



International Baccalaureate®  
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Diploma Programme answer cover sheet

<p><b>ECONOMICS</b></p> <p><b>SL</b></p> <p><b>PAPER TWO</b></p> <p>06 May 2014 (morning)</p>
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Invigilator only: Candidate absent (insert \* if applicable)

Candidate	
Section or option	Question
A	2
B	3

Instructions to the candidate:

- Check the details in the box above. If any detail is incorrect, inform the invigilator of the examination.
- Complete the candidate box (on the left) with the section(s)/option(s) and question(s) answered. If all questions have been answered, state ALL.
- In the boxes below, write down the number of answer booklets and sheets of graph paper attached to this cover sheet.
- Using the string tag provided, attach this cover sheet to the front of your work, with any graph paper attached at the back.
- Do not write on or shade in any QR code on this cover sheet.

Number of answer booklets attached

1
0

Number of sheets of graph paper attached

E 0

2





**8 PAGES / PÁGINAS**

Candidate session number: / Numéro de session du  
candidat : / Número de convocatoria del alumno:

Candidate name: / Nom du candidat : / Nombre del  
alumno:

**INSTRUCTIONS TO CANDIDATES**

- Use black or blue ink.
- Write your session number and name in the appropriate boxes above.
- At the start of each answer to a question, write the question number in the boxes using the format shown below. If you make a mistake, fill in the boxes completely and use the next available boxes. Parts of an answer, for example (a), (b), (c), must be written on the lines provided.
- Leave at least one line space between each part of an answer.

**INSTRUCTIONS DESTINÉES AUX CANDIDATS**

- Rédigez à l'encre noire ou bleue.
- Écrivez votre numéro de session et votre nom dans les cases correspondantes ci-dessous.
- Avant de répondre à une question, inscrivez son numéro dans l'une des cases, comme indiqué dans l'exemple ci-dessous. Si vous faites une erreur, remplissez complètement cette case et utilisez l'autre case prévue à cet effet. Les parties de questions, par exemple (a), (b), (c), doivent être inscrites sur les lignes prévues à cet effet.
- Sautez au moins une ligne entre chaque partie d'une réponse.

**INSTRUCCIONES PARA LOS ALUMNOS**

- Utilice tinta negra o azul.
- Escriba su número de convocatoria y nombre en las casillas correspondientes de arriba.
- Al comienzo de cada respuesta, escriba el número de pregunta en las casillas siguiendo el formato que se muestra más abajo. Si comete un error, rellene la casilla completamente y utilice la siguiente casilla disponible. Las partes de una respuesta, por ejemplo, (a), (b), (c) deben escribirse en las líneas provistas.
- Deje una línea en blanco entre cada apartado de una respuesta.

1    2    3    4    5    6    7    8    9    10

If you make a mistake: / Si vous faites une erreur : / Si comete un error:



In the next boxes, write the question number again, for example: / Dans les  
cases suivantes, veuillez réécrire le numéro de la question, par exemple : / En las  
siguientes casillas, escriba nuevamente el número de la pregunta, por ejemplo:

2



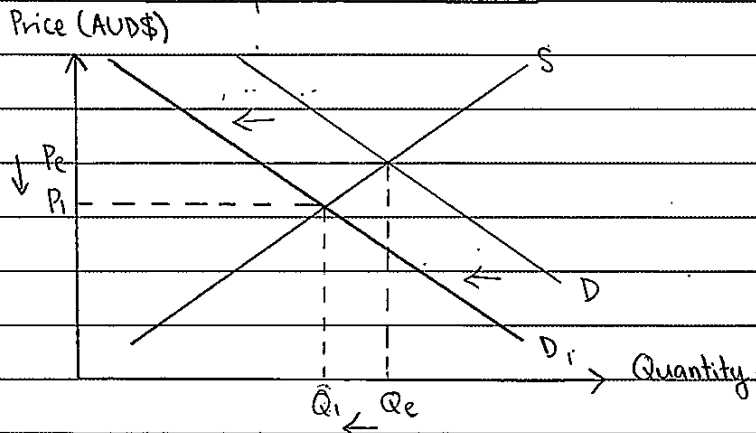
08AB01

a) i) Currency appreciation in a floating exchange rate the value of a currency increases.

ii) ~~Subsidies is a money~~

ii) Subsidies is <sup>a sum of</sup> money given by the government to firms to lower their production cost so as to increase their output.

