

# Markscheme

**May 2016**

**Economics**

**Higher level**

**Paper 2**

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

### Section A

1. (a) (i) List **two** responsibilities of a country's central bank (paragraph ③). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> Any <b>one</b> of the responsibilities listed below:	<b>1</b>
2 <i>There is clear understanding.</i> Any <b>two</b> of the following responsibilities: <ul style="list-style-type: none"> <li>• regulator of commercial banks</li> <li>• banker to the government</li> <li>• control of interest rates</li> <li>• control of money supply</li> <li>• maintenance of price stability</li> <li>• control of exchange rate policy</li> <li>• implementation of monetary policy</li> <li>• lender of last resort</li> <li>• pursuit of full employment</li> <li>• collection of economic data (for making forecasts).</li> </ul>	<b>2</b>

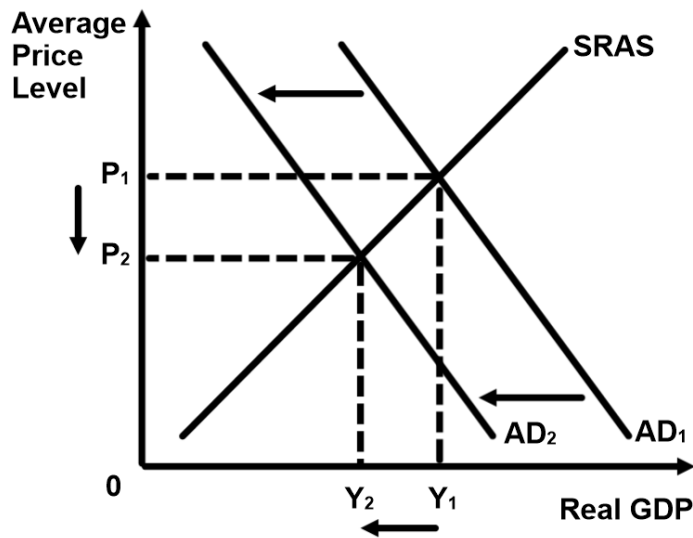
(ii) Define the term *consumption* indicated in bold in the text (paragraph ②). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that it is a component of AD, or that it is consumer spending.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is spending by households (consumers) on goods and services.	<b>2</b>

- (b) Using an AD/AS diagram, explain why the strength of the won (South Korea's currency) may be harming economic growth. [4]

**Approach 1**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For an AD/AS diagram showing a shift to the left in AD and a decrease in real GDP <b>or</b> an explanation that the strong won is causing exports to be less competitive (more expensive) and/or imports to be less expensive, causing net exports to fall, thus reducing real GDP <b>or</b> harming economic growth.	<b>1-2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For an AD/AS diagram showing a shift to the left in AD and a decrease in real GDP <b>and</b> an explanation that the strong won is causing exports to be less competitive (more expensive) and/or imports to be less expensive, causing net exports to fall, thus reducing real GDP <b>or</b> harming economic growth.	<b>3-4</b>



**Approach 2**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram, showing a shift of the AD curve to the right <b>or</b> an explanation that the strong won is causing exports to be less competitive (more expensive) and/or imports to be less expensive thus causing net exports to fall and increasing AD and thus real GDP by less than would have been the case without the strengthening won (harming economic growth).	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram, showing a shift of the AD curve to the right <b>and</b> an explanation that the strong won is causing exports to be less competitive (more expensive) and/or imports to be less expensive thus causing net exports to fall and increasing AD and thus real GDP by less than would have been the case without the strengthening won (harming economic growth).	<b>3–4</b>

*For AD/AS, the vertical axis may be price level or average price level. The horizontal axis may be real output, national output, real national output, national income, or GDP. Abbreviations of these terms are satisfactory. A title is not necessary.*

(c) Using an exchange rate diagram, explain how the authorities have been able to “hold down” the value of the won against the US dollar (paragraph 1). [4]

