



MARKSCHEME

May 2013

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.

SECTION A

1. (a) (i) Define the term *appreciation* indicated in bold in the text (paragraph ❶). [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 the exchange rate rises.	1
2 <i>Accurate definition.</i> An explanation that it is an increase in the value of a currency plus one of the following: <ul style="list-style-type: none"> • in terms of another currency • in a floating exchange rate system 	2

(ii) Define the term *interest rate* indicated in bold in the text (paragraph ❷). [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 it is something paid for a loan.	1
2 <i>There is clear understanding.</i> An explanation that it is any one of the following: <ul style="list-style-type: none"> • the reward (payment received) for lending money • the cost of borrowing money. 	2

- (b) Using an appropriate diagram, explain how the “increasing demand for Australian commodities” (*paragraph ③*) is likely to affect the 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 an accurately labelled exchange rate diagram for the Australian dollar showing a shift of the demand curve to the right leading to a rise in the exchange rate or an explanation that increased demand for exported commodities will lead to increased demand for the Australian dollar, resulting in an increase in the value of the Australian dollar.	1–2
2 <i>There is a correct diagram and accurate written response.</i> For drawing an accurately labelled exchange rate diagram for the Australian dollar showing a shift of the demand curve to the right leading to a rise in the exchange rate and an explanation that increased demand for exported commodities will lead to increased demand for the Australian dollar, resulting in an increase in the value of the Australian dollar.	3–4

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

For the vertical axis, the label may be exchange rate, other currencies/Aus\$, price of Australian \$ in terms of another currency, or Aus\$. For the horizontal axis, quantity of Australian \$ or quantity is sufficient. A title is not necessary.

- (c) Using an AD/AS diagram, explain how the higher Australian dollar reduced inflationary pressure in the Australian economy (*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 an accurately labelled AD/AS diagram showing a shift to the right of the AS curve or for explaining that cheaper imported resources and consumer goods will reduce costs of production for Australian producers, leading to a reduction in inflationary pressure.	1–2
2 <i>There is a correct diagram and accurate written response.</i> For drawing an accurately labelled AD/AS diagram showing a shift to the right of the AS curve and for explaining that cheaper imported resources and consumer goods will reduce costs of production for Australian producers as well as consumer prices, leading to a reduction in inflationary pressure.	3–4

N.B. Candidates may also be rewarded if they shift AD to the left, explaining that the appreciation will make exports more expensive and/or imports cheaper, thus reducing demand for these exports and/or increasing demand for imports and therefore causing AD to decrease.

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

For the vertical axis, the label may be Average (General) Price Level or Price level. For the horizontal axis, real output, real national output, real income, real national income, real GDP or real Y. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the possible effects of the appreciating Australian dollar on the Australian economy.** [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 some 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:

Possible positive effects:

- Australian tourists overseas benefitting from cheaper holidays (*paragraph 1*)
- imported manufactured goods become cheaper boosting consumers’ living standards
- imported capital goods become cheaper encouraging domestic investment and potentially increasing productivity
- inflationary pressure is reduced through lower import prices (*paragraph 5*)
- helps slow down interest rate rises (*paragraph 5*)
- may permit the government to lower interest rates, which is likely to have an expansionary effect on the economy.

Possible negative effects:

- local exporters in the manufacturing and services sectors suffer because Australian exports become less competitive (*paragraph 4*)
- increase in unemployment in export sector as demand for exports falls
- fewer foreign students study in Australia (*paragraph 1*) causing a fall in revenue for some Australian schools and universities
- greater dependence on a narrow range of commodity exports which may lead to vulnerability to external shocks (*paragraph 2*)
- fewer tourists coming to Australia (*paragraph 4*)
- foreign investment may be discouraged as the cost of investment measured in foreign currency increases.

Any reasonable evaluation on the relative strengths and limitations of the effects of an appreciating Australian dollar on the Australian economy.

