAIRU)

## 3.6 Distribution of income

- Direct taxation
- Indirect taxation
- Progressive taxation
- Proportional taxation
- Regressive taxation
- Transfer payments

### Higher level extension topics

- Laffer curve
- Lorenz curve and Gini coefficient

## Section 4: International economics

The purpose of this section is to encourage candidates to understand why countries trade, the problems involved and how these problems are addressed. Students need to understand how exchange rates affect international trade. The international trade theory introduced in this section should be related to real-world examples.

### 4.1 Reasons for trade

- Differences in factor endowments
- Variety and quality of goods
- Gains from specialization
- Political

#### Higher level extension topic

- Absolute and comparative advantage (numerical and diagrammatic representations)
  - opportunity cost
  - limitations of the theory of comparative advantage

### 4.2 Free trade and protectionism

#### Definition of free trade

#### Types of protectionism

- Tariffs
- Quotas
- Subsidies
- Voluntary Export Restraints (VERs)
- Administrative obstacles
- Health and safety standards
- Environmental standards

#### Arguments for protectionism

- Infant industry argument
- Efforts of a developing country to diversify
- Protection of employment
- Source of government revenue
- Strategic arguments
- Means to overcome a balance of payments disequilibrium
- Anti-dumping

### Arguments against protectionism

- Inefficiency of resource allocation
- Costs of long-run reliance on protectionist methods
- Increased prices of goods and services to consumers
- The cost effect of protected imports on export competitiveness

## 4.3 Economic integration

### Globalization

### Trading blocs

- Free trade areas (FTAs)
- Customs unions
- Common markets

### Higher level extension topics

- Trade creation and trade diversion
- Obstacles to achieving integration
  - reluctance to surrender political sovereignty
  - reluctance to surrender economic sovereignty

## 4.4 World Trade Organization (WTO)

- Aims
- Success and failure viewed from different perspectives

## 4.5 Balance of payments

- Current account
  - balance of trade
  - invisible balance
- Capital account

## 4.6 Exchange rates

- Fixed exchange rates
- Floating exchange rates
- Managed exchange rates
- Distinction between
  - depreciation and devaluation
  - appreciation and revaluation

- Effects on exchange rates of
  - trade flow
  - capital flows/interest rate changes
  - inflation
  - speculation
  - use of foreign currency reserves

**Higher level extension topics**

- Relative advantages and disadvantages of fixed and floating rates
- Advantages and disadvantages of single currencies/monetary integration
- Purchasing power parity theory (PPP)

## 4.7 Balance of payment problems

- Consequences of a current account deficit or surplus
- Methods of correction
  - managed changes in exchange rates
  - reduction in aggregate demand/expenditure-reducing policies
  - change in supply-side policies to increase competitiveness
  - protectionism/expenditure-switching policies
- Consequences of a capital account deficit or surplus

**Higher level extension topics**

- Marshall-Lerner condition
- J-curve

## 4.8 Terms of trade

- Definition of terms of trade
- Consequences of a change in the terms of trade for a country's balance of payments and domestic economy
- The significance of deteriorating terms of trade for developing countries

**Higher level extension topics**

- Measurement of terms of trade
- Causes of changes in a country's terms of trade in the short-run and long-run
- Elasticity of demand for imports and exports



## Section 5: Development economics

Throughout the course, students are introduced to several important concepts in development economics and, in particular, to the fundamental distinction between economic growth and economic development established in section 3. This important distinction needs to be re-emphasized at the beginning of this section.

Given the dynamic nature of the international economy, it is problematic to group countries into clearly established categories such as developed, developing, newly industrialized countries (NICs) and transition economies. However, students should understand current terminology and be aware that similarities and differences exist within different categories. It is important for teachers to help students find relevant examples of the different categories of countries.

The main purpose of this section is to provide students with the opportunity to understand the problems faced by developing countries, and to develop an awareness of possible solutions to these problems.

