



MARKSCHEME

November 2013

ECONOMICS

Standard Level

Paper 2

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

SECTION A

1. (a) (i) **Define the term *appreciation* 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 when a currency rises in value.	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 *free trade area* 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 an arrangement between countries agreeing to trade freely.	1
2 <i>Accurate definition.</i> An explanation that it is when a trading bloc abolishes trade barriers between members, but each member country maintains its own trade barriers towards non-member countries.	2

- (b) Using an appropriate diagram, explain how “low interest rates in economically more developed countries” are responsible for the rise in the value of the Mexican currency (*paragraph 2*). [4 points]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled exchange rate diagram for the Mexican peso with respect to the USD or some other major currency with the demand for pesos increasing and shifting to the right or for providing an explanation that since interest rates in developed countries are low, savers sell their currencies and buy the Mexican peso to save in Mexican financial institutions, thus increasing the demand for pesos and leading to peso appreciation.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled exchange rate diagram for the Mexican peso with respect to the USD or some other major currency with the demand for pesos increasing and shifting to the right and for providing an explanation that since interest rates in developed countries are low, savers sell their currencies and buy the Mexican peso to save in Mexican financial institutions, thus increasing the demand for pesos and leading to peso appreciation.	3–4

Candidates who incorrectly label diagrams can receive a maximum of [3 marks].

For the vertical axis, the label may be exchange rate, USD/Peso, Price of Peso in terms of USD, \$/Peso, or US\$. For the horizontal axis, quantity of Pesos or plain Pesos or quantity is sufficient. A title is not necessary.

(c) Using an appropriate AD/AS diagram explain how “fast growth in exports” has “led to economic growth of 5 %” in Mexico (*paragraph 3*). [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram (with an upward sloping short run aggregate supply curve or a Keynesian AS) with AD shifting to the right and a new higher level of real output or for explaining that (net) exports are a component of aggregate demand so fast export growth increases aggregate demand and thus real domestic output.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram (with an upward sloping short run aggregate supply curve or a Keynesian AS) with AD shifting to the right and a new higher level of real output and for explaining that (net) exports are a component of aggregate demand so fast export growth increases aggregate demand and thus real domestic output.	3–4

Candidates who incorrectly label diagrams can receive 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 economic effects of the appreciation of the Mexican peso.** [8 points]

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

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. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Responses **may** include:

- benefits of a currency appreciation:
 - reduced costs of imported inputs (*paragraph 1*)
 - domestic industry could be more competitive due to cheaper inputs (*paragraph 1 and 3*) eg car companies
 - domestic exporters must be more price competitive (*paragraph 3*)
 - domestic producers must be more price competitive to be able to compete with cheaper imports. Forced firms such as Hernandez’s to be more competitive. As a result his “company’s hard-won competitiveness” means that he can survive the stronger peso for some time. (*paragraph 5*)
 - less pressure on inflation
 - possible improvement in living standards from cheaper imports
- costs of a currency appreciation:
 - exporters find it more difficult to compete because of higher export prices (*paragraph 3*)
 - domestic firms struggle to compete with foreign imports (*paragraph 1*)
 - balance of payment current account deficit
 - domestic tourist industry struggles
 - a decrease in employment in export industries
 - a decrease in unemployment in domestic industries competing with imports
 - reduced economic growth

- exports did not fall despite appreciation of the peso (*paragraph 3*).
- Mexico is part of NAFTA - world's largest FTA (*paragraph 4*) – trade creation – exports still relatively competitive despite appreciation of currency
- appreciation has not hurt Mexico as much as it could have as China (Mexico's main competitor (*paragraph 4*) has experienced rising wage rates
- the appreciation may be self-correcting in a floating exchange rate system, so will not have a large impact in the long run
- the value of the peso has risen less fast than other Latin American currencies and so there is less impact

Any reasonable evaluation.

2. (a) (i) List *two* administrative barriers (*paragraph 1*). [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> If only one is listed.	1
2 <i>There is clear understanding.</i> For any two valid administrative barriers listed, such as: <ul style="list-style-type: none">• safety standards• health standards• environmental standards• customs procedures• bureaucratic procedures• product standards• packaging requirements.	2

(ii) Define the term *tariff* indicated in bold in the text (*paragraph 1*). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is a tax on a good or a form of protectionism	1
2 <i>Accurate definition.</i> An explanation that it is a tax placed on imported goods.	2

- (b) **Using an appropriate diagram, explain the effects on US tyre producers of the United States introducing a 35 % tariff on imports of tyres from China (paragraph 3).** [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled tariff diagram showing a shift upwards of the world supply curve and an increase in domestic production or for providing an explanation that a tariff is expected to raise the price and increase the domestic production of tyres.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled tariff diagram showing a shift upward of the world supply curve and an increase in domestic production and for providing an explanation that a tariff is expected to raise the price and increase the domestic production of tyres.	3–4

Candidates who incorrectly label diagrams can receive a maximum of [3 marks].