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

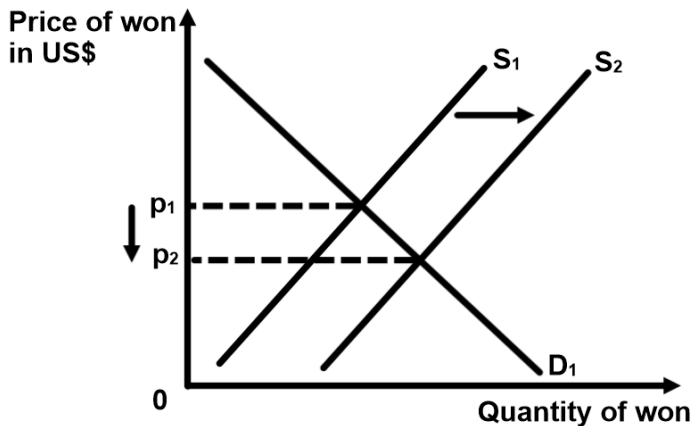
For an exchange rate diagram showing a shift in the supply curve to the right and a fall in the value of the won **or** for an explanation that the authorities sell (supply) the won in order to buy the US dollar, thus bringing about a depreciation of the won.

2 *There is a correct diagram **and** an accurate written response.* 3–4

For an exchange rate diagram showing a shift in the supply curve to the right and a fall in the value of the won **and** for an explanation that the authorities sell (supply) the won in order to buy the US dollar, thus bringing about a depreciation of the won.

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

For an exchange rate diagram, the vertical axis may be exchange rate, price of won in \$ or US\$ per Korean won or USD/won. The horizontal axis should be quantity or quantity of Korean won. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, discuss the view that the South Korean authorities should intervene in the foreign exchange market.

**[8]**

*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>	<b>0</b>
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	<b>1–2</b>
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
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.	<b>6–8</b>

*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:

Reasons to support intervention:

- growth is slowing (weak domestic consumption and weak growth in China, paragraph ②), and is below potential growth (paragraph ③) so help is needed to stimulate net exports (diagram to show increase in AD)
- a lower value of the won would make exporters such as Hyundai Motor Company and Samsung Electronics Limited more competitive, helping their profits and maintaining employment (paragraph ④)
- the extent to which export revenues and import expenditure will change depends on the price elasticities of demand for exports and imports
- an increase in AD may increase inflation, but inflation is below target and is not a threat
- the Japanese authorities have been intervening to bring about a fall in the value of the yen, and so South Korean authorities need to intervene so that the South Korean producers do not lose competitiveness (paragraph ④)
- the authorities maintain that they are intervening only to stabilize the currency not to bring it down (paragraph ⑥)
- the importance of exchange rate stability for business confidence
- the importance of exchange rate stability for consumer confidence, which “has been damaged by a ferry accident” (paragraph ②).

Reasons against intervention:

- IMF says that the won is actually undervalued and so the appreciation that has occurred may simply be the won moving towards its appropriate level (paragraph ⑥)
- as a free market economy, South Korea should not be interfering with market forces (paragraph ⑥)
- according to analysts, producers are not actually suffering that much (paragraph ⑤)
- strong won makes imported factors of production less expensive, so can reduce costs of production. This can make the producers more competitive in world markets
- strong won is good as it forces South Korean producers to become more efficient (not in text)
- intervention by South Korea may result in competitive devaluations with other countries such as Japan and China
- given that South Korean authorities have often intervened in currency market, South Korea may be labelled as a currency manipulator and this may bring about retaliation (paragraph ⑥)
- increases in import prices would be inflationary but this is not a problem as the inflation is low
- a lower value of the won would make imports more expensive, hurting firms that rely on imported inputs
- government wants to reduce reliance on trade (paragraph ②) and lowering the value of the won may not encourage this
- selling won leads to ever increasing reserves of foreign currencies.

Any reasonable discussion.