### 5.1 Sources of economic growth and/or development

- Natural factors: the quantity and/or quality of land or raw materials
- Human factors: the quantity and/or quality of human resources
- Physical capital and technological factors: the quantity and/or quality of physical capital
- Institutional factors that contribute to development
  - banking system
  - education system
  - health care
  - infrastructure
  - political stability

### 5.2 Consequences of growth

- Externalities
- Income distribution
- Sustainability

### 5.3 Barriers to economic growth and/or development

- Poverty cycle: low incomes › low savings › low investment › low incomes
- Institutional and political factors
  - ineffective taxation structure
  - lack of property rights
  - political instability
  - corruption
  - unequal distribution of income
  - formal and informal markets
  - lack of infrastructure

- International trade barriers
  - overdependence on primary products
  - consequences of adverse terms of trade
  - consequences of a narrow range of exports
  - protectionism in international trade
- International financial barriers
  - indebtedness
  - non-convertible currencies
  - capital flight
- Social and cultural factors acting as barriers
  - religion
  - culture
  - tradition
  - gender issues

## 5.4 Growth and development strategies

- Harrod-Domar growth model
- Structural change/dual sector model
- Types of aid
  - bilateral, multilateral
  - grant aid, soft loans
  - official aid
  - tied aid
- Export-led growth/outward-oriented strategies
- Import substitution/inward-oriented strategies/protectionism
- Commercial loans
- Fair trade organizations
- Micro-credit schemes
- Foreign direct investment
- Sustainable development

## 5.5 Evaluation of growth and development strategies

- Evaluation of the following in terms of achieving growth and/or development
  - aid and trade
  - market-led and interventionist strategies
- The role of international financial institutions
  - the International Monetary Fund (IMF)
  - the World Bank
  - private sector banks
  - non-governmental organizations (NGOs)
  - multinational corporations/transnational corporations (MNCs/TNCs)
  - commodity agreements

# HIGHER LEVEL ASSESSMENT

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## Outline

For first examinations in 2005

**External assessment** **80%**

**Written papers** **4 hours**

**Paper 1** **1 hour** **20%**

This paper consists of four extended-response questions based on all five sections of the syllabus. Each question is divided into two parts and may relate to more than one section of the syllabus.

Candidates must attempt one question.

**Paper 2** **1 hour** **20%**

A short-answer question paper based on all five sections of the syllabus.

The paper consists of six questions.

Candidates must attempt three questions.

**Paper 3** **2 hours** **40%**

A data-response paper based on all five sections of the syllabus.

The paper consists of five structured questions based on all five sections of the syllabus.

Candidates must attempt three questions.

**Internal assessment** **20%**

Candidates produce a portfolio of four commentaries.

# Details

## External assessment

**80%**

### Structure

Three written examination papers

80% of the overall assessment

Papers assess objectives 1, 2, 3 and 4 of the course.

#### Paper 1

**1 hour**

**20%**

This paper consists of four extended-response questions based on all five sections of the syllabus. Each question may relate to more than one section of the syllabus.

Candidates must attempt one question.

Each question has two parts. Part (a) is worth 10 marks and part (b) is worth 15 marks, giving a total of 25 marks.

The maximum mark for this paper is 25.

#### Paper 2

**1 hour**

**20%**

This paper consists of six short-answer questions, one from each section of the syllabus, and an additional question from any section of the syllabus.

Candidates must attempt three questions.

The maximum mark for each question is 10.

The maximum mark for this paper is 30.

#### Paper 3

**2 hours**

**40%**

This paper consists of five structured data-response questions designed to assess the whole range of the syllabus.

Each question will focus on one section of the syllabus but may require candidates to draw on knowledge and understanding of other sections.

Candidates must attempt three questions.

The data used as the basis for the question may be in the form of text or a diagram or both.

Each question is structured in the same way. The first part tests knowledge and the other parts test application, analysis and evaluation.

