

MARKSCHEME

May 2004

ECONOMICS

Higher Level

Paper 3

*This markscheme is **confidential** and for the exclusive use of examiners in this examination session.*

*It is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of IBCA.*

SECTION A

Data Response: Paper-Specific Markscheme

Award up to the maximum marks available.

Question 1 Passion, Pride and Profit

	Partial Mark	Maximum Mark
(a) Explain what is meant by the following terms used in the passage:		
(i) profit		2
• use of the passage without precise definition <i>e.g.</i> soaring revenues	1	
• accurate definition referring to TR and TC	2	2
(ii) globalization.		2
• vague explanation	1	
• any relevant example	1	
• more precise definition along the lines of the integration of the world’s economies through trade and/or capital market liberalization.	2	2
(b) Using the passage and your understanding of market structures, describe the type of market that best represents the future shape of world football described in <i>paragraph 6</i>. Give reasons for your answer.		3
• for identifying the market structure as oligopolistic	1	
• for referring appropriately to the passage <i>e.g.</i> “six global brand leaders”	1	
• for linking the passage to any of the other characteristics of oligopoly	2	3
(c) Explain the likely consequences of the imposition of a salary cap (price ceiling) on the market for football players. Use a diagram in your answer.		5
<i>A salary cap is not mentioned in the passage. The answer is likely to refer to the traditional theory associated with maximum prices.</i>		
• for drawing a supply and demand diagram	2	
• showing excess demand at maximum price	2	
• for providing a sensible explanation	2	
• for providing a link to the passage	2	5

(d) Discuss, with reference to the text and your knowledge of markets, the reasons why clubs are prepared to pay high prices for star football players?

Answers are likely to focus on the “demand side” of the issue. Football clubs have increased their demand for “star players” due to a variety of factors. These could include:

6

- star players allow clubs to differentiate their teams 1
- players represent investment in human capital 2
- having a star player increases the demand for the teams games to increase revenue 2
- teams earn greater revenues from sponsorship arrangements 2
- star players may allow a team to experience greater success which may lead to increased revenues 2
- star players act as a type of non-price competition. 2

6

Candidates may earn full marks for arguing three of these points well. Be more generous for use of appropriate economic terminology.

Candidates who argue differently that price is determined by both demand and supply, and discuss any of the above along with the limited supply of star players may be rewarded full marks, depending on the clarity of their economic reasoning.

(e) “Telecoms and globalization are consolidating the global football market” (paragraph 6).

Using the text and your knowledge of economic theory, examine the effects of the globalization of the football market.

[7 marks]

Given the nature of the question and the passage, it is expected that there may be a variety of responses to this question and examiners should be flexible in their approach to marking this question. Answers may overlap with previous questions, but should be rewarded nonetheless. Give credit for any plausible links to economic theory.

- Increased size/revenues of elite clubs (teams) acts as a barrier to entry for new clubs (teams).
- Improved quality of teams as a result of the integration of technique and talent of Latin American teams with the organizational skills of the European teams.
- In the long run, small teams will be increasingly unable to compete, leading to further concentration/“oligopolization”
- Increased size of market may lead to increased economic activity e.g. job creation due to building of stadiums.

Level 0:	No valid discussion	0
Level 1:	Few relevant issues recognized with little discussion or basic understanding	1-2
Level 2:	A few issues recognized with some attempt at discussion or just one issue well-developed	3-4
Level 3:	Issues well developed with some reference to the data and with sensible evaluation	5-7

