

Markscheme

May 2015

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

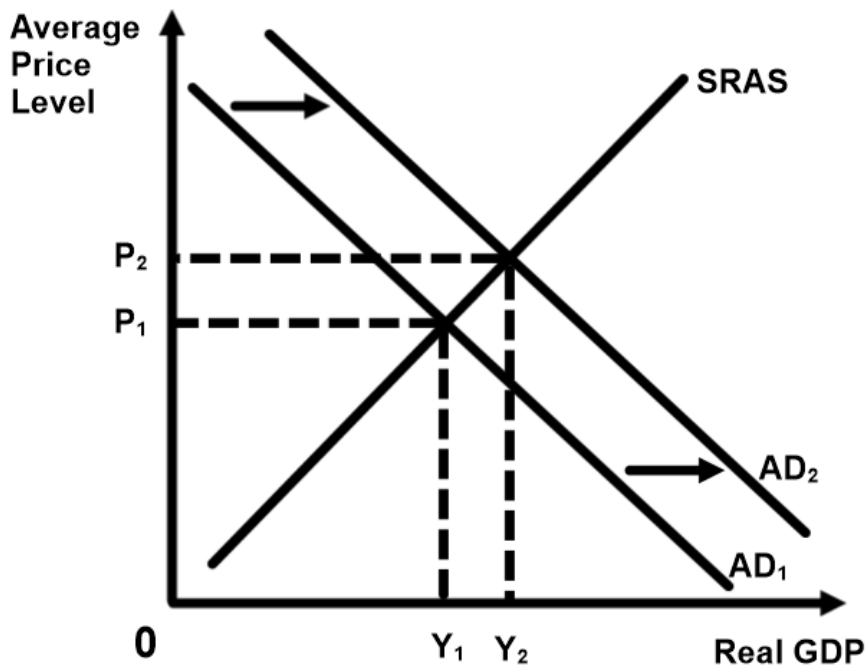
1.	(a)	(i)	Define the term <i>customs union</i> indicated in bold in the text (paragraph 2).	[2]
			Level	Marks
			0 <i>The work does not reach a standard described by the descriptors below.</i>	0
			1 <i>Vague definition.</i> The idea that it is where countries agree to trade freely.	1
			2 <i>Accurate definition.</i> An explanation that it is a form of economic integration where member countries agree to liberalize trade (trade freely amongst themselves) and adopt a common external tariff (or common trade policies towards non members).	2
		(ii)	Define the term <i>direct taxes</i> 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>	0
			1 <i>Vague definition.</i> The idea that taxes are paid to the government or tax paid by an individual (household).	1
			2 <i>Accurate definition.</i> An explanation that they are taxes (paid to the government) on income (household and firms).	2

- (b) Using an AD/AS diagram, explain how devaluation of the lat (the Latvian currency) might have been used to improve the Latvian economy during the financial crisis (paragraph 3). [4]

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 showing a shift of AD to the right and an increase in real GDP or for an explanation that devaluation of the lat may have caused an increase in aggregate demand through an increase in exports and/or a decrease in imports, thus bringing about an increase in real GDP.	1-2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing a shift of AD to the right and an increase in real GDP and for an explanation that devaluation of the lat may have caused an increase in aggregate demand through an increase in exports and/or a decrease in imports, thus bringing about an increase in real GDP.	3-4

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

For AD/AS, the vertical axis may be price level, average price level, PL or APL. The horizontal axis may be output, real output, national output, real national output, national income, or GDP. A title is not necessary.