The maximum mark for each question is 20.

The maximum mark for this paper is 60.

## Internal assessment

20%

Candidates must produce a portfolio of four commentaries, each 650–750 words, based on a news media extract, linking economic theory to a real-world situation.

Three of the four commentaries must have as their main focus a different section of the syllabus, although it is acceptable for commentaries to make reference to other sections.

The fourth commentary can focus either on a single section or on two or more sections of the syllabus.

# Criteria

## Paper I

20%

In addition to the assessment criteria provided here, there will be paper-specific markschemes.

## Extended-response questions

The assessment criteria apply to all questions.

Each question is worth 25 marks.

All questions are structured in the same way.

### Part (a)

10 marks

| level |                                                                                                                                        | marks |
|-------|----------------------------------------------------------------------------------------------------------------------------------------|-------|
| 0     | Inappropriate answer.                                                                                                                  | 0     |
| 1     | Limited knowledge but some basic points made. There may be significant errors and/or omission of important points.                     | 1–4   |
| 2     | Evidence of familiarity with basic economic principles. Some ability to apply relevant theory and/or to analyse using relevant theory. | 5–6   |
| 3     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory or to analyse using relevant theory.    | 7–8   |
| 4     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory and to analyse using relevant theory.   | 9–10  |

### Part (b)

15 marks

| level |                                                                                                                                         | marks |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------|-------|
| 0     | Inappropriate answer.                                                                                                                   | 0     |
| 1     | Limited knowledge but some basic points made. There may be significant errors and/or omission of important points.                      | 1–3   |
| 2     | Evidence of familiarity with basic economic principles. Some ability to apply relevant theory and/or to analyse using relevant theory.  | 4–7   |
| 3     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory and/or to analyse using relevant theory. | 8–12  |

|          |                                                                                                                                                                          |              |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>4</b> | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory and/or to analyse using relevant theory. Evidence of ability to evaluate. | <b>13–15</b> |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|

## Paper 2 20%

In addition to the assessment criteria provided here, there will be paper-specific markschemes.

### Short-answer questions

The assessment criteria apply to all questions.

Each question is worth 10 marks.

All questions are presented in the same way

|              |                                                                                                                                        | <b>10 marks</b> |
|--------------|----------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>level</b> |                                                                                                                                        | <b>marks</b>    |
| <b>0</b>     | Inappropriate answer.                                                                                                                  | <b>0</b>        |
| <b>1</b>     | Limited knowledge but some basic points made. There may be significant errors and/or omission of important points.                     | <b>1–3</b>      |
| <b>2</b>     | Evidence of familiarity with basic economic principles. Some ability to apply relevant theory and/or to analyse using relevant theory. | <b>4–6</b>      |
| <b>3</b>     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory or to analyse using relevant theory.    | <b>7–8</b>      |
| <b>4</b>     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory and to analyse using relevant theory.   | <b>9–10</b>     |

## Paper 3 40%

In addition to the assessment criteria provided here, there will be paper-specific markschemes.

### Data-response questions

The assessment criteria apply to all questions.

Each question is worth 20 marks.

All questions are divided into four parts.



### Part (a)(i) 2 marks

| level |                                                                             | marks |
|-------|-----------------------------------------------------------------------------|-------|
| 0     | Wrong definition.                                                           | 0     |
| 1     | Vague definition.                                                           | 1     |
| 2     | Precise definition, <b>or</b> vague definition with an appropriate example. | 2     |

### Part (a)(ii) 2 marks

| level |                                                                             | marks |
|-------|-----------------------------------------------------------------------------|-------|
| 0     | Wrong definition.                                                           | 0     |
| 1     | Vague definition.                                                           | 1     |
| 2     | Precise definition, <b>or</b> vague definition with an appropriate example. | 2     |

