



MARKSCHEME

November 2014

ECONOMICS

Standard Level

Paper 2

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Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

SECTION A

1. (a) (i) Define the term **exchange rate** indicated in bold in the text (paragraph ③). [2 marks]

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 <i>Vague definition.</i> The idea that it is to do with the price of a currency.	1
2 <i>Accurate definition.</i> An explanation that it is the value of one currency expressed in terms of another currency.	2

- (ii) Define the term **foreign direct investment** indicated in bold in the text (paragraph ③). [2 marks]

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 <i>Vague definition.</i> Any one of: • The purchase of financial investments (shares and bonds). • In order to gain a financial return (interest or dividends). • It is part of the financial account.	1
2 <i>Accurate definition.</i> Any two of: • The purchase of financial investments (shares and bonds). • In order to gain a financial return (interest or dividends). • It is part of the financial account.	2

- (b) Using an appropriate diagram, explain *two* possible causes of the increase in value of the Australian dollar. [4 marks]

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled diagram showing the market for the Australian dollar, a shift of the demand curve to the right, and an increase in the exchange rate or for an explanation that the value of the dollar will rise following an increase in the demand for it caused by any one of the following: (a) an increase in demand for exports of resources (<i>paragraph 2</i>) (b) inflow of financial capital from abroad for foreign direct investment (<i>paragraph 3</i>) (c) inflow of financial capital from abroad for portfolio investment (<i>paragraph 3</i>) (d) inflow of financial capital from abroad for savings (<i>paragraph 3</i>).	1–2
2	<i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled diagram showing the market for the Australian dollar, a shift of the demand curve to the right, and an increase in the exchange rate and for an explanation that the value of the dollar will rise following an increase in the demand for it caused by two of the following: (a) an increase in demand for exports of resources (<i>paragraph 2</i>) (b) inflow of financial capital from abroad for foreign direct investment (<i>paragraph 3</i>) (c) inflow of financial capital from abroad for portfolio investment (<i>paragraph 3</i>) (d) inflow of financial capital from abroad for savings (<i>paragraph 3</i>).	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

For an exchange rate diagram, the vertical axis may be exchange rate, price of dollars in other currencies, or any currency per dollar. The horizontal axis should be quantity, or quantity of dollars. A title is not necessary.

- (c) Using an AD/AS diagram, explain why “an extraordinary boom in the construction of new mining facilities ... has also threatened inflation” (paragraph ②). [4 marks]

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the right and indicating a rise in the average price level or for explaining that the boom will require a great deal of investment, which is a determinant of AD, thus increasing AD and causing inflationary pressure in the economy.	1–2
2	<i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the right and indicating a rise in the average price level and for explaining that the boom will require a great deal of investment, which is a determinant of AD, thus increasing AD and causing inflationary pressure in the economy.	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

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

- (d) **Using information from the text/data and your knowledge of economics, discuss the possible consequences of the strong Australian dollar.** [8 marks]

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

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- an explanation of a strong Australian dollar
- increase in export prices and the effect on export revenue of natural resource producers and thus AD
- increase in export prices and the effect on non-resource producers and tourism (*paragraph ⑤*)
- the importance of price elasticity of demand for exports in determining revenue changes
- the effect of the high exchange rates on inflation (*paragraph ② and ④*)
- the effect of high exchange rates on consumers (*paragraph ④*)
- the effect of high exchange rates on businesses (*paragraph ④*)
- the effect on employment
- the effect on economic growth (*paragraph ②*)
- the likely impact on the current account balance.

Any reasonable discussion.

2. (a) (i) Define the term **quota** indicated in bold in the text (paragraph ⑥). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is to do with a restriction on imports.	1
2 <i>Accurate definition.</i> An explanation that it is a physical limit on the number or value of a good that can be imported into a country.	2

- (ii) List *two* reasons why the government might wish to protect the domestic poultry industry. [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> Any one of the following reasons: • to protect jobs • to ensure higher revenues for domestic chicken producers • to reduce the potential impact on growth as the industry makes up 60 % of the agriculture sector • to compensate for the subsidies given to foreign producers • to improve the balance of payments • to earn government tariff revenue • to protect safety standards • to counteract dumping.	1
2 <i>Accurate definition.</i> Any two of the following reasons: • to protect jobs • to ensure higher revenues for domestic chicken producers • to reduce the potential impact on growth as the industry makes up 60 % of the agriculture sector • to compensate for the subsidies given to foreign producers • to improve the balance of payments • to earn government tariff revenue • to protect safety standards • to counteract dumping.	2

- (b) Using an appropriate diagram, explain the likely effect that the suggested increase in the tariff (*paragraph ③*) would have on the domestic production of chicken.