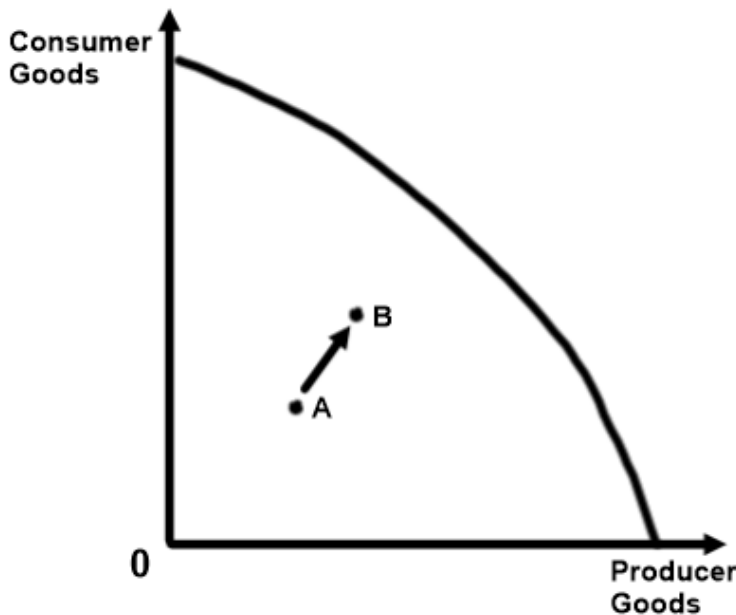
(c) Using a production possibilities curve (PPC) diagram, explain the change in Latvia's economy from 2008 to 2012 (paragraphs 2 and 4). [4]

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 PPC diagram showing a movement from one point within the curve to a new point closer to the curve or for an explanation that Latvia experienced economic growth from 2008 to 2012, which means that there was an increase in output shown as a movement to a new point, closer to the PPC.	1-2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled PPC diagram showing a movement from one point within the curve to a new point closer to the curve and for an explanation that Latvia experienced economic growth from 2008 to 2012, which means that there was an increase in output shown as a movement to a new point, closer to the PPC.	3-4

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

Candidates might show a different combination of points within the PPC on the diagram. There might be an initial movement from one point inside the curve to a further point inside the curve to reflect the 20% drop in output in 2008. To show the change from 2008 to 2012, there must be a new point closer to the PPC.

For a PPC, the axes could be two alternative products, one on each axis, eg Good A and Good B or Schools and Cars; or two groups of products or two sectors, eg Consumer Goods and Producer Goods. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the possible impact of Latvia joining the eurozone. [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>	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 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:*

- definition of monetary union.

Arguments for:

- elimination of exchange rate uncertainty
- easier for future planning by firms
- increased investment and trade
- increased investor confidence
- reduction in transaction costs in trade with the eurozone
- increased foreign investment (paragraph 7)
- increased economic growth (paragraph 7)
- greater integration with the eurozone helps reduce dependence on Russia (paragraph 5)
- renewed confidence in the eurozone will bring benefits to all members (paragraph 7)
- may help to bring down unemployment, which is high (paragraph 4)
- Latvia had to exercise discipline to meet the criteria to join the eurozone which built a good economic foundation for moving forward (paragraph 1).

Arguments against:

- loss of sovereignty over monetary policy
- possible high changeover costs
- problems of supporting other eurozone members (paragraph ⑥)
- Latvia loses the power to control its own currency to improve competitiveness
- threat of inflation as well as deflation (paragraph ⑥)
- short term – lower consumer confidence (paragraph ⑥).

Any reasonable evaluation that offers a considered and balanced review of the strengths and limitations of Latvia joining the eurozone.

2. (a) (i) Define the term *exchange rate* 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 to do with the price of a currency.	1
2 <i>Accurate definition.</i> An explanation that it is the price/value of one currency expressed in terms of another currency.	2

(ii) Define the term *current account deficit* 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 imports exceed exports.	1
2 <i>Accurate definition.</i> An explanation that the outflows of money from trade in goods and services, income flows and transfers are larger than the inflows of money.	2

(b) Using an exchange rate diagram, explain how the speculation that the US central bank may change its monetary policy has affected the value of the Brazilian real (paragraph 2).

[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 drawing a correctly labelled exchange rate diagram with a shift of the supply curve of the real to the right and a fall in the exchange rate **or** for explaining that higher interest rates in the US will lead to an increase in Brazilian deposits (Brazilians saving) in US financial institutions and so an increase in the supply of the real, lowering the value of the real.