### Part (b) 4 marks

| level |                                            | marks |
|-------|--------------------------------------------|-------|
| 0     | Inappropriate answer.                      | 0     |
| 1     | Identification of appropriate theory.      | 1–2   |
| 2     | Correct application of appropriate theory. | 3–4   |

### Part (c) 4 marks

| level |                                            | marks |
|-------|--------------------------------------------|-------|
| 0     | Inappropriate answer.                      | 0     |
| 1     | Identification of appropriate theory.      | 1–2   |
| 2     | Correct application of appropriate theory. | 3–4   |

### Part (d) 8 marks

| level |                                                                                                                                   | marks |
|-------|-----------------------------------------------------------------------------------------------------------------------------------|-------|
| 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   |



# STANDARD LEVEL ASSESSMENT

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## Outline

For first examinations in 2005

**External assessment** **75%**

**Written papers** **3 hours**

**Paper 1** **1 hour** **25%**

This paper consists of four extended-response questions based on all five sections of the syllabus. Each question is divided into two parts and may relate to more than one section of the syllabus.

Candidates must attempt one question.

**Paper 2** **2 hours** **50%**

A data-response question paper based on all five sections of the syllabus.

The paper consists of five structured questions based on all five sections of the syllabus.

Candidates must attempt three questions.

**Internal assessment** **25%**

Candidates produce a portfolio of four commentaries.

## Details

### External assessment

**75%**

#### Structure

Two written examination papers

75% of the overall assessment

Papers assess objectives 1, 2, 3 and 4 of the course.

#### Paper 1

**1 hour****25%**

This paper consists of four extended-response questions based on all five sections of the syllabus. Each question may relate to more than one section of the syllabus.

Candidates must attempt one question.

Each question has two parts. Part (a) is worth 10 marks and part (b) is worth 15 marks, giving a total of 25 marks.

The maximum mark for this paper is 25.

#### Paper 2

**2 hours****50%**

This paper consists of five structured data-response questions designed to assess the whole range of the syllabus.

Each question will focus on one section of the syllabus but may require candidates to draw on knowledge and understanding of other sections.

Candidates must attempt three questions.

The data used as the basis for the question may be in the form of text or a diagram or both.

Each question is structured in the same way. The first part tests knowledge and the other parts test application, analysis and evaluation.

The maximum mark for each question is 20.

The maximum mark for this paper is 60.

### Internal assessment

**25%**

Candidates must produce a portfolio of four commentaries, each 650–750 words, based on a news media extract, linking economic theory to a real-world situation.

Three of the four commentaries must have as their main focus a different section of the syllabus, although it is acceptable for commentaries to make reference to other sections.

The fourth commentary can focus either on a single section or on two or more sections of the syllabus.

# Criteria

## Paper I

25%

In addition to the assessment criteria provided here, there will be paper-specific markschemes.

## Extended-response questions

The assessment criteria apply to all questions.

Each question is worth 25 marks.

All questions are structured in the same way.

### Part (a)

10 marks

| level |                                                                                                                                        | marks |
|-------|----------------------------------------------------------------------------------------------------------------------------------------|-------|
| 0     | Inappropriate answer.                                                                                                                  | 0     |
| 1     | Limited knowledge but some basic points made. There may be significant errors and/or omission of important points.                     | 1–4   |
| 2     | Evidence of familiarity with basic economic principles. Some ability to apply relevant theory and/or to analyse using relevant theory. | 5–6   |
| 3     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory or to analyse using relevant theory.    | 7–8   |
| 4     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory and to analyse using relevant theory.   | 9–10  |

### Part (b)

15 marks

| level |                                                                                                                                         | marks |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------|-------|
| 0     | Inappropriate answer.                                                                                                                   | 0     |
| 1     | Limited knowledge but some basic points made. There may be significant errors and/or omission of important points.                      | 1–3   |
| 2     | Evidence of familiarity with basic economic principles. Some ability to apply relevant theory and/or to analyse using relevant theory.  | 4–7   |
| 3     | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory and/or to analyse using relevant theory. | 8–12  |

|          |                                                                                                                                                                          |              |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>4</b> | Evidence of familiarity with basic economic principles. Clear ability to apply relevant theory and/or to analyse using relevant theory. Evidence of ability to evaluate. | <b>13–15</b> |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|

## Paper 2 50%

In addition to the assessment criteria provided here, there will be paper-specific markschemes.