[4 marks]

Level

Marks

0 The work does not reach a standard described by the descriptors below.

0

1 There is a correct diagram **or** an accurate written response.

1–2

For drawing a correctly labelled tariff diagram to show an increase in the tariff through an upward shift of the world supply + tariff curve and an increase in domestic production **or** an explanation that there would be an increase in domestic production as the price of chicken rises (or as imports decrease).

2 There is a correct diagram **and** an accurate written response.

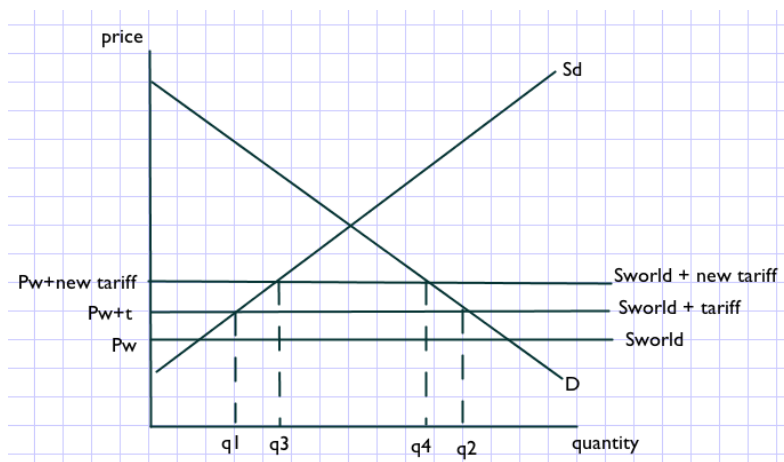
3–4

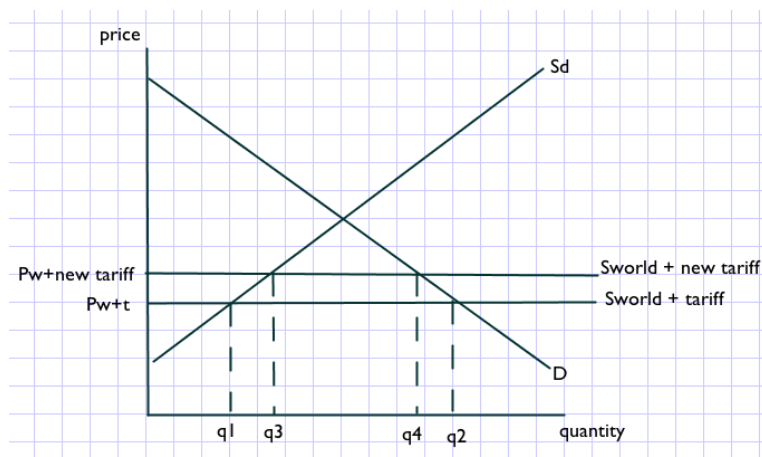
For drawing a correctly labelled tariff diagram to show an increase in the tariff through an upward shift of the world supply + tariff curve and an increase in domestic production **and** an explanation that there would be an increase in domestic production as the price of chicken rises (or as imports decrease).

Candidates who do not recognize that there is an increase in the tariff and simply show the imposition of a tariff can be rewarded with a maximum of [1 mark] for the diagram. If the explanation correctly refers to an increase in domestic production, [2 marks] may be awarded.

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

The use of P and Q on the axes is sufficient for a demand and supply diagram. The world supply curve with the tariff should be labelled S_{w+T} or $S_{world+ tariff}$. A title is not necessary.





- (c) Using an AD/AS diagram, suggest what will happen to employment if imports continue to damage the domestic chicken industry. [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the left or for explaining that increasing imports will reduce AD (net exports), which will reduce real national output, thus reducing employment in the economy.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the left and for explaining that increasing imports will reduce AD (net exports), which will reduce real national output, thus reducing employment in the economy.	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

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

- (d) **Using information from the text/data and your knowledge of economics, discuss the arguments for and against the protection of the domestic chicken market.** **[8 marks]**

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

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- a definition of trade protection
- **Arguments for trade protection**
 - it will make things “fairer” between local and imported markets (*paragraph 3*)
 - it will protect employment in the local industry (*paragraph 9*)
 - it will protect employment in other, connected industries
 - increased tariff revenue for the government
 - local producers cannot compete (*paragraph 3*)
 - there are hints of dumping taking place since the producers in the US, the EU and Brazil are heavily subsidized (*paragraph 8*)
 - the government cannot afford subsidies therefore a tariff is justified (*paragraph 5*)
 - Trinidad and Tobago has the lowest tariff in the region (*paragraph 3*) so a higher tariff may be justified
 - the industry is important to the economy for both jobs and revenue (*paragraph 9*)
 - agriculture is important for self-sufficiency