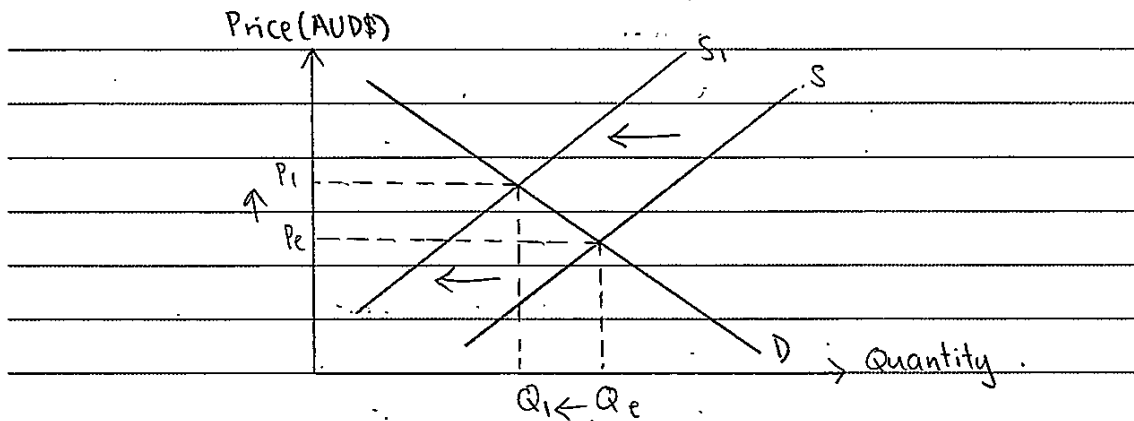
b) Market for Australian Cars



There has been a decrease in demand due to for cars in Australian cars due to the 'recent currency appreciation'. Since the Due to imported cars being cheaper since the exchange rate is higher, people ~~switch~~ switch from buying Australian cars thus ~~is~~ the demand curve shifts to the left from D to D<sub>1</sub>. ~~an~~ This results in equilibrium price of ~~P<sub>e</sub>~~  $P_1$  from  $P_e$  and ~~equ~~ equilibrium quantity ~~demanded~~ of  $Q_1$  from  $Q_e$ .



c) Australia's Car Market:



There has been a shift left of the supply curve due to the implement of a carbon tax by the government. Since the production costs ~~increase~~ will increase 'by between AUD\$30 million and ~~AUD\$50~~ AUD\$50 million', the ~~are~~ Australian firms will not be able to produce the same output of cars ~~at the~~ at the same cost. Therefore there will be a fall in supply, hence equilibrium price increases from  $P_e$  to  $P_i$  and equilibrium quantity will decrease from  $Q_e$  to  $Q_i$ .

d) There are several consequences to the Australian Car industry due to the 'global economic uncertainty', 'low trade barriers' and 'carbon tax'. Firstly, the domestic firms will ~~lose~~ not be able to produce the same amount of cars since the carbon tax would increase production cost 'by between AUD\$30 million and AUD\$50 million'. ~~This is shown in~~ ~~the~~ the effect of this increase in production cost is shown in part (c). This increase in production cost will cause a contraction of demand for Australian cars so ~~per~~ consumers will demand less of the Australian cars. Also since this means the producers will earn very little less revenue hence less profit so ~~might~~ have and will find it hard to 'remain profitable'. Also ~~the~~ since they due to the 'global economic uncertainty'.



their business confidence decreases. ~~since~~ This means that they will be reluctant to ~~spend more on~~ invest in new innovations for cars. Additionally, the 'low trade barriers' will ~~be diff~~ affect the Australian car industry more since their imports ~~is~~ could be cheaper due to the recent currency appreciation. Having 'low trade barriers' do not help the ~~car~~ Australian car industries since ~~they do not~~ there will be ~~increas~~ 'intense competition from imports' and so 'car makers would not be able to pass on these costs to consumers without consequences'.