Question 2 Bitter Coffee

	Partial Mark	Maximum Mark
(a) With reference to <i>Item 4</i>, explain what has happened to the price of coffee between 1998 and 2001.		2
<ul style="list-style-type: none"> • for noting that prices have fallen • providing reference from the text 	<p>1</p> <p>1</p>	2
(b) Explain the effects of the changes you have identified in (a) above on		
(i) a coffee grower		2
<ul style="list-style-type: none"> • for a brief statement in terms of less income for coffee growers • for explaining a consequence of lower incomes • for providing a reference to the text 	<p>1</p> <p>1</p> <p>1</p>	2
(ii) global coffee cafés.		2
<ul style="list-style-type: none"> • for reproducing “record profits...” from the text or a similar statement • for relevant explanation in terms of lower input costs 	<p>1</p> <p>2</p>	2
(c) With reference to <i>Item 6</i>, identify the changes in both the value and volume of exports of coffee between 1980 and 1999.		2
<ul style="list-style-type: none"> • for correctly identifying that the volume of exports has increased • for correctly identifying that the value of exports has decreased 	<p>1</p> <p>1</p>	2

(d) Suggest possible reasons for the changes you have identified in (c) above. 4

Candidates must explain both the rise in volume (quantity) and the fall in value (total revenue) in order to obtain full marks.

- Volume has increased due to any of the following: improved technology, pesticides, fertilizers, irrigation, weather conditions, IMF policies 2
- Price has fallen due to increased supply 1
- Because demand is inelastic, total revenue has fallen 2 4

In order to obtain full marks, correct reference to price elasticity of demand must be made.

(e) With reference to Item 3, explain how the use of tariffs on higher value processed coffee products by developed countries can limit the growth of jobs in coffee producing countries. 6

- for defining a tariff 1
- for a diagram showing how tariffs in MDCs lead to reduced imports of processed coffee in MDCs 2
- for explaining that reduced imports of processed coffee means that jobs are not likely to be created in coffee processing in LDCs. 2
- for explaining that LDCs would like to process coffee because it will create more jobs, but they are limited by protectionist measures in MDCs. 2
- Reward any other reasonable argument which relates to the growth of jobs 2 6
- Reward references to the concept of “value added” that potential production and export of processed coffee can bring about.

Candidates may write a vague answer of the problems of MDC protectionism on LDCs, but should not obtain more than [3 marks] if they do not specifically link this to job creation.

- (f) Use the data and your knowledge of economics to evaluate the impact of the change in the world market for coffee on the economic growth and development of coffee growing economies.

[7 marks]

Candidates may answer this question by discussing the impact of any of the changes in the coffee market illustrated by the data [ie falling prices, increased role of TNCs, increased protectionism, dependence on coffee exports, falling export revenues.]

Effects on economic growth may include:

- Lower AD
- Increased unemployment
- Lower growth rate
- Less MNC investment
- Lower foreign exchange revenues
- Downward multiplier effect
- Reduced saving
- Less money available for investment
- Reduced purchasing power of exports makes it difficult to afford imports of capital

Effects on economic development may include:

- Falling standards of living
- Increased poverty
- Vicious cycles of poverty
- Lower literacy
- Environmental degradation
- Reduced investment in human capital

Reward candidates who use item five to evaluate the different effects that might impact on countries which are heavily dependent on a single product (coffee) compared with others for which coffee constitutes less than 20 % of total exports.

Level 0:	No valid discussion	0
Level 1:	Few relevant issues recognized with little discussion or basic understanding	1-2
Level 2:	A few issues recognized with some attempt at discussion or just one issue well-developed	3-4
Level 3:	Issues well developed with some reference to the data and with sensible evaluation	5-7

“Sensible evaluation” implies an awareness of the distinction between economic growth and economic development.

SECTION B

Essays: Paper-Specific Guidance

The following comments are intended to provide extra guidance to Assistant Examiners, but they are not meant to be a “straitjacket”.

They are meant to indicate some of the main points which the question-setter hoped to elicit, and/or indicate sensible approaches; however, it is often possible for candidates to respond to a question in a way which is unanticipated and yet which contains valid economic arguments, so please keep an open mind.

THE GENERAL MARKING CRITERIA REMAIN THE MAIN BASIS FOR AWARDING MARKS.

Question 3

Discuss the economic arguments for and against imposing substantially higher levels of taxation on the sale of alcohol.

[25 marks]

Answers should be rewarded for their ability to apply economic concepts and theory to the particular case of taxation on alcohol, and to examine arguments both for and against.

