



# **MARKSCHEME**

**May 2008**

**ECONOMICS**

**Standard Level**

**Paper 2**

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In addition to the assessment criteria use the paper-specific markscheme below. Award up to the maximum marks as indicated.

1. (a) Define the following terms indicated in bold in the text:

(i) **merit goods (paragraph ①)** **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that it is a good that has positive side effects or is beneficial.

2 *Precise definition* **2**

An explanation that they are goods or services considered to be beneficial for people (society) that would be under-provided by the market and so under-consumed.

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

(ii) **negative externalities (paragraph ②).** **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that they are “bad” effects of the production process.

2 *Precise definition* **2**

An explanation that they are the costs suffered by a third party when a good or service is produced or consumed. (Produced on its own is enough.)

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

- (b) Using an appropriate diagram, explain how excessive use of private transport and the resulting traffic congestion is an example of market failure. [4 marks]

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing a demand/supply diagram of private transport showing two demand curves (MSB and MPB) with MPB to the right of MSB and one supply curve (MSC) with the vertical separation or shaded welfare loss area identifying the negative externality (traffic congestion) <b>or</b> for providing an explanation that the costs of traffic congestion are external costs affecting third parties. Traffic congestion is an example of market failure because its costs are borne by society at large rather than by road users. (OR because the amount of private transport determined by the market exceeds the optimal amount.)</p>       | <b>1-2</b> |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing a demand/supply diagram of private transport showing two demand curves (MSB and MPB) with MPB to the right of MSB and one supply curve (MSC) with the vertical separation or shaded welfare loss area identifying the negative externality (traffic congestion) <b>and</b> for providing an explanation that the costs of traffic congestion are external costs affecting third parties. Traffic congestion is an example of market failure because its costs are borne by society at large rather than by road users. (OR because the amount of private transport determined by the market exceeds the optimal amount.)</p> | <b>3-4</b> |

Candidates may show the situation as a negative externality of production, with MSC higher than MPC and, although not technically correct, if the diagram is correctly labelled and drawn, then full marks may be awarded.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The vertical axis may be price, but could be costs or benefits. The horizontal axis is quantity. A title is not necessary.

(c) **Using an appropriate diagram, explain how a decision to provide free public transport is likely to impact on the market for cars in Melbourne.** [4 marks]

level

- |   |   |     |
|---|---|-----|
| 0 | <i>Inappropriate answer</i>   | 0   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a demand and supply diagram for the car market in Melbourne which shows a shift to the left of the demand curve <b>or</b> for providing an explanation of the fact that public transport is a substitute for private cars and so a fall in the price of public transport will lead to a fall in the demand for cars.       | 1-2 |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a demand and supply diagram for the car market in Melbourne which shows a shift to the left of the demand curve <b>and</b> for providing an explanation of the fact that public transport is a substitute for private cars and so a fall in the price of public transport will lead to a fall in the demand for cars. | 3-4 |

Candidates may draw the diagram and then explain that there is a positive cross elasticity of demand between public transport and cars. This would be acceptable for full marks.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

- (d) Using information from the text and your knowledge of economics, evaluate a decision to provide free public transport in Melbourne.

[8 marks]

Positive impacts **may** include:

- it would boost demand for public transport services (*paragraph 2*)
- reduced negative externalities including pollution, traffic congestion, greenhouse gases and road accidents (*paragraph 2*)
- it would boost demand for services located near public transport facilities (*paragraph 3*)
- it would boost the quality of life in Melbourne (*paragraph 3*)
- it would reduce the cost of travel for consumers
- reduced wear on road system
- it would boost employment in the public transport sector
- any reasonable answer.

Negative impacts **may** include:

- additional costs to the government of providing free transport of \$340 million a year (*paragraph 4*)
- opportunity costs of the other services that could be provided (*paragraph 4*)
- it may not be price that is the main determinant of demand for public transport (*paragraph 5*)
- neglects the reasons other than price why many people do not use public transport *e.g.* convenience, flexibility, travel time and safety (*paragraph 5*)
- it would not make public transport more attractive for those who live in suburbs with no public transport at all (*paragraph 5*)
- neglects more effective strategies such as high services frequencies, central coordination of timetables, traffic priority for trams and buses, and a conspicuous staff presence (*paragraph 6*)
- neglects possible government revenue and lower costs if the alternative strategies are adopted (*paragraph 6*)
- taxes may be raised to fund the increased expenditure
- reduced demand for taxi services
- reduced demand for new and used cars
- reduced employment in the car industry
- any reasonable answer.