### Data-response questions

The assessment criteria apply to all questions.

Each question is worth 20 marks.

All questions are divided into four parts.

#### Part (a)(i) 2 marks

| level    |                                                                             | marks    |
|----------|-----------------------------------------------------------------------------|----------|
| <b>0</b> | Wrong definition.                                                           | <b>0</b> |
| <b>1</b> | Vague definition.                                                           | <b>1</b> |
| <b>2</b> | Precise definition, <b>or</b> vague definition with an appropriate example. | <b>2</b> |

#### Part (a)(ii) 2 marks

| level    |                                                                             | marks    |
|----------|-----------------------------------------------------------------------------|----------|
| <b>0</b> | Wrong definition.                                                           | <b>0</b> |
| <b>1</b> | Vague definition.                                                           | <b>1</b> |
| <b>2</b> | Precise definition, <b>or</b> vague definition with an appropriate example. | <b>2</b> |

#### Part (b) 4 marks

| level    |                                            | marks      |
|----------|--------------------------------------------|------------|
| <b>0</b> | Inappropriate answer.                      | <b>0</b>   |
| <b>1</b> | Identification of appropriate theory.      | <b>1–2</b> |
| <b>2</b> | Correct application of appropriate theory. | <b>3–4</b> |

#### Part (c) 4 marks

| level    |                                       | marks      |
|----------|---------------------------------------|------------|
| <b>0</b> | Inappropriate answer.                 | <b>0</b>   |
| <b>1</b> | Identification of appropriate theory. | <b>1–2</b> |

|   |                                            |     |
|---|--------------------------------------------|-----|
| 2 | Correct application of appropriate theory. | 3–4 |
|---|--------------------------------------------|-----|

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



# INTERNAL ASSESSMENT CRITERIA

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## Higher level and standard level

### Criterion A: Rubric requirements

2 marks

This criterion assesses the word limits and syllabus coverage of the portfolio.

| level |                                                                                                                                      | marks |
|-------|--------------------------------------------------------------------------------------------------------------------------------------|-------|
| 0     | Level 1 is not achieved.                                                                                                             | 0     |
| 1     | Each commentary meets the word limit requirement, <b>or</b> the portfolio covers at least three different sections of the syllabus.  | 1     |
| 2     | Each commentary meets the word limit requirement, <b>and</b> the portfolio covers at least three different sections of the syllabus. | 2     |

### Criterion B: Organization and presentation

4 marks

This criterion assesses the range of sources used for the extracts, the organization and presentation of the portfolio, and the use of diagrams in the portfolio.

| level |                                                                                                                                                                                | marks |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| 0     | Level 1 is not achieved.                                                                                                                                                       | 0     |
| 1     | The extracts are chosen from four different sources, <b>or</b> the portfolio is well-organized and presented.                                                                  | 1     |
| 2     | The extracts are chosen from four different sources, <b>and</b> the portfolio is well organized and presented.                                                                 | 2     |
| 3     | The extracts are chosen from four different sources, <b>and</b> the portfolio is well organized and presented. The candidate includes appropriate diagrams in the portfolio.   | 3     |
| 4     | The extracts are chosen from four different sources, <b>and</b> the portfolio is well organized and presented. The candidate makes effective use of diagrams in the portfolio. | 4     |

**Criterion C: Use of economic terminology****5 marks**

This criterion assesses the candidate's ability to use and to define economic terminology.