2. (a) (i) Define the term *multinational corporations (MNCs)* indicated in bold in the text (paragraph ❶). [2]

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 an international company.	1
2 <i>Accurate definition.</i> For an explanation that it is a company that has productive units in more than one country <b>Or</b> For an explanation that is it a company that carries out foreign direct investment in another country.	2

(ii) Define the term *monetary policy* indicated in bold in the text (paragraph ❷). [2]

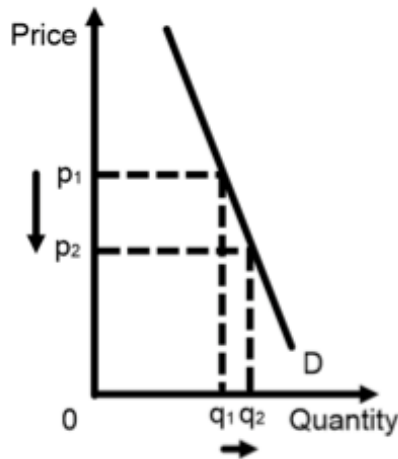
Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is a policy with <b>one</b> of the following: <ul style="list-style-type: none"><li>• carried out by the central bank</li><li>• that involves changes in interest rates</li><li>• that involves changes in money supply.</li></ul>	1
2 <i>Accurate definition.</i> An explanation that it is a policy with <b>two</b> of the following: <ul style="list-style-type: none"><li>• carried out by the central bank</li><li>• that involves changes in interest rates</li><li>• that involves changes in money supply.</li></ul>	2

- (b) Using an appropriate diagram, explain why “the slump in commodity prices in recent years has reduced export revenues” (paragraph 2). [4]

**Approach 1**

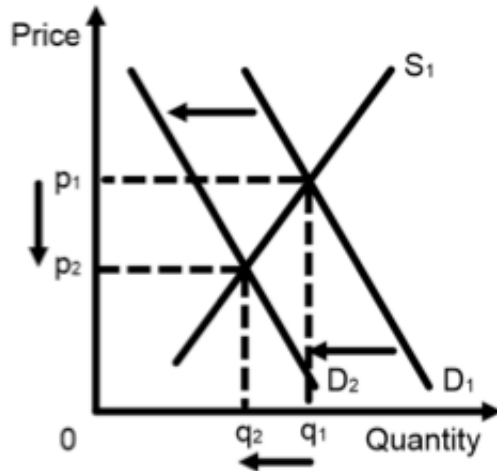
Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled diagram showing a demand curve*, with a price decrease, and a proportionately smaller change in quantity demanded <b>or</b> for an explanation that because demand for commodities is inelastic, the fall in price has led to a fall in export revenues.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled diagram showing a demand curve*, with a price decrease, and a proportionately smaller change in quantity demanded <b>and</b> for an explanation that because demand for commodities is inelastic, the fall in price has led to a fall in export revenues.	<b>3–4</b>

*\*A supply curve may be included, but is not necessary.*



**Approach 2**

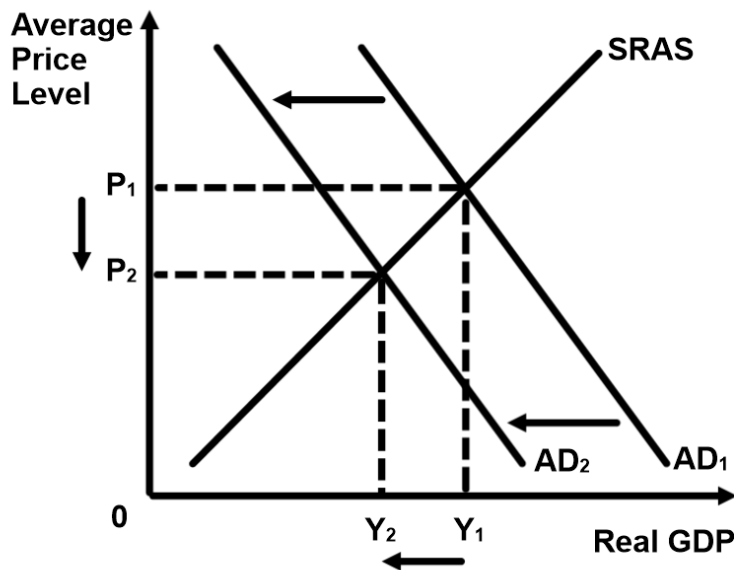
Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled <b>microeconomic</b> demand and supply diagram showing a fall in demand and a fall in price and quantity (and revenues) <b>or</b> for an explanation that a fall in demand for commodities has lead to a fall in the price and quantity of commodities which has lead to decreased export revenues.	<b>1-2</b>
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled <b>microeconomic</b> demand and supply diagram showing a fall in demand and a fall in price and quantity (and revenues) <b>and</b> for an explanation that a fall in demand for commodities has lead to a fall in the price and quantity of commodities which has lead to decreased export revenues.	<b>3-4</b>