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

Do not award more than [5 marks] if the answer does not contain some reference to the information provided in the text.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

**2. (a) Define the following terms indicated in bold in the text:**

**(i) inflation (Table 1)** **[2 marks]**

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that there is an increase in prices.	<b>1</b>
2	<i>Precise definition</i> An explanation that it is a sustained increase in the general or average level of prices.	<b>2</b>

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

**(ii) foreign currency reserves (Table 1).** **[2 marks]**

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that they are foreign money held by a country.	<b>1</b>
2	<i>Precise definition</i> For an explanation that they are reserves of foreign currencies held by the central bank or the government of a country.	<b>2</b>

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

- (b) In 2005, rising imported oil prices were a major factor contributing to Vietnam’s high current account deficit. Using an appropriate diagram, explain how this could have contributed to Vietnam’s relatively high inflation rate.

[4 marks]

level

- |   |  |     |
|---|--|-----|
| 0 | <i>Inappropriate answer</i>  | 0   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing an AD/AS diagram for the Vietnamese economy showing a shift in the AS curve to the left with a consequent increase in the price level <b>or</b> for providing an explanation that the rising price of oil would be an increased cost for Vietnamese firms, increasing their production costs and thus forcing them to raise prices.       | 1-2 |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing an AD/AS diagram for the Vietnamese economy showing a shift in the AS curve to the left with a consequent increase in the price level <b>and</b> for providing an explanation that the rising price of oil would be an increased cost for Vietnamese firms, increasing their production costs and thus forcing them to raise prices. | 3-4 |

Vietnam is a net oil exporter and it is possible that a candidate may state this and explain that the increase in oil prices would increase export revenue and thus shift AD to the right, causing inflation. If this is fully explained and illustrated, then candidates should be given full marks. However, AD shifts with no explanation should not be rewarded.

Candidates who incorrectly label diagrams cannot be rewarded with full 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.



- (c) **In 2006, Indonesia’s unemployment rate passed 10 %. One reason given was an increase in the minimum wage. Using an appropriate diagram, explain how an increase in the minimum wage could lead to an increase in unemployment.**

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1-2

For drawing a demand/supply diagram for the labour market showing an increased minimum wage imposed above the market equilibrium price for labour. The diagram should indicate the unemployment caused by the increased minimum wage **or** for providing an explanation that an increase in the minimum wage will cause employers to hire fewer workers at the new higher minimum wage and/or an increase in those willing to work with a consequent impact on unemployment. (There will be an excess supply of labour.)

2 *Correct application of appropriate theory*

3-4

For drawing a demand/supply diagram for the labour market showing an increased minimum wage imposed above the market equilibrium price for labour. The diagram should indicate the unemployment caused by the increased minimum wage **and** for providing an explanation that an increase in the minimum wage will cause employers to hire fewer workers at the new higher minimum wage and/or an increase in those willing to work with a consequent impact on unemployment. (There will be an excess supply of labour.)

Candidates may draw an AD/AS diagram showing an upward shift of SRAS and say that higher wage rates will cause a decrease in the country’s SRAS curve, which will lead to a fall in national income, and thus an increase in unemployment. If the diagram is accurate and the explanation correct, then full marks should be awarded.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For a labour market diagram, the vertical axis may be wages, wage rate, or the price of labour. The horizontal axis should be quantity of labour, employment, number of workers, or simply labour or workers.

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 Table 1 and Table 2, and your knowledge of economics, evaluate which country you feel is in the strongest economic position in 2005.

[8 marks]

Responses **may** include:

- Vietnam has the highest economic growth in real terms (*Table 1*)
- Thailand had the highest GDP when taking into account population size (*Table 1*)
- Vietnam and Indonesia have inflation rates well above Thailand (*Table 1*)
- Indonesia has a high level of unemployment (*Table 1*)
- Vietnam has a current account deficit whereas both Indonesia and Thailand have a current account surplus (*Table 1*)
- Indonesia has the highest level of foreign debt and this may cause problems in terms of high interest payments on these debts (*Table 1*)
- Vietnam has a low level of foreign currency reserves which may cause issues in terms of paying for imports (*Table 1*)
- Thailand has the highest level of household income inequality (*Table 2*)
- any reasonable answer.