- **Arguments against trade protection**
 - it may raise the price to consumers, despite reassurances (*paragraph ①*)
 - it may raise the price to producers who buy the imported chicken as an input for their final product
 - competition may diminish and local producers may become inefficient
 - it may lead to retaliation from other countries
 - it may reduce consumption of chicken
 - equity issue, since spending on food is likely to represent a substantial proportion of income of low income households
 - welfare loss
 - misallocation of world's scarce resources.

Any reasonable discussion.

SECTION B

3. (a) (i) Define the term **infrastructure** indicated in bold in the text (paragraph ④). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is (any one of the following is sufficient): • large scale public systems (services and facilities) of a country • necessary for economic activity • an addition to the capital stock of a nation • usually supplied by the government.	1
2 <i>Accurate definition.</i> An explanation that it is (any two of the following is sufficient): • large scale public systems (services and facilities) of a country • necessary for economic activity • an addition to the capital stock of a nation • usually supplied by the government.	2

Any reasonable response.

- (ii) With reference to the data in figure 1, describe the HDI trend for Mozambique from 2000 to 2011. [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is limited understanding.</i> The idea that the HDI value is increasing or 0.245 to 0.322.	1
2 <i>There is clear understanding.</i> The idea that the HDI value is increasing and use of the figures 0.245 to 0.322.	2

- (b) Using an appropriate market failure diagram, explain how externalities arising from a lack of access to ARV drugs may be eliminated by their free provision (*paragraph 2*). [4 marks]

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled externalities diagram showing a positive externality of consumption, with the marginal social benefit curve to the right of the marginal private benefit curve and a potential welfare gain or for explaining that the use of an ARV drug made possible by their free provision, would eliminate the potential welfare gain by taking consumption to the socially optimum output.	1–2
2	<i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled externalities diagram showing a positive externality of consumption, with the marginal social benefit curve to the right of the marginal private benefit curve and a potential welfare gain and for explaining that the use of an ARV drug made possible by their free provision, would eliminate the potential welfare gain by taking consumption to the socially optimum output.	3–4

Candidates may frame their response in terms of a positive externality of production ($MSC < MPC$), which if appropriately explained may be rewarded fully.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 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 an appropriate diagram, explain how increased access to ARV drugs might affect potential economic output. [4 marks]

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing an increase (right shift) of the LRAS curve (or a PPC diagram showing an outward shift) or for explaining that ARV drugs might increase the quality of labour by improving the health/productivity of workers with HIV and/or the quantity of labour by reducing HIV related deaths in the work force.	1–2
2	<i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing an increase (right shift) of the LRAS curve (or a PPC diagram showing an outward shift) and for explaining that ARV drugs might increase the quality of labour by improving the health/productivity of workers with HIV and/or the quantity of labour by reducing HIV related deaths in the work force.	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

For AD/AS, the vertical axis may be price level, average price level, general price level or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y), or GDP. Any appropriate abbreviations such as APL, CPI, GPL, RNO, or RNY are allowable.

For a PPC, the axes could be two alternative products, one on each axis, *eg*, Good A and Good B, or schools and cars; or two groups of products, *eg*, capital goods and consumer goods.

A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the possible outcomes of Brazil’s aid to Mozambique.** **[8 marks]**

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

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses **may** include:

- definitions of aid, economic development
- explanation of different types of aid.

Possible positive outcomes:

- “the high costs of importing” ARV drugs overcome by domestic production of drugs (*paragraph 2*)
- “African countries aim to provide free ARV drugs to their citizens” long term potential for Mozambique to export to neighbouring states (*paragraph 2*)
- “cut in funding from international foundations” possibly long term as HIV loses international prominence, so Brazil’s assistance with domestic production can provide a sustainable source of cheap ARV drugs (*paragraph 2*)
- positive externalities of consumption (*paragraph 3*)
- “15 % of people aged 15 to 49 have HIV” so Brazil’s exporting of their model of producing and providing free ARV drugs might increase life expectancy and productivity of workers with HIV (*paragraph 3*)
- “Mozambique is the biggest beneficiary of aid from Brazil” (*paragraph 4*) and can result in increased output in long-run and improved standard of living (demonstrated by increase in HDI from 0.245 in 2000 to 0.322 in 2011)
- “Brazil will provide training for Mozambican staff” which will increase quality of labour and improve productive capacity and export potential (*paragraph 5*)
- “in partnership with Brazil” implies ongoing productive relationship with an emerging global economic power (*paragraph 1*).