- (c) Using an AD/AS diagram, explain why “tightened monetary policy” may have “slowed down inflation” and “slowed economic growth” (paragraph ⑤). [4]

**Approach 1**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram, showing a shift of the AD curve to the left with a fall in the average price level and a fall in real GDP <b>or</b> for an explanation that “tightened monetary policy” (increasing interest rates and/or reducing the money supply) should reduce AD (C+I+G+[X-M]), lowering the inflation rate (inflationary pressure) in the economy and reducing real GDP <b>or</b> slowing economic growth.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram, showing a shift of the AD curve to the left with a fall in the average price level and a fall in real GDP <b>and</b> for an explanation that “tightened monetary policy” (increasing interest rates and/or reducing the money supply) should reduce AD (C+I+G+[X-M]), lowering the inflation rate (inflationary pressure) in the economy and reducing real GDP <b>or</b> slowing economic growth.	<b>3–4</b>



**Approach 2**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram, showing a shift of the AD curve to the right <b>or</b> for an explanation that “tightened monetary policy” (increasing interest rates and/or reducing the money supply) should lead to a smaller increase in AD than would have been the case without the “tightened monetary policy” thus reducing inflationary pressures and slowing economic growth.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram, showing a shift of the AD curve to the right <b>and</b> for an explanation that “tightened monetary policy” (increasing interest rates and/or reducing the money supply) should lead to a smaller increase in AD than would have been the case without the “tightened monetary policy” thus reducing inflationary pressure and slowing economic growth.	<b>3–4</b>

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

*For AD/AS, the vertical axis may be price level or average price level. The horizontal axis may be real output, national output, real national output, national income, or GDP. Abbreviations of these terms are satisfactory. A title is not necessary.*

- (d) Using information from the text/data and your knowledge of economics, discuss the implications for Indonesia of a persistent current account deficit. [8]

*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>	<b>0</b>
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	<b>1–2</b>
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
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.	<b>6–8</b>

*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:*

- definition of current account (paragraph ①)
- definition of current account deficit (paragraph ①).
  
- cannot lower interest rates to support the slowing economy (paragraph ①)
- foreign debt payments (paragraph ①) will be more expensive and a greater drain on the economy
- downward pressure on the exchange rate; mid-2013 rupiah decreased by 21 % (paragraph ③)
- there may be a drain on reserves to finance the current account deficit
- foreign investors may be purchasing Indonesian assets to finance the deficit which could threaten sovereignty
- increased debt levels to finance the current account deficit may worsen Indonesia’s credit rating
- it may be unsustainable to finance the current account deficit by borrowing
- if foreign investors lose confidence, there may be a rapid outflow of financial capital resulting in a rapid fall in the value of the rupiah
- difficulty in financing the current account deficit if there is increased capital outflow due to change in US interest rate
- current account deficit may worsen further if fuel prices increase (paragraph ⑦) as the value of imports will rise.

Any reasonable discussion.

**Section B**

3. (a) (i) Define the term *fiscal policy* indicated in bold in the text (paragraph ③). [2]

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1	<p><i>Vague definition.</i></p> <p>The idea that fiscal policy involves (any <b>one</b> of the following is sufficient):</p> <ul style="list-style-type: none"> <li>• changes in government spending</li> <li>• changes in taxation</li> <li>• to achieve macroeconomic objectives (relating to inflation and/or unemployment and/or economic growth and/or equity).</li> </ul>	<b>1</b>
2	<p><i>Accurate definition.</i></p> <p>The idea that fiscal policy involves (any <b>two</b> of the following is sufficient):</p> <ul style="list-style-type: none"> <li>• changes in government spending</li> <li>• changes in taxation</li> <li>• to achieve macroeconomic objectives (relating to inflation and/or unemployment and/or economic growth and/or equity).</li> </ul>	<b>2</b>