| <b>level</b> |                                                                                                                                                                | <b>marks</b> |
|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>0</b>     | Level 1 is not achieved.                                                                                                                                       | <b>0</b>     |
| <b>1</b>     | The commentaries in the portfolio demonstrate minimal use of appropriate economic terminology and there are no attempts to define terms.                       | <b>1</b>     |
| <b>2</b>     | The commentaries in the portfolio demonstrate minimal use of appropriate economic terminology and there are only limited attempts to define terms.             | <b>2</b>     |
| <b>3</b>     | The commentaries in the portfolio demonstrate appropriate use of economic terminology. However, terms are not always defined, or they are incorrectly defined. | <b>3</b>     |
| <b>4</b>     | The commentaries in the portfolio demonstrate appropriate use of economic terminology. Terms requiring definitions are correctly defined.                      | <b>4</b>     |
| <b>5</b>     | The commentaries in the portfolio consistently demonstrate appropriate use of economic terminology. Terms requiring definitions are correctly defined.         | <b>5</b>     |

**Criterion D: Application and analysis of economic concepts and theories****5 marks**

This criterion assesses the candidate's ability to apply and analyse the economic theories and concepts that have been identified from the extracts.

| <b>level</b> |                                                                                                                                            | <b>marks</b> |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>0</b>     | Level 1 is not achieved.                                                                                                                   | <b>0</b>     |
| <b>1</b>     | Little application or analysis of relevant concepts and theories has been attempted.                                                       | <b>1</b>     |
| <b>2</b>     | The application or analysis of relevant concepts and theories has been attempted, but the linkages to the extracts are rarely appropriate. | <b>2</b>     |
| <b>3</b>     | Relevant concepts and theories have been identified, but have been applied to the extracts in a superficial way.                           | <b>3</b>     |
| <b>4</b>     | Relevant concepts and theories have been identified and suitably applied or analysed in some of the commentaries.                          | <b>4</b>     |
| <b>5</b>     | Relevant concepts and theories have been identified and have been applied or analysed well in all commentaries.                            | <b>5</b>     |

**Criterion E: Evaluation****4 marks**

This criterion assesses the candidate's ability to evaluate economic concepts and theories in the context of real-world examples.

| <b>level</b> |                                                                                                                                                                                         | <b>marks</b> |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>0</b>     | Level 1 is not achieved.                                                                                                                                                                | <b>0</b>     |
| <b>1</b>     | In the commentaries, the candidate attempts to evaluate the economic theories and concepts applied to the extracts, but the evaluation is inappropriate.                                | <b>1</b>     |
| <b>2</b>     | In the commentaries, the candidate attempts to evaluate the economic theories and concepts applied to the extracts, but the evaluation is limited.                                      | <b>2</b>     |
| <b>3</b>     | In the commentaries, the candidate demonstrates evaluation of the economic theories and concepts applied to the extracts, but this evaluation is not presented in all the commentaries. | <b>3</b>     |
| <b>4</b>     | In the commentaries, the candidate demonstrates evaluation of the economic theories and concepts applied to the extracts consistently throughout the portfolio.                         | <b>4</b>     |

# INTERNAL ASSESSMENT: THE PORTFOLIO

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## Higher level and standard level

### Rationale

Internal assessment is an integral part of the economics course. It enables candidates to demonstrate the application of their knowledge of economic theory to real-world situations without the time constraints of written examinations. The production of a portfolio of four commentaries based on extracts from published news media has a number of further advantages.

- Because examination questions need to be written about two years in advance, some immediacy is lost. The portfolio fills this gap.
- Compiling a portfolio is more closely related to the classroom activities of teachers than it is to the formal tasks set by examiners. It is a way of rewarding candidates' enthusiasm and achievements during the learning process.
- Because the portfolio does not add any content to the syllabus, it can be a natural part of classroom and homework activities. It can be used as a motivating factor, increasing the liveliness and relevance of economics classes.
- The portfolio enables candidates to follow up aspects of economics in which they are particularly interested. It enables them either to focus on international issues to broaden their understanding of the global impact of economics, or to focus on issues particularly relevant to their own country or region.