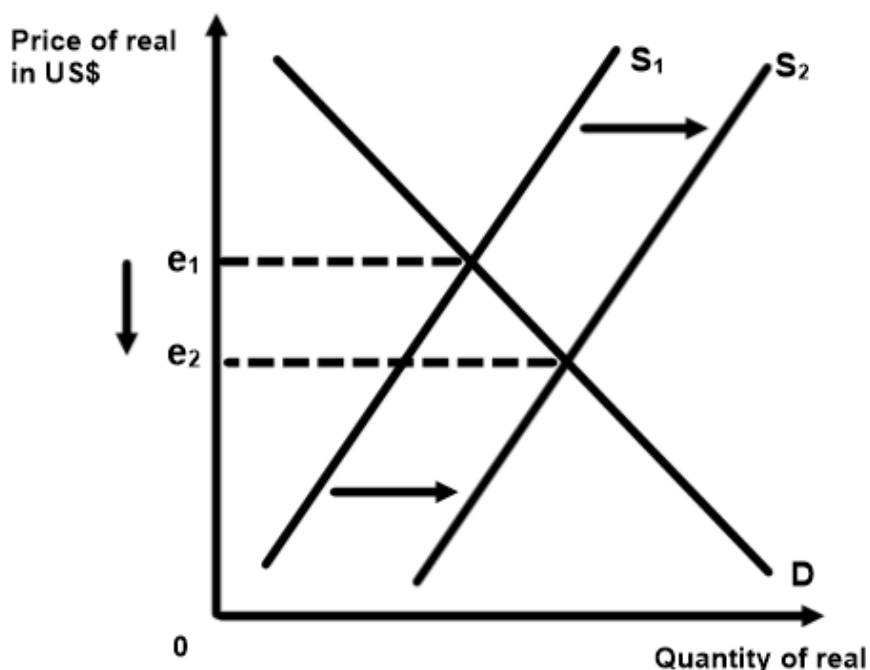
2 *There is a correct diagram **and** an accurate written response.*

3-4

For drawing a correctly labelled exchange rate diagram with a shift of the supply curve of the real to the right and a fall in the exchange rate **and** for explaining that higher interest rates in the US will lead to an increase in Brazilian deposits (Brazilians saving) in US financial institutions and so an increase in the supply of the real, lowering the value of the real.

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 real in US\$, US\$/real, or dollars per real. The horizontal axis should be quantity, or quantity of reals. A title is not necessary.

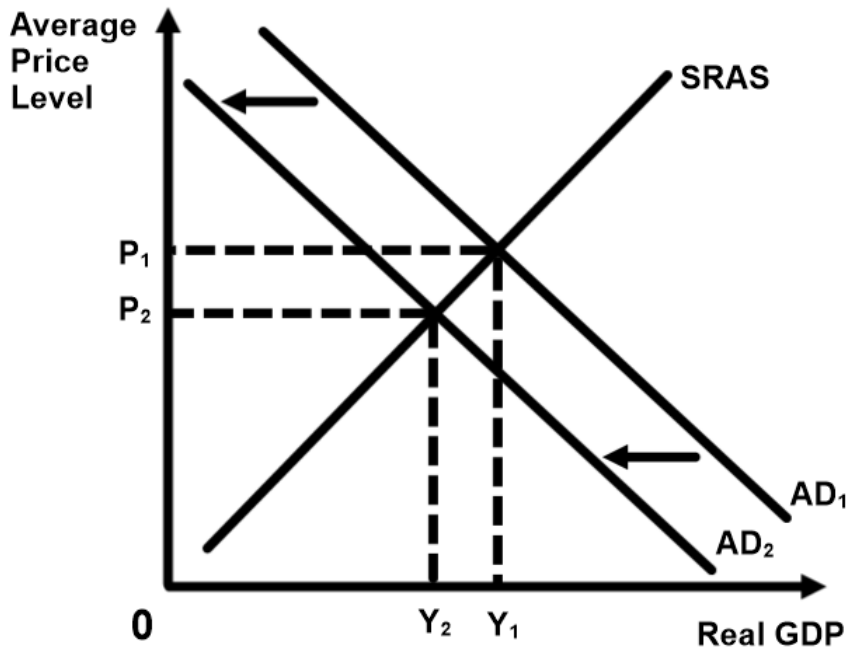


(c) Using an AD/AS diagram, explain how the move from a trade surplus to a trade deficit could harm the Brazilian economy (paragraph 7). [4]

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 a shift of the AD curve to the left and a fall in real GDP or for explaining that moving to a trade deficit will reduce aggregate demand in the economy, because (X-M) becomes negative, creating a decrease in real GDP (or negative growth) and/or increased unemployment.	1-2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the left and a fall in real GDP and for explaining that moving to a trade deficit will reduce aggregate demand in the economy, because (X-M) becomes negative, creating a decrease in real GDP (or negative growth) and/or increased unemployment.	3-4