Possible reasons for selecting a particular country **may** include:

- candidates may select Thailand as having the strongest economy because of its rate of economic growth, high GDP *per capita*, low level of inflation, low level of unemployment and surplus in the balance of payments current account
- candidates may select Vietnam because of its high rate of economic growth, low rate of unemployment, low foreign debt and a more even distribution of income than Thailand
- candidates may select Indonesia because of its more moderate rate of economic growth, high surplus in the balance of payments current account, its good level of foreign currency reserves and because it has the most even distribution of household income.

Comparison and effective evaluation of **three** factors, using data from the tables, would be sufficient for full marks.

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

Do not award more than [5 marks] if the answer does not contain reference to the information provided.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

**3. (a) Define the following terms indicated in bold in the text:**

**(i) inward-oriented policies (paragraph 1) [2 marks]**

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that such policies mean producing more domestically.	<b>1</b>
2	<i>Precise definition</i> An explanation that inward-oriented policies are designed to encourage the domestic production of goods, rather than importing them. The strategies encourage protectionism.	<b>2</b>

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

**(ii) infrastructure (paragraph 3). [2 marks]**

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that they are facilities to improve the economy.	<b>1</b>
2	<i>Precise definition</i> For an explanation that it involves essential facilities and services that are necessary for economic activity. (They are accumulated through investment, usually by the government.)	<b>2</b>

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

- (b) The text states that India’s economic growth has been “supported by a savings rate of 29 % of GDP and an investment rate of 30 % of GDP” (paragraph ③). Using a circular flow of income diagram, explain the difference between savings and investment. [4 marks]

level

- |   |   |     |
|---|---|-----|
| 0 | <i>Inappropriate answer</i>   | 0   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing a circular flow of income diagram (2, 3 or 4-sector model) showing savings as a leakage and investment as an injection <b>or</b> for providing an explanation that savings is the disposable income remaining after consumption spending, which is withdrawn from the circular flow of income, whereas investment is the amount of money added to the circular flow of income in the form of business expenditure on capital items.</p>       | 1-2 |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing a circular flow of income diagram (2, 3 or 4-sector model) showing savings as a leakage and investment as an injection <b>and</b> for providing an explanation that savings is the disposable income remaining after consumption spending, which is withdrawn from the circular flow of income, whereas investment is the amount of money added to the circular flow of income in the form of business expenditure on capital items.</p> | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks. A title is not necessary.

- (c) Using an AD/AS diagram, explain how a rise in interest rates could be a “threat to economic growth” (paragraph 4). [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2

For drawing an AD/AS diagram showing a shift to the left in AD and a fall in output as measured by real GDP **or** for providing an explanation that an increase in interest rates will discourage borrowing by consumers and so lower consumption and will also discourage investment by firms, thereby reducing aggregate demand and economic growth.

2 *Correct application of appropriate theory* 3-4

For drawing an AD/AS diagram showing a shift to the left in AD and a fall in output as measured by real GDP **and** for providing an explanation that an increase in interest rates will discourage borrowing by consumers and so lower consumption and will also discourage investment by firms, thereby reducing aggregate demand and economic growth.

Candidates may shift the SRAS curve to the left with an appropriate explanation. This should be fully rewarded.

Some candidates may link the increase in interest rates with an appreciation of the exchange rate and subsequent falls in exports and increases in imports. This would be appropriate and may be rewarded.

Candidates who incorrectly label diagrams cannot be rewarded with full 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 and your knowledge of economics, evaluate the Indian government’s objectives to see “even stronger growth of 10 % per annum” (*paragraph 2*).

*[8 marks]*

Benefits **may** include:

- increased foreign direct investment (*paragraph 1*)
- possible increase in employment (*paragraph 2*)
- increased government revenue (*paragraph 3*)
- possible reduction in the rate of unemployment
- increase in incomes
- reduced levels of poverty
- increased demand for goods and services
- any reasonable answer.