(ii) Define the term *infrastructure* indicated in bold in the text (paragraph ④). [2]

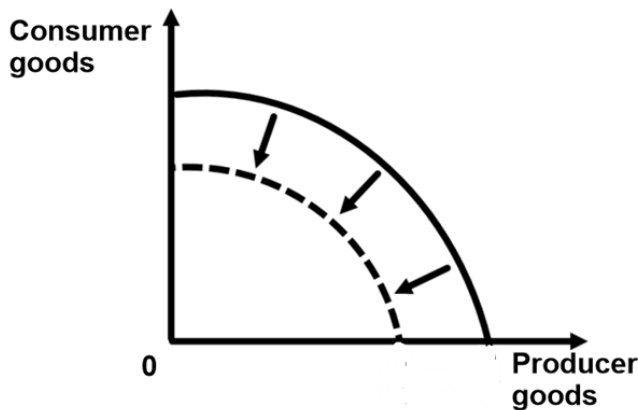
Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1	<p><i>Vague definition.</i></p> <p>The idea that it is (any <b>one</b> of the following is sufficient):</p> <ul style="list-style-type: none"> <li>• large scale public systems (services and facilities) of a country</li> <li>• necessary for economic activity</li> <li>• adding to the capital stock of a nation</li> <li>• usually supplied by the government.</li> </ul>	<b>1</b>
2	<p><i>Accurate definition.</i></p> <p>An explanation that it is (any <b>two</b> of the following is sufficient):</p> <ul style="list-style-type: none"> <li>• large scale public systems (services and facilities) of a country</li> <li>• necessary for economic activity</li> <li>• adding to the capital stock of a nation</li> <li>• usually supplied by the government.</li> </ul>	<b>2</b>

(b) Using a production possibilities curve (PPC) diagram, explain the effects of the violence in Timor-Leste on production possibilities (potential output) (paragraph 2). [4]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled PPC diagram, showing an inward shift of the PPC <b>or</b> for an explanation that violence would have resulted in a reduction in quantity and/or quality of any identified factors of production leading to a fall in production possibilities (potential output).	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled PPC diagram, showing an inward shift of the PPC <b>and</b> for an explanation that violence would have resulted in a reduction in quantity and/or quality of any identified factors of production leading to a fall in production possibilities (potential output).	<b>3–4</b>

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

*For a PPC, the axes could be two alternative products, one on each axis, eg Good A & Good B or Schools & Motor Cars; or two groups of products, eg Consumer Goods and Producer Goods.*





- (c) Explain why the gross national income (GNI) per capita for Timor-Leste is lower than the gross domestic product (GDP) per capita (Figure 1). **[4]**

Level Marks

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

1 *The written response is limited.* **1–2**

For showing an awareness of the difference between GNI and GDP **or** for an explanation that if the GNI per capita is lower than the GDP per capita, then this means that the net income from abroad is negative (or that foreign owners of productive resources in Timor-Leste are earning more income than owners from Timor-Leste are earning in foreign countries).

2 *The written response is accurate.* **3–4**

For showing an awareness of the difference between GNI and GDP **and** for an explanation that if the GNI per capita is lower than the GDP per capita, then this means that the net income from abroad is negative (or that foreign owners of productive resources in Timor-Leste are earning more income than owners from Timor-Leste are earning in foreign countries).

- (d) Using information from the text/data and your knowledge of economics, compare and contrast the Human Development Index (HDI) data for Singapore and Timor-Leste in terms of their relevance for economic development. **[8]**

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

1 *Few relevant concepts are recognized.* **1–2**

There is basic knowledge/understanding.

2 *Relevant concepts are recognized and developed in reasonable depth.* **3–5**

There is clear knowledge/understanding.

There is some attempt at application/analysis.

3 *Relevant concepts are recognized and developed in reasonable depth.* **6–8**

There is clear knowledge/understanding.

There is effective application/analysis.

There is synthesis/evaluation, supported by appropriate theory and evidence.