2. (a) (i) Define the term ***inflation*** indicated in bold in the text (*paragraph ③*). [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 rising prices.	1
2 <i>Accurate definition.</i> An explanation that it is a sustained increase in the general (or average) level of prices.	2

(ii) List *three* components of the current account of the balance of payments. [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> A limited understanding demonstrated by listing two of the four components of the current account: <ul style="list-style-type: none">• balance of trade in goods• balance of trade in services• (investment or factor) income (interest, dividends, profit)• (current or net) transfers.	1
<i>N.B.</i> Candidates who mention only one component or refer simply to imports and exports should not be awarded any marks (level 0). However, “exports of goods and services” and “imports of goods and services” would count as two separate components.	
2 <i>There is clear understanding.</i> A clear understanding demonstrated by listing three of the four components of the current account: <ul style="list-style-type: none">• balance of trade in goods• balance of trade in services• (investment or factor) income (interest, dividends, profit)• (current or net) transfers.	2

- (b) **Using an AD/AS diagram, explain how an increase in domestic wages might affect the output of the Chinese economy.** [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 an accurately labelled AD/AS diagram illustrating a shift to the left of the AS curve resulting in a lower level of output or for explaining that an increase in wages will lead to an increase in costs of production resulting in lower output.	1–2
2 <i>There is a correct diagram and accurate written response.</i> For drawing an accurately labelled AD/AS diagram illustrating a shift to the left of the AS curve resulting in a lower level of output and for explaining that an increase in wages will lead to an increase in costs of production resulting in lower output.	3–4

N.B. Candidates may shift the AD curve to the right and explain that the increase in wages could lead to an increase in incomes and thus consumption, leading to increased output in the economy. This may be fully rewarded if completely explained.

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

For the vertical axis, the label may be Average (General) Price Level or Price level. For the horizontal axis, real output, real national output, real income, real national income, real GDP or real Y. A title is not necessary.

- (c) **Explain how inflation in China might affect its current account balance.** [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>The written response is limited.</i> For explaining that inflation may make Chinese exports less attractive abroad, reducing their demand and so reducing export revenue, deteriorating the current account balance or that inflation may make foreign imports more attractive in China, increasing Chinese demand for imports, increasing import expenditure, and deteriorating the current account balance.	1–2
2 <i>The written response is accurate.</i> For explaining that inflation may make Chinese exports less attractive abroad, reducing their demand and so reducing export revenue, deteriorating the current account balance and that inflation may make foreign imports more attractive in China, increasing Chinese demand for imports, increasing import expenditure, and deteriorating the current account balance.	3–4

- (d) **Using information from the text/data and your own knowledge of economics, evaluate the possible effects on the Chinese economy of increased trade protection imposed by its trading partners.** *[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 some 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:

- a definition of trade protection
- examples of trade protection measures such as tariffs and quotas
- price of Chinese goods exported to other countries will rise in trading partner countries as a result of imposition of trade protection measures such as tariffs and quotas (tariff diagram)
- imposition of trade protection measures such as tariffs and quotas in trading partner countries may reduce demand for Chinese exports, resulting in a fall in a fall in revenue for Chinese firms and reduced income and employment for Chinese workers
- fall in Chinese production in export industries
- possibility of reduced inflationary pressure on China (*paragraph 4*)
- reduced pressure on Chinese producers to increase domestic wages (*paragraph 5*)
- slowing down of China’s economic growth rate
- Chinese current account balance is likely to deteriorate
- Chinese government might retaliate by taking steps to weaken its exchange rate further (*paragraph 5*) or by imposing its own protectionist measures
- a reduction in stock shortages of Chinese products in overseas markets (*paragraph 4*)
- possible shift of production priorities to meet domestic demand (*paragraph 3*).

Any reasonable evaluation of the relative strengths and limitations of the effects of increased trade protectionism on the Chinese economy.

SECTION B

3. (a) (i) **Define the term *allocation of resources* indicated in bold in the text (paragraph ③).** [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 factors of production.	1
2 <i>Accurate definition.</i> An explanation that it is concerned with how resources (land, labour, capital, and management) are distributed in an economy.	2

(ii) **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): <ul style="list-style-type: none">• large scale public systems (services and facilities) of a country• necessary for economic activity• add 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): <ul style="list-style-type: none">• large scale public systems (services and facilities) of a country• necessary for economic activity• add to the capital stock of a nation• usually supplied by the government.	2

An answer that simply gives examples should not receive any marks.