Consumers will switch to buying imported cars since it will be cheaper. However since there was a 'global economic uncertainty', they might not want to purchase cars at all since their consumer confidence decreases. Since cars are luxury goods and it has relatively elastic demand ~~since~~ because they consumers could use public transports instead in the long run. This would lower the demand for cars as shown in part (b).

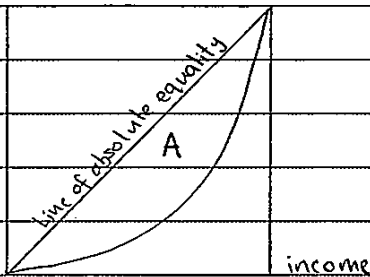
~~On~~ However the imposition of carbon tax might be a good thing since the government could use the tax revenue and could use it to ~~sub~~ ~~subsidies~~ subsidise 'research and development in car designs'. This would ~~create~~ be good for the car industry since they could create a new car that ~~can be creates~~ releases less carbon hence the carbon taxes might be lifted and the negative externality of ~~both~~ consumption ~~and~~ would be decreased.



3 a) i) Absolute poverty is the people living on less than US\$2 a day and those who do not have the basic necessities to have a live.

ii) One component of the HDI is education as measured by mean years of schooling and expected years of schooling. Another component is long and healthy life as measured by life expectancy at birth.

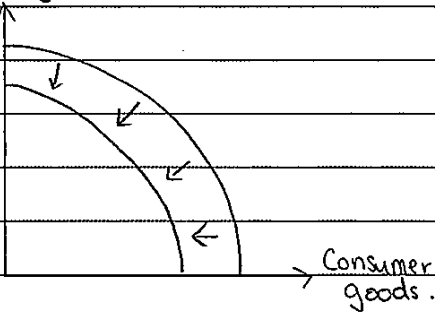
b) Population



Gini coefficient is the ~~are~~ index which measures the proportion of the area between the 45° line (which represents absolute equality) and the ~~area of~~ ~~whole~~ curve (area A) with the ~~area~~ ~~of the whole~~ ~~the~~ area under the line of absolute equality. Therefore

the 'Gini coefficient of 0.59' means that the area A is 59% of the area of under the line of absolute equality. The closer ~~is~~ the ~~of~~ Gini Coefficient is to 1, the more equal the country is.

c) Capital goods



After the earthquake, there were over '200 000 Haitians' killed. This meant that there will be a decrease in the ~~possible~~ ~~potential~~ ~~pro~~ ~~possible~~ output of the economy so the PPC curve shifts inwards. Since labour decreased,

there will be less consumer goods produced and capital goods will decrease since the earthquakes destroyed ~~is~~ them. Hence the PPC will shift inwards.



d) There are several economic growth and development strategies the Haitian government could use. Since Haiti has the recovery is the 'largest importer of US foodstuffs in the Caribbean', they could ~~In~~ Haiti has agreed with the Emergency Economic Recovery Plan (EERP), they

d) There are several economic growth and development strategies they could use. Firstly, they could ~~introduce~~ use humanitarian Aid which will help them ~~introduce appropriate~~ rebuild their economy. Since their main resources they ~~a~~ their economy is mainly driven by 'agriculture, textiles and construction' which are mainly primary and secondary jobs, they could get aid from NGOs such as Oxfam so they can introduce to them appropriate technologies such as better irrigation systems. By doing this, they could significantly increase their agriculture's ~~systems~~ production efficiency since they could save water and produce more.

Since right now ~~Haiti's~~ Haiti's imports are increasing, this means the economic growth might not be ~~so~~ improving since their current account might be in deficit. Therefore ~~if~~ if they improve their agriculture through appropriate technologies, they could ~~to~~ decrease imports since they will become a more self-sustaining country for foodstuff.

Also since the 'domestic tax revenues rising to 13% of GDP in 2011', they could use interventionist policies ~~so~~ such as ~~better~~ increase education. This will ~~to~~ primary education and retraining of the workforce. This will provide a better future ~~tabe~~ workforce and retraining will be ~~at~~ <sup>better</sup> create a labour force for current





workers. However since Haiti didn't doesn't have good  
governance as they <sup>1</sup>suffered from repeated external





A series of horizontal lines for writing.