*Command term*

*“Compare and contrast” requires candidates to give an account of similarities and differences between two (or more) items or situations, referring to both (all) of them.*

Responses **may** include:

- definition of HDI (Figure 1) and its components
- explanation of economic development
- the high Singapore HDI value (0.901) suggests that it is a “very high human development” country (Figure 1) whereas the lower Timor-Leste HDI figure (0.62) suggests that it is a “medium human development” country (Figure 1)
- the high Singapore HDI ranking (9) suggests that it is a “very high human development” country whereas the lower Timor-Leste HDI ranking (128) suggests that it is a “medium human development” country
- Singapore has significantly higher GDP per capita
- an explanation of how higher income per capita contributes to higher levels of economic development
- the data does not account for different levels of income inequality and absolute or relative poverty
- Singapore has higher life expectancy at birth suggesting better health of its people
- an explanation of how better health allows for higher levels of economic development
- Singapore has significantly higher mean years of schooling and higher expected years of schooling suggesting higher levels of education
- an explanation of how higher levels of education contributes to higher levels of economic development
- Singapore is already highly developed (paragraph ❶), so increases in HDI figures and economic development become more marginal
- not all factors affecting development are incorporated within the HDI.

References to other material in the data:

- Timor-Leste only gained independence in 2002, so the country has only existed for 11 years. This makes comparison difficult (paragraph ❷)
- foreign direct investment is much higher in Singapore and can contribute to higher economic growth, which may be used to achieve economic development
- Timor Leste’s relatively small urban population in comparison with Singapore (Figure 1) and endowment of natural resources (paragraph ❸) suggests an economy more reliant on primary commodities which can present problems for economic development
- developments in Timor-Leste such as increased government spending on infrastructure, development of skills and institutional changes (paragraph ❹) could lead to a higher HDI ranking in coming years and also greater development.

Any reasonable discussion.

4. (a) (i) Define the term *official development assistance (ODA)* indicated in bold in the text (paragraph 5). [2]

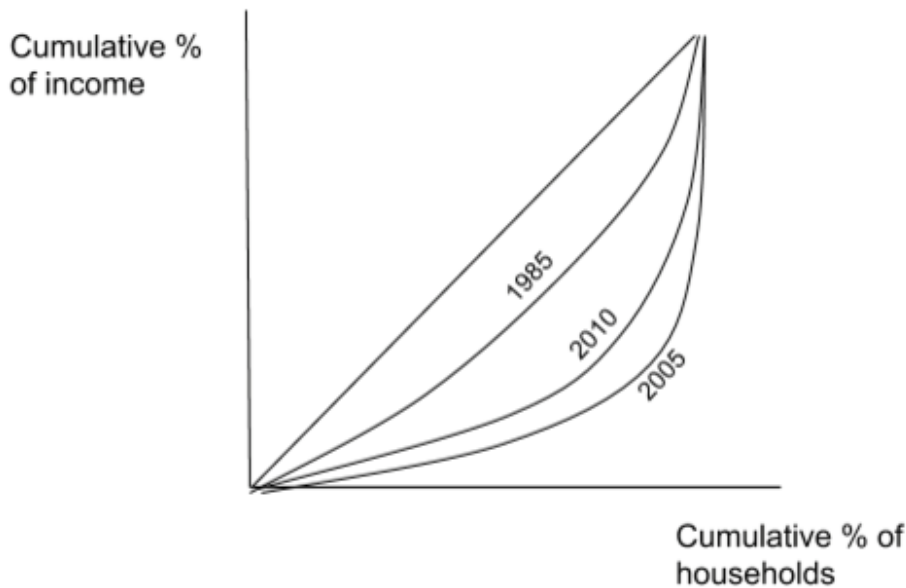
Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> For the idea that it is aid given from a government.	<b>1</b>
2 <i>Accurate definition.</i> For an explanation that it is any <b>two</b> of the following: <ul style="list-style-type: none"><li>• aid (financial assistance) given from a government</li><li>• aid (financial assistance) from a government (multilateral) agency</li><li>• aid given for the purposes of development and/or welfare.</li></ul>	<b>2</b>