For the vertical axis, the label may be price of tyres or “P”. For the horizontal axis, quantity of tyres or “Q”. A title is not necessary.

- (c) **Using an appropriate AD/AS diagram, explain the impact of restricting imports on real output (paragraph 1).** [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with AD shifting to the right so that real output increases on the diagram or for an explanation that AD will increase and because of an increase in net exports (a decrease in import expenditures) and/or greater expenditures on domestic output by households and firms resulting in a higher level of real output.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with AD shifting to the right so that real output increases on the diagram and for an explanation that AD will increase because of an increase in net exports (a decrease in import expenditures) and/or greater expenditures on domestic output by households and firms resulting in a higher level of real output.	3–4

Candidates who incorrectly label diagrams can receive 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.

- (d) **Using information from the text/data and your knowledge of economics, discuss the possible economic implications of making a policy decision to adopt trade protection as a response to an economic downturn.** [8 marks]

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

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 and conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- a major characteristic of a downturn is the increase in the level of unemployment experienced in an economy
- the expected benefits of trade protection:
 - lower unemployment in domestic industry (*paragraphs 1 and 3*)
 - higher output of domestic firms (*paragraph 1*)
 - reduced imports
 - protection of infant industries
 - protection of declining industries
 - source of government revenue
 - communities survive (*paragraph 3*)
- the costs of trade protection:
 - retaliation
 - higher costs (*paragraph 5*)
 - less competition
 - less choice (*paragraph 5*)
 - misallocation of resources
 - protection of inefficient firms/industries
 - higher prices for consumers (*paragraph 5*)
 - reduced export competitiveness because of higher imported input prices
 - time, effort and cost of taking issue to WTO

- negative impact on LDCs that rely on export revenue
- “Governments have started to give domestic firms an advantage over their foreign competitors” (*paragraph 5*) - e.g. – subsidies - opportunity cost involved
- protectionism may expand to include capital/financial controls
- deadweight loss associated with protectionism
- the short-term benefits of trade protection could be outweighed by the long-term loss of competitiveness (*paragraph 5*) and misallocation of resources.

Any reasonable discussion.

SECTION B

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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that firms of one country make investments in another country.	1
2 <i>Accurate definition.</i> An explanation that it is any two of the following: <ul style="list-style-type: none">• long-term investment• investment by a multinational corporation (MNC)• investment representing at least 10% ownership	2

(ii) **Define the term *diversification* 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 involves an increase in the variety of goods and services produced in an economy.	1
2 <i>Accurate definition.</i> An explanation that it is a strategy to reduce reliance on the export of a narrow range of goods and services to reduce the risks of over-specialisation.	2

(b) Explain two reasons why multinational corporations (MNCs) may have been attracted into Botswana (paragraphs ① and ②). [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 one reason.	1–2
2 <i>The written response is accurate.</i> For explaining any two of the following reasons: <ul style="list-style-type: none">• high average level of income increases the potential sales of MNCs• good infrastructure makes it easier for MNCs to move goods and resources reducing costs• an efficient legal system reduces business costs and speeds up transactions• low corruption reduces business costs• low tax rates reduce the cost of production or increase after-tax profits• an efficient financial sector makes it easier to raise low cost finance• prudent economic management promotes a stable business environment• low political risk reduces uncertainty and promotes a stable business environment• access to geographically specific resources to increase production• good human rights record promotes a stable business environment and increases potential sales as consumers are becoming more socially conscious (<i>eg Rana Plaza collapse</i>)	3–4

(c) Explain two possible benefits for economic development of the Botswana government’s investment in infrastructure (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 explaining one benefit of infrastructure that would lead to an improvement in economic development, relating to, for example, improvements in standards of living, reduction of poverty, access to education, access to health care, increased freedom, or economic choice.	1–2
2 <i>The written response is accurate.</i> For explaining two benefits of infrastructure that would lead to an improvement in economic development, relating to, for example, improvements in standards of living, reduction of poverty, access to education, access to health care, increased freedom, or economic choice.	3–4

- (d) **Using information from the text/data and your knowledge of economics, evaluate possible supply-side policies that the Botswana government could use to achieve economic development.** *[8 marks]*

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

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. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Responses **may** include:

- a definition of economic development
- a definition of supply-side policies
- an LRAS diagram to show the impact of supply-side policies
- examples of interventionist supply-side policies:
 - subsidies
 - tax incentives (*paragraph 1*)
 - industrial policies (*eg tax cuts, subsidies, tax allowances*)
 - government investment in infrastructure (*paragraph 3*)
 - investment in human capital (*paragraph 6*) (*investment in education and training*)
 - research and development
- examples of market-based supply-side policies:
 - privatisation
 - deregulation
 - trade liberalisation - these three policies are meant to encourage competition
 - labour market reforms (reduce labour union power, decrease minimum wage or decrease unemployment benefits. Many of these may not apply to Botswana however)
 - reduced tax rates (may increase inequity however)

- many of these policies impact AD in the short term but LRAS in the long term
- an explanation of how supply-side policies might achieve diversification (*paragraph 4*)
- explanation of how the policies may lead to economic development
- consideration of why these policies may not lead to economic development. (*eg* time lags, impact on government budget, etc)

Any reasonable evaluation.

4. (a) (i) **Define the term *economic growth* 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 of a growing economy.	1
2 <i>Accurate definition.</i> An explanation that it is an increase in real output (real GDP) over time.	2

- (ii) **State why the GNI (GNP) per capita for Moldova and India is higher than their GDP per capita (Table 1).** [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 there is more income from overseas.	1
2 <i>There is clear understanding.</i> An explanation that there must be a positive figure (balance) for net property income (current transfers).	2

(b) Referring to Table 1, explain *two* possible reasons why India and Moldova have different Human Development Index (HDI) values from each other. [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 recognising that the HDI is a composite index (or that the HDI measures several areas of development) and referring to at least two components.	1–2
2 <i>The written response is clear.</i> For explaining that since GNI per capita is similar in Moldova and India, this means that Moldova must have a higher value for life expectancy and/or mean years of schooling (or school enrolment/literacy – previous measure) since its HDI value is higher.	3–4

To gain full marks, as well as observing that the GNI per capita is similar, candidates must make reference to the specific indicators of health (life expectancy) and education (mean years of schooling or school enrolment/literacy).

(c) Using a Lorenz curve diagram showing India’s changing income distribution, explain how India’s Gini coefficient will have changed (paragraph 1). [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled Lorenz curve diagram showing the Lorenz curve to be shifting away from the diagonal or for explaining that India’s inequality has increased shown by the outward shift in the Lorenz curve. This means that the Gini coefficient will have increased.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled Lorenz curve diagram showing the Lorenz curve to be shifting away from the diagonal and for explaining that India’s inequality has increased shown by the outward shift in the Lorenz curve. This means that the Gini coefficient will have increased.	3–4

Candidates who incorrectly label diagrams can receive a maximum of [3 marks].

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.

- (d) Using information from the text/data in Table 2 and your knowledge of economics, examine Amartya Sen’s argument that economic growth should not be “our ultimate objective, but a very useful means to achieve ... a better quality of life” (paragraph 4). [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

“Examine” requires candidates to consider an argument or concept in a way that uncovers the assumptions and interrelationships of the issue. Opinions and conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- definition of economic growth
- diagram illustrating growth in potential output (PPC or LRAS shifts)
- diagram illustrating growth in actual output (AD/AS shifts)
- relationship between quality of life and economic development
- relationship between economic growth and quality of life (economic development):
 - growth over long periods essential for development, but possible to have some development with less growth
 - reference to Bangladesh’s superior performance in spite of lower growth rates and lower GNI per capita (Table 2) and Moldova’s higher HDI despite lower GDP per capita (Table 1)
 - reference to indicators of quality of life/development (Table 2)
 - possible to have growth with little or no development. India not achieving MDGs (paragraph 1) despite average growth of 8.6% in the years 2005-2011 (paragraph 3)
 - outcomes depend on particular growth policies
- potential benefits of growth: more resources to pursue development objectives and improve quality of life

- interventionist supply-side policies (investment in health and education, industrial policies) can result in growth with development, improvements in quality of life, improved income distribution (*paragraph 3*)
- market-oriented supply-side policies may result in growth with increasing poverty and worsening income distribution - inequality increase by 14% (*paragraph 1*)
- importance of improved income distribution for growth with development (*paragraph 1*)
- for growth with development need growth policies that address the causes of poverty (increased employment opportunities, investments in human capital, *etc*)
- even growth of 10 % per year (*paragraph 3*) is unlikely to reduce poverty and improve standards of living if growth policies are not inclusive/aimed at poverty alleviation (investments in human capital, micro-credit for the poor, income redistribution policies, increased property rights, increased wages/improved labour conditions, improved human rights)
- growth may result in negative externalities which may lead to a lower quality of life.

Any reasonable examination.