### Requirements

The requirements are the same at higher level and standard level. Candidates produce a portfolio of four commentaries of 650–750 words each, based on published extracts from the news media. The extracts may be from a newspaper, a journal or the World Wide Web, but must not be from television or radio broadcasts.

Each commentary must:

- explain the linkages between the extract and an economic theory taken from the section of the syllabus on which the commentary is based
- demonstrate economic insights into the implications of the extract (that is, it should provide evidence of the candidate's ability to evaluate current events from the point of view of an economist).

## Focus

Three out of the four commentaries must have as their main focus a different section of the syllabus, although it is acceptable for commentaries to make reference to other sections. The fourth commentary can focus either on a single section or can focus on two or more sections of the syllabus.

## Selection of extracts

### Sources

The extracts on which each commentary is based must be drawn from four different sources.

Extracts must as far as possible be contemporaneous with the course. Teachers should encourage candidates to look for material relating to current events. This may include material published up to six months before the start of the course.

### Individual work

Candidates must select their own articles to analyse. Candidates can base their commentaries on the same extract, but the extract must not be given to the class by the teacher, and the production of the commentary must be each candidate's individual work. A commentary must not be prepared collaboratively.

### Language of extract

If possible, the extract on which the commentary is based should be in the working language of the school. If an extract in another language is used, the candidate must provide a translation, in the working language of the school, of the parts of the article referred to in the commentary.

## Guidance

The requirements of the portfolio and the assessment criteria must be clearly explained at the start of the course and reinforced as the course progresses. The assessment criteria must be available to candidates at all times.

### Discussion and support

It is a good idea to encourage candidates to discuss with the teacher the work they are doing for the portfolio, and to seek advice and information. Candidates must not be penalized for seeking guidance. However, if a candidate could not have completed the portfolio without substantial support from the teacher, this should be noted on the appropriate form in the *Vade Mecum*.

### Practice

It may be helpful for teachers to guide candidates through a practice extract and commentary before the first commentary is written. After this initial practice all extracts must be chosen by the candidates themselves.

## Advice

As part of the learning process, teachers can give advice to candidates on a first draft of each portfolio commentary. This advice can be either verbal or written and can indicate the way in which the work could be improved. If the advice is written, the teacher must not extensively annotate or edit the candidate's draft. Candidates must not repeatedly draft and redraft their commentaries. The second draft handed to the teacher must be the final one.

## Integrating the portfolio into the course

Ideally, candidates will work on the portfolio throughout the course. Teachers are advised to set their own deadlines for the submission of the commentaries, with reminders at regular intervals. Candidates can write more than four commentaries and can submit the best four for inclusion in the portfolio. However, work for the portfolio must be a natural part of classroom learning activities and must not be an extra component added to the course.

## Authenticity

The portfolio submitted for internal assessment must be the candidate's own individual work.

Teachers must ensure that the portfolio submitted is the candidate's own work. If there is any doubt, authenticity can first be checked by discussing the content of the work with the candidate. In addition, one or more of the following actions can be helpful:

- checking the references cited by the candidate
- using one of the many web sites set up to detect plagiarism
- comparing the style of writing in the commentaries with work known to be that of the candidate.

## Record keeping

On each commentary candidates must record:

- the title of the extract
- the source of the extract
- the date of the extract
- the word count of the commentary
- the date the commentary was written
- the section(s) of the syllabus to which the commentary relates.

## Time allocation

It is recommended that teachers allocate approximately 20 hours of class time for the portfolio at both higher level and standard level. This should include:

- time for the teacher to explain to candidates the requirements for the portfolio
- class time for candidates to work on their commentaries

- time for discussion between the teacher and the candidate
- time for the teacher to review progress and to check authenticity.

## **Assessment of the portfolio**

At the end of the course, the portfolio as a whole must be assessed against the internal assessment criteria.

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