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 output, real output, national output, real national output, national income, or GDP. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the possible consequences for the Brazilian economy of the fall in the value of the Brazilian real. [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>	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 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:

- interest rates may be raised to support the currency, having contractionary effects on the economy (paragraph ③); however, increased interest rates can help keep an already high inflation rate in check (paragraph ⑥)
- the central bank may have to use foreign reserves to support the currency (paragraph ⑤); to date, attempts have been futile as real depreciated a further 10 % (paragraph ⑤)
- there is a danger of imported inflation (paragraph ④); inflation is already at 6.3 % which is at the top end of the target range (paragraph ⑥)
- companies have problems planning for the future with the changing exchange rate (paragraph ④)
- Brazilian exports should be more competitive (paragraph ⑤)
- lower export prices may improve the current account deficit (paragraph ⑦) which currently stands at \$5 bn
- employment in export industries may increase with exports
- employment in domestic industries may increase as people move away from more expensive imports
- reduced consumer and investor confidence as real is expected to continue to fall in the short – run (paragraph ①).

Any reasonable evaluation that offers a considered and balanced review of the possible consequences for the Brazilian economy of the falling value of the Brazilian real.

Section B

3. (a) (i) Define the term *entrepreneurship* 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>	0
1	<p><i>Vague definition.</i></p> <p>For stating that an entrepreneur carries out any one of the following tasks:</p> <ul style="list-style-type: none"> • starting up a business • employing/organizing/managing resources or factors of production • risk taking. 	1
2	<p><i>Accurate definition.</i></p> <p>For stating that an entrepreneur carries out any two of the following tasks:</p> <ul style="list-style-type: none"> • starting up a business • employing/organizing/managing resources or factors of production • risk taking. 	2

(ii) Define the term *gross domestic product (GDP)* indicated in bold in the text (paragraph 5). [2]

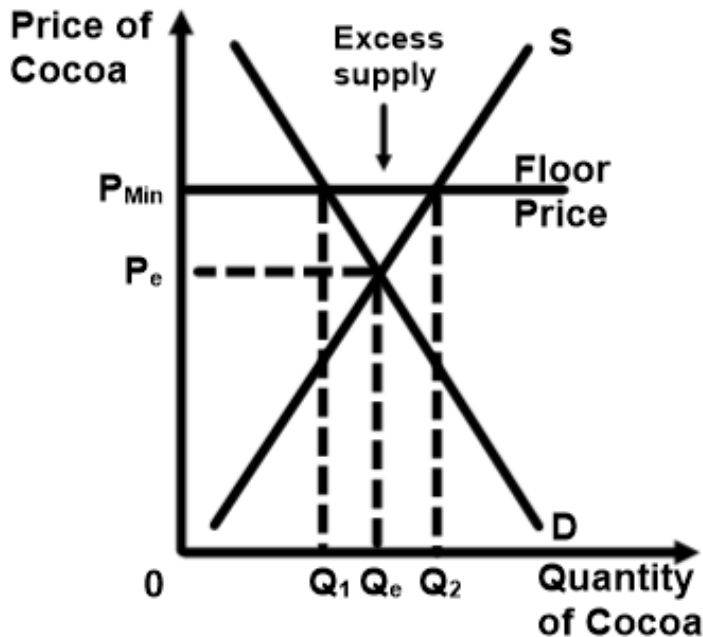
Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	0
1	<p><i>Vague definition.</i></p> <p>The idea that it is the output produced in an economy.</p>	1
2	<p><i>Accurate definition.</i></p> <p>An explanation that it is the total value of all goods and services produced in an economy (in a given time period).</p>	2

- (b) Using a demand and supply diagram, explain the impact of a price floor on the market for cocoa in Ivory Coast (paragraph 1). [4]

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 and labelled demand and supply diagram clearly showing a price set above the equilibrium price and a surplus or for providing an explanation that a price floor is set above the market equilibrium price causing supply to exceed demand, excess supply/surplus.	1-2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing an accurate, labelled demand and supply diagram clearly showing a price set above the equilibrium price and a surplus and for providing an explanation that a price floor is set above the market equilibrium price causing supply to exceed demand, excess supply/surplus.	3-4

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

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



- (c) Using information from **Extract 2**, explain how the servicing of debt has an opportunity cost that may affect development in Ivory Coast. **[