(ii) Define the term *customs union* indicated in bold in the text (paragraph 6). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> For the idea that it is where countries agree to trade freely.	<b>1</b>
2 <i>Accurate definition.</i> For an explanation that it is a form of trade agreement where members trade freely amongst themselves and have common external tariffs (common external trade policies) with non-members.	<b>2</b>

(b) Using a Lorenz curve diagram, explain what happened to income inequality between 1985, 2005 and 2010 (paragraph 4). [4]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a Lorenz curve diagram with a movement of the curve away from the line of absolute equality (1985 to 2005) and then back towards it (2005 to 2010) (NOT TO SCALE) <b>or</b> an explanation that income distribution has become more unequal since 1985, but slightly less unequal between 2005 to 2010.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a Lorenz curve diagram with a movement of the curve away from the line of absolute equality (1985 to 2005) and then back towards it (2005 to 2010) (NOT TO SCALE) <b>and</b> an explanation that income distribution has become more unequal since 1985, but slightly less unequal between 2005 to 2010.	<b>3–4</b>



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

For the vertical axis, the label may be cumulative percentage of income or percentage of income. For the horizontal axis, the label may be cumulative percentage of population or percentage of population. A title is not necessary.

- (c) Using data from Figure 1 with reference to Rwanda and Nigeria, explain why higher gross national income (GNI) per capita might not lead to higher economic development. **[4]**

Level		Marks
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0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
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1	<i>The written response is limited.</i> For recognising that although Nigeria has a much higher level of national income per capita than Rwanda, its national income may not have lead to higher economic development (than Rwanda).	<b>1–2</b>
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2	<i>The written response is accurate.</i> <i>Level 2 (= L1 explanation supported by any use of the data)</i> For recognising that although Nigeria has a much higher level of national income per capita (US\$5,353) than Rwanda (US\$1403), its national income may not have lead to higher economic development (than Rwanda) as illustrated by its lower development indicators. (eg life expectancy is higher in Rwanda [64.1] than Nigeria [52.5]; expected years of schooling higher in Rwanda [13.2] than Nigeria [9.0].)	<b>3–4</b>
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*For full marks, at least **one** piece of data must be used.*

- (d) Using information from the text/data and your knowledge of economics, discuss the view that economic development may best be achieved through a balance of market-oriented policies and government intervention. **[8]**

*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
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0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
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1	<i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	<b>1–2</b>
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2	<i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
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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.	<b>6–8</b>
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*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 economic development
- an explanation/definition of market-oriented policies (privatization, liberalization and economic integration (paragraph ⑥))
- an explanation/definition of interventionist policies.
  
- Benefits of government intervention:
  - government spending on infrastructure and housing (paragraph ⑤) which has led to increased growth and can contribute to economic development
  - Rwanda spends huge proportions of its national budget on health and education with favourable results (paragraph ②) and has better levels of health and education in comparison with richer Nigeria (Figure 1)
  - Rwanda seems to have a good record of using the benefits of economic growth to achieve economic development.
  
- Concerns about government intervention:
  - government spending on development objectives may have to be financed by official development assistance and may be vulnerable to other forces (paragraph ⑤)
  - Rwanda does not necessarily have a good track record in terms of political opposition and free speech (paragraph ①).
  
- Benefits of market-oriented policies:
  - privatization – more government revenue
  - privatization – more competition which may lead to lower prices, improved quality and innovation of goods and services
  - trade liberalization – joining the East African Community customs union may lead to trade creation and economic growth (other benefits of economic integration may be mentioned) (paragraph ⑥)
  - market-oriented policies may be better for attracting foreign direct investment (paragraph ⑥)
  - trade liberalization may be a good trade policy to achieve economic growth, which can then lead to economic development (paragraph ⑥).
  
- Concerns about market-oriented policies:
  - may result in higher prices of essential products
  - privatization – there may be corruption
  - may lead to greater inequality, which worsened from 1985 to 2005 (paragraph ④)
  - intervention may be necessary to provide merit goods, correct market failures, and reduce poverty but market-oriented policies may be needed to ensure a high enough rate of economic growth.

Any reasonable discussion.

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