Possible negative outcomes:

- dependence on aid donor
- potential exploitation of Mozambique’s resources by Brazil who has invested heavily in its infrastructure and mining (*paragraph 4*)
- negative externalities arising from mining and agriculture
- potential brain drain in the long run as workers trained “in the production, management and quality control of the drugs” move to other countries (*paragraph 5*).

Any other appropriate evaluation.

4. (a) (i) Define the term ***economic development*** indicated in bold in the text (paragraph ①). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> An explanation that it is a broad concept involving any one of the following: • improvement in standards of living • reduction in poverty • improved health and education • reduction in unemployment • greater equality in income distribution • environmental protection • increased freedom and economic choice.	1
2 <i>Accurate definition.</i> An explanation that it is a broad concept involving any two of the following: • improvement in standards of living • reduction in poverty • improved health and education • reduction in unemployment • greater equality in income distribution • environmental protection • increased freedom and economic choice.	2

- (ii) Define the term ***inflation*** indicated in bold in the text (paragraph ⑥). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that prices increase.	1
2 <i>Accurate definition.</i> An explanation that it is a sustained increase in the average (general) price level.	2

- (b) Using an appropriate diagram, explain how reducing subsidies has affected the market for fuel in Burma (*paragraph 5*). **[4 marks]**

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled demand and supply diagram showing a decrease in supply or for explaining that reducing subsidies means that costs of production increase, resulting in a decrease in supply leading to an increase in price and a decrease in quantity.	1–2
2	<i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled demand and supply diagram showing a decrease in supply and for explaining that reducing subsidies means that costs of production increase, resulting in a decrease in supply leading to an increase in price and a decrease in quantity.	3–4

Candidates who assume that Burma is an oil producer and draw an international trade diagram, with a world supply curve, may be rewarded with a maximum of **[2 marks]**, if the diagram and explanation are valid.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 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 an appropriate diagram explain how “the inflationary pressure has been reduced over the period 2011–12 because of the rising value of Burma’s currency” (paragraph ⑥). [4 marks]

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing a shift of the AD curve to the left or for explaining that the rising value of the kyat makes exports more expensive and/or imports cheaper resulting in a reduction in net exports (X–M) and so a decrease in AD resulting in reduced inflationary pressure.	1–2
2	<i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing a shift of the AD curve to the left and for explaining that the rising value of the kyat makes exports more expensive and/or imports cheaper resulting in a reduction in net exports (X–M) and so a decrease in AD resulting in reduced inflationary pressure.	3–4

Candidates may take an alternative approach shifting SRAS to the right and explaining that the higher value of the kyat makes imported inputs less expensive, reducing inflationary pressure. If correctly illustrated and explained, this should be fully rewarded.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**. For AD/AS, the vertical axis may be price level, average price level, general price level or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y), or GDP. Any appropriate abbreviations such as APL, CPI, GPL, RNO, or RNY are allowable. A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate the possible effects of Burma’s market-oriented reforms on economic growth and development. [8 marks]

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

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses **may** include:

- definitions of economic growth and economic development
- explanation that reforms are market-oriented supply-side policies and may improve the institutional framework of Burma.

Reforms **may** include:

- “deregulation, breaking up local monopolies, the development of property rights and improvements of the legal system” (*paragraph ③*)
- “reduced export costs and made it easier for citizens living abroad to transfer money back to Burma” (*paragraph ④*), increasing remittances and improving the current account balance
- “Some private banks are, for the first time, being allowed to trade in foreign currencies, providing an additional source of foreign investment” (*paragraph ④*)
- “the government recently reduced subsidies on fuel” (*paragraph ⑤*).

Links to economic growth and economic development **may** include:

- explanations as to how the above mentioned reforms might work
- explanations of the challenges of implementing the above mentioned reforms
- “Burma is now open for business” (*paragraph ①*) so trade and investment are likely to increase, thus increasing AD, and/or LRAS, and possibly breaking the poverty trap
- “Unfortunately, efforts to boost economic development have been slower.” (*paragraph ①*)
- “one third of its 60 million citizens live in poverty.” (*paragraph ②*)
- “resource-rich nation significant opportunities in terms of investment and trade” (*paragraph ③*)
- “Economists warn inflation could threaten reform efforts” (*paragraph ⑤*) undermining both growth and development.

Any other reasonable evaluation.
