

MARKSCHEME

November 2003

ECONOMICS

Higher Level

Paper 2

Award up to a maximum of [10 marks] for each question.

- 1. Why do the prices of agricultural goods tend to fluctuate (vary) more than those of manufactured goods?**

A full answer would include the following: a recognition that the demand for and supply of agricultural products tends to be price inelastic, with suitable explanation; demand and supply analysis to show the impact on price of changes in demand and/or supply, particularly emphasising the importance of supply side changes in agriculture; demand for and supply of manufactured goods being more price elastic, with therefore less impact on price when demand and/or supply change; in manufacturing supply/price is usually manipulated by large MNCs.

Responses are likely to concentrate mainly on the fluctuating prices of agricultural products, but providing some explanation is given of the greater price stability of manufactured goods, then full marks can be awarded. It is unlikely that this question could be answered adequately without some use of diagrams, and a maximum of **[7 marks]** should be awarded if no diagrams are used.

- 2. A government increases taxation on the sale of tobacco. Using a diagram, explain how this might affect consumers and producers of tobacco.**

A high scoring/full mark answer would establish that the demand for tobacco is usually relatively price inelastic. This would be illustrated on a diagram, with the supply curve shifting to the left. The impact on price and quantity demanded/supplied, and tax incidence, would also be shown with suitable accompanying explanation.

Allow a maximum of **[5 marks]** if no diagram is used, and a maximum of **[7 marks]** if the diagram is restricted to a leftward shift of the supply curve; *i.e.* does not address tax incidence.

- 3. Using a diagram, explain how allocative and productive efficiency will be achieved in long run equilibrium in perfect competition.**

Allocative and productive efficiency should be clearly defined. The question could be neatly answered by drawing the standard perfect competition equilibrium diagram showing and explaining that in perfect competition output will occur on the lowest point of the ATC curve (productive efficiency), and that price will be equal to MC (allocative efficiency).

A maximum of **[6 marks]** should be awarded for responses which address only one aspect of the question. A maximum of **[5 marks]** should be given if no suitable diagram is used.

4. Why might a country's current account balance worsen as it approaches full employment?

Answers might start by explaining the terms balance of payments and full employment.

As an economy approaches full employment:

- inflationary pressures increase (Phillips relationship/AD/AS analysis) and exports may become less competitive
- the level of demand rises and imports are “sucked in”
- manufacturers may build up stocks of imported raw materials.

Full marks can be earned by discussing two points in detail or several points in less detail.

A maximum of up to **[6 marks]** should be awarded for responses which explain only one point.

5. Explain two benefits (gains) which might arise from international trade.

Candidates might explain the benefits in terms of any two of the following:

- a more efficient allocation of resources
- the principle of absolute and comparative advantage
- enlargement of markets
- greater employment prospects
- possibility of economies of scale
- international competition and the overcoming of abuse of monopoly power
- greater choice for consumers.

Some answers might be framed entirely in terms of comparative advantage and if this is done fully and well and at least two distinct points are made, it should be possible to earn full marks.

A maximum of up to **[6 marks]** should be awarded for responses which explain only one point.

6. Explain two ways in which multinational corporations might hinder the development of less developed countries.

Answers might usefully begin by defining the terms MNC and development. Ways in which MNCs might hinder development can include any two of the following:

- profits outflow
- problems of capital intensive investment
- outward directed growth and stifling of domestic competition
- widening inequalities between rural and urban sectors
- exploitation of local labour
- MNCs and repressive political regimes
- production for profit versus production for need *etc.*

A maximum of up to **[6 marks]** should be awarded for responses which explain only one point.