- (b) Explain why a “greater reliance on the price mechanism” might result in “a more efficient allocation of resources” (*paragraph 3*). [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>The written response is limited.</i> For a brief explanation of the price mechanism or for an explanation that the price mechanism might lead to a more efficient allocation of resources, by satisfying the needs of buyers and sellers or bringing the market closer to the socially optimum level of output.	1–2
2 <i>The written response is accurate.</i> For a brief explanation of the price mechanism and for an explanation that the price mechanism might lead to a more efficient allocation of resources, by satisfying the needs of buyers and sellers or bringing the market closer to the socially optimum level of output.	3–4

N.B. Candidates may use a supply and demand diagram with equilibrium price and quantity indicated to fulfil the first part, or may take a social surplus approach for the second part. However, a diagram is not necessary for full marks.

- (c) Explain the relationship between economic growth and economic development. [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>The written response is limited.</i> For a definition of economic growth [1 mark] and economic development [1 mark] or for an explanation of any one of the following: <ul style="list-style-type: none"> • economic growth is usually necessary for economic development [1 mark], since it provides increased resources [2 marks] • economic development is possible without economic growth [1 mark], if resources are redistributed [2 marks] • economic growth may increase per capita incomes [1 mark], which may be used to increase the standard of living of individuals [2 marks] • economic growth occurring, but not development, through a PPC diagram [2 marks]. 	1–2
2 <i>The written response is accurate.</i> For a definition of economic growth [1 mark] and economic development [1 mark] and for an explanation of any one of the following: <ul style="list-style-type: none"> • economic growth is usually necessary for economic development [1 mark], since it provides increased resources [2 marks] • economic development is possible without economic growth [1 mark], if resources are redistributed [2 marks] • economic growth may increase per capita incomes [1 mark], which may be used to increase the standard of living of individuals [2 marks] • economic growth occurring, but not development, through a PPC diagram [2 marks]. 	3–4

- (d) **Using information from the text/data and your knowledge of economics, evaluate the view that a balance between market-oriented policies and government intervention is needed in order to promote economic development in Cuba.** *[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 some 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:

- explanation of market-oriented policies
- explanation of government intervention/interventionist policies
- explanation of economic development.

Advantages of market-oriented policies:

- greater opportunity/reward for innovation by producers
- greater efficiency in production
- freedom for producers to choose what to produce (*paragraph 3*)
- freedom to vary price (*paragraph 3*)
- improvement in efficiency of allocation of resources (*paragraph 3*)
- the possibility that competition will lead to lower prices for consumers (*paragraph 2*)
- reduction in the need for imports of food
- the incentive function of the price mechanism may lead to a greater output of food (*paragraph 3*).

Disadvantages of market-oriented policies:

- possibility of greater competition leading to lower incomes for farmers (*paragraph 5*)
- could lead to market failures
- could lead to inflation
- could lead to unemployment
- increase in income inequality
- the ending of subsidies will raise costs to producers (*paragraph 5*).

Advantages of government intervention:

- purchase of subsidised seed and equipment from the government (*paragraph 3*) reduces costs for farmers
- a monopoly over essential foods (*paragraph 4*) may ensure equity of distribution
- fuller employment of resources due to planned production
- provision of needed infrastructure
- provision of social safety net
- possibility for income redistribution
- can redistribute income
- encourages investment in human capital
- possibility to correct market failures.

Disadvantages of government intervention:

- set prices for resources and goods and services possibly leading to inefficiency
- lack of incentives for economic participants
- poor planning and corruption remain a problem (*paragraph 4*)
- excessive bureaucracy may be a feature of the economy.

Any reasonable evaluation that assesses the relative strengths and limitations of possible market-oriented and government intervention policies in promoting economic development in Cuba.