Costs **may** include:

- possible increase in central government’s budget deficit (*paragraph 3*)
- possible increase in interest rates (*paragraph 4*)
- possible increases in the rate of inflation
- danger of causing a sharp reduction in the level of economic activity/ “bumpy landing”/boom-bust cycle
- possible increase in the current account deficit
- possible increase in foreign debt
- increased trend to urbanization
- increased resource use
- possible increased levels of pollution
- any reasonable answer.

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

Do not award more than *[5 marks]* if the answer does not contain some reference to the information provided, although it should be noted that there is not a lot of textual information available here and so allowances must be made in this case.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

**4. (a) Define the following terms indicated in bold in the text:**

**(i) currency appreciation (paragraph 3)** **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition*  
The idea that it involves an increase in the value of a currency. **1**

2 *Precise definition*  
For an explanation that it is an increase in the value of one currency in terms of another currency in a floating exchange rate system (or due to changes in demand and supply). **2**

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

**(ii) monetary policy (paragraph 7).** **[2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that it is a policy concerned with controlling the amount of money in the economy.

2 *Precise definition* **2**

An explanation that it is a demand-side policy, with the central bank using changes in the money supply or interest rates to affect AD. (Any two main points from this would be sufficient to achieve this level, *i.e.* two of “demand-side policy”, “central bank”, “interest rates”, and “money supply”.)

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.



- (b) Using an appropriate diagram, explain how the Philippines' central bank could reduce the value of the peso from 50 pesos per US dollar to 52 pesos per US dollar (paragraph 3). [4 marks]

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing a demand and supply diagram for the Philippines currency relative to the US dollar which shows a shift in the supply curve to the right <b>or</b> for providing an explanation that the Philippines central bank could influence the value of the peso by selling Philippines currency on the foreign exchange market. This sale of currency will decrease the value of the peso relative to US dollar.</p>       | <b>1-2</b> |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing a demand and supply diagram for the Philippines currency relative to the US dollar which shows a shift in the supply curve to the right <b>and</b> for providing an explanation that the Philippines central bank could influence the value of the peso by selling Philippines currency on the foreign exchange market. This sale of currency will decrease the value of the peso relative to US dollar.</p> | <b>3-4</b> |

Some candidates may approach the question by referring to central bank reductions in interest rates, which will generate hot money movements that would lower the value of the peso. If properly explained, with an appropriate diagram, this approach should be fully rewarded.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For an exchange rate diagram, the vertical axis may be exchange rate, pesos per US\$, or pesos. The horizontal axis should be quantity or quantity of pesos. A title is not necessary.

(c) **Using an appropriate diagram, explain how the 8 % rise in the Philippines peso (paragraph ①) has affected the market for mangos in Mexico.** **[4 marks]**

level

0 *Inappropriate answer* **0**

1 *Identification of appropriate theory* **1-2**

For drawing a demand and supply diagram for mangos in Mexico showing a shift to the right in demand for Mexican mangos **or** for providing an explanation that an increase in the value of the peso will make exports from the Philippines more expensive and imported mangos from Mexico relatively cheaper, hence increasing demand for mangos from Mexico.

2 *Correct application of appropriate theory* **3-4**

For drawing a demand and supply diagram for mangos in Mexico showing a shift to the right in demand for Mexican mangos **and** for providing an explanation that an increase in the value of the peso will make exports from the Philippines more expensive and imported mangos from Mexico relatively cheaper, hence increasing demand for mangos from Mexico.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

- (d) Using information from the text and your knowledge of economics, evaluate the impact of a currency appreciation on the Philippines economy.

[8 marks]

Positive impacts **may** include:

- the cost of servicing and repaying the US\$76 billion foreign debt will decrease (*paragraph 6*)
- more public funds to improve welfare (*paragraph 6*)
- imports into the Philippines will be cheaper which will contribute to reduced inflationary pressures (*paragraph 7*)
- reduced cost of imported capital goods, energy resources and raw materials will improve productive efficiency and competitiveness
- importing firms will increase profits and may create new jobs
- possible improvement in income distribution with a positive impact on reducing the number of people living below the poverty line
- any reasonable answer.