Possible arguments for:

- Demerit good
- Negative externalities
- Socially optimal level of output
- To raise tax revenues.

Possible arguments against:

- Employment loss
- Loss of profits for firms
- Higher prices for consumers
- Loss of business for connected industries *e.g.* restaurants
- Inflationary tendencies
- Formation of parallel markets.

Question 4

(a) In what ways do firms operating in different market structures compete?

[10 marks]

- in perfect competition – competition is on efficiency as firms are price takers and goods are homogeneous
- monopoly – single producer, no competition, emphasis on maintaining barriers to entry
- in oligopoly – product differentiation, advertising and other forms of non-price competition; price competition/price wars; exploitation of large scale production as an entry barrier; collusion
- in monopolistic competition – non-price competition.

Answers which simply describe each of the market structures should be limited to Band 2 and below.

(b) Discuss the view that the more competition there is within each industry the better.

[15 marks]

Possible advantages of increased competition:

- Lower price
- Better quality
- Greater efficiency
- Greater choice
- More innovation
- Any reasonable answer.

Possible disadvantages of increased competition:

- No incentive to invest
- Natural monopolies
- Ethical issues
- Increased external costs
- Worker exploitation
- Falling quality from cost-cutting
- Merit/public goods
- Any reasonable answer.

Question 5

“Unemployment remains persistently high in a majority of countries throughout the world.”

- (a) Explain the economic problems that high unemployment may cause for a country.**

[10 marks]

The economic problems of high unemployment include:

- opportunity cost in terms of output foregone and inefficiency
- impact on government finances – more expenditure and less tax revenue
- individual and social costs
- the impact on poverty and income distribution
- unequal impact of unemployment in terms of region, urban/rural, gender, race and age
- Any reasonable answer.

- (b) Discuss the reasons why governments find the goal of full employment difficult to achieve.**

[15 marks]

In responding to this question, answers could:

- an appropriate definition of full employment should be included
- candidates need to be familiar with the various types of unemployment, but need to be aware that frictional, structural unemployment and seasonal unemployment constitute the “natural level of unemployment” and exist beyond the full level of unemployment
- problems which occur as a result of trying to reduce demand-deficient unemployment are inflation and current account issues
- appropriate diagrams would be a keynesian AD/AS model showing an increase in AD and/or a Phillips curve showing the trade-off between inflation and unemployment
- Limitations of using fiscal policy to raise AD - e.g. time lags, crowding out
- Some awareness of conflicting opinions of the shape of the LRAS and the implications of trying to achieve full employment should be highly rewarded.

Question 6

- (a) Explain how economists might measure the extent to which living standards vary between countries.**

[10 marks]

Responses might begin by explaining what is meant by living standards.

Living standards may be measured using:

- national income figures (significance of income per head, expressed in real as opposed to money terms)
- purchasing power parities
- composite indices, *e.g.* the HDI
- other indicators such as infant mortality, distribution of income, access to work, access to a clean and safe water supply.
- Any reasonable answer

- (b) Evaluate the ways in which more developed countries might help the less developed countries to raise living standards.**

[15 marks]

In order to answer this part of the question, answers are likely to evaluate the effectiveness of the various kinds of aid. Good answers will also contrast the provision of aid with approaches that are designed to encourage LDCs “to help themselves”; *e.g.* removing barriers to trade with the MDCs. The various policies should be evaluated in relation to the factors which are likely to improve the living standards of the LDCs; *e.g.* investment in human capital, adequate food and water supplies, appropriate technology, improved infrastructure.

Possible issues and areas for discussion:

- role of aid and motives for aid
 - effectiveness of various forms of aid; *e.g.* grants/loans, tied/untied, technical
 - role and impact of foreign direct investment/multinational corporations
 - role of major institutions such as the IMF, World Bank and WTO
 - impact of policies of these institutions, *e.g.* structural adjustment programmes
 - impact of debt reduction policies
 - role and impact of financial flows
 - role of trade – access to markets of MDCs and removal of barriers to trade
 - Any reasonable answer
-