4. (a) (i) Define the term *investment* indicated in bold in the text (paragraph 2). [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 firms buying machinery.	1
2 <i>Accurate definition.</i> An explanation that it is spending by firms (or the government) on capital.	2

(ii) State *two* forms of development aid (paragraph 4). [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> One correct example is given.	1
2 <i>There is clear understanding.</i> Two correct examples are given: <ul style="list-style-type: none">• grants• concessional loans• project aid• programme aid• debt cancellation• technical assistance• humanitarian aid• tied aid• multilateral aid• bilateral aid.	2

(b) Using an appropriate diagram, explain why hydropower dam projects on the Mekong River might lead to market failure. **[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 an accurate, labelled diagram showing a negative externality with MSC above MPC and overproduction taking place or for explaining that hydropower dam projects may be a market failure if they create external costs (or negative externalities) resulting in any one of the following: <ul style="list-style-type: none"> • a misallocation of resources • a situation where the market is operating at a level where $MSC > MSB$ • a situation where the market is operating at a level that is not socially efficient ($MSB \neq MSC$) • a situation where there is a welfare loss to society. 	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing an accurate, labelled diagram showing a negative externality with MSC above MPC and overproduction taking place and for explaining that hydropower dam projects may be a market failure if they create external costs (or negative externalities) resulting in any one of the following: <ul style="list-style-type: none"> • a misallocation of resources • a situation where the market is operating at a level where $MSC > MSB$ • a situation where the market is operating at a level that is not socially efficient ($MSB \neq MSC$) • a situation where there is a welfare loss to society. 	3–4

Welfare loss does not need to be mentioned. However, if the student mentions welfare loss and shades an area that is not correct then full marks cannot be awarded.

There must be two output levels shown for full marks, but there do not need to be two prices shown.

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

The y-axis may be labelled price but could be costs or benefits and the x-axis labelled quantity.

(c) **Explain why life expectancy at birth (see Table) is one of the indicators used to measure economic development.** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>The written response is limited.</i> For defining life expectancy at birth or for explaining that life expectancy at birth is a measure that indicates the level of health care in a country and that improving health care is an accepted indicator of economic development.	1–2
2 <i>The written response is accurate.</i> For defining life expectancy at birth and for explaining that life expectancy at birth is a measure that indicates the level of health care in a country and that improving health care is an accepted indicator of economic development.	3–4

- (d) **Using information from the text/data and your knowledge of economics, discuss the possible effects on the economic development of Cambodia of investment from China and the United States (US).** *[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 some 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 economic development
- a definition of investment
- a reference to the **table** noting that there has been economic development in Cambodia since 1990, but that Cambodia’s level of development remains low.

Possible positive effects:

- fill the savings gap
- break the poverty cycle
- increased/improved infrastructure (*paragraph 2*) and the impact of infrastructure on economic development
- increased opportunities for employment, increasing income and raising standards of living
- improved technical and management skills and improved human capital (may be considered a positive externality of production)
- improvements in technology
- increase in tax revenue for the Cambodian government which may be used to invest in merit goods
- trust shown by US and China encourages investment from other countries
- exports which result from foreign investment may improve the trade balance and therefore the Cambodian balance of payments

- increased economic growth may raise living standards and allow for greater access to health care and education
- The desire of the US to invest in Cambodia may be encouraging the US government to cooperate on debt negotiations. Debt relief will free up money for investment in environmental areas or education which are key for economic development (*paragraph 4*).

Possible negative effects:

- negative externalities – loss of water quality and a loss of biodiversity (*paragraph 2*)
- the motives for investment may not be consistent with Cambodia’s best interests
- the infrastructure provided by Chinese and US investments may be tailored to their own needs rather than Cambodian needs
- the possibility of the loss of sovereignty for Cambodian government to make decisions that are in the interests of the Cambodian people
- the benefits of foreign investment and economic growth may be distributed unequally amongst the Cambodian people, worsening income inequality
- capital intensive technology might not be appropriate, employing relatively few people and having little impact on domestic employment
- vulnerability if there is an outflow of foreign investment.

Any reasonable discussion of the way that foreign investment might or might not contribute to economic development.