Negative impacts **may** include:

- exporters in competing countries, such as Mexico, will benefit (*paragraph 2*)
- exporters will suffer losses of revenue (*paragraph 3*)
- export profit margins will be reduced (*paragraph 3*)
- the purchasing power in the Philippines for citizens based overseas will decline and the income of households depending on those remittances will decrease (*paragraph 4*)
- the problems of the exporters could have a negative effect on consumer spending, employment, and economic growth (*paragraph 5*)
- negative impact on the current account balance, depending upon elasticities of demand for exports and imports and the effects on tourism
- possible reduced demand for domestically produced items as imports are now cheaper
- any reasonable answer.

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

Do not award more than [5 marks] if the answer does not contain reference to the information provided.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

**5. (a) Define the following terms indicated in bold in the text:**

**(i) The World Bank (paragraph ❸) [2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that it is an international organization involved in giving money to developing countries.

2 *Precise definition* **2**

An explanation that it is an organisation whose main aims are to provide aid and advice to developing countries, (as well as reducing poverty levels and encouraging and safeguarding international investment). (Two relevant points would be sufficient for **[2 marks]**.)

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

**(ii) multinational company (paragraph ❹). [2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that it is a company that operates abroad.

2 *Precise definition* **2**

An explanation that it is a company that conducts an economic activity in more than one country.

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

- (b) **Using an appropriate diagram, explain how a reduction in logging in Papua New Guinea will impact on furniture prices in Australia.** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing a demand and supply diagram for the Australian furniture market showing a shift to the left of the supply curve <b>or</b> for providing an explanation that due to a reduced supply of wood suitable for the manufacture of furniture, less furniture is supplied increasing the price of furniture.</p>       | <b>1-2</b> |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing a demand and supply diagram for the Australian furniture market showing a shift to the left of the supply curve <b>and</b> for providing an explanation that due to a reduced supply of wood suitable for the manufacture of furniture, less furniture is supplied increasing the price of furniture.</p> | <b>3-4</b> |

Candidates who incorrectly label diagrams cannot be rewarded with full 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 AD/AS diagram, explain the likely future impact on the economy of Papua New Guinea of “unsustainable logging” (paragraph 3).** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing an AD/AS diagram showing a shift to the left in LRAS <b>or</b> for providing an explanation that the LRAS will decrease due to the depletion of natural resources, and so the productive capacity of the nation falls.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing an AD/AS diagram showing a shift to the left in LRAS <b>and</b> for providing an explanation that the LRAS will decrease due to the depletion of natural resources, and so the productive capacity of the nation falls. | <b>3-4</b> |

Candidates may take a short run approach and explain that the “unsustainable logging” could shift SRAS to the right in the short run, since lumber costs would be lower. If fully illustrated and explained, then full marks may be awarded.

Candidates may approach the question from an AD viewpoint, showing that continued logging will keep AD high in the short run, but that in the long run, there will be a leftward shift in AD with subsequent negative growth consequences for the economy. If correctly illustrated and explained, this approach may be fully rewarded.

Candidates who incorrectly label diagrams cannot be rewarded with full 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 and your knowledge of economics, evaluate the impact on economic development of continued logging in Papua New Guinea.**

*[8 marks]*

Define economic development.

Positive impacts **may** include:

- provides export revenue (*paragraph 2*)
- logging provides significant revenue for the government (*paragraph 4*)
- government revenue resulting from logging may be used to improve health, education and social services in general
- possible infrastructure improvements, such as roads and bridges which may give jobs to poor unemployed rural workers, improve their standards of living and get them out of absolute poverty
- landowners will continue to have a source of income (*paragraph 5*)
- provides employment in timber industry
- any reasonable answer.

Negative impacts **may** include:

- continued exploitation of forests and further environmental damage (*paragraph 2*)
- holding back of \$50 million dollars of aid by the World Bank (*paragraph 3*)
- continuing illegal practices, corruption, and lack of care for conservation and environmental values (*paragraph 4*)
- negative externalities from timber processing (*paragraph 4*)
- continued social conflict involving alleged use of firearms (*paragraph 4*)
- MNCs continue to dominate the industry (*paragraph 5*)
- continued political influence of key MNC logging companies (*paragraph 5*)
- revenue from logging continues to go mostly to the MNCs (*paragraph 5*)
- negative impact on sustainability and on potential economic growth
- any reasonable answer.

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

Do not award more than *[5 marks]* if the answer does not contain reference to the information provided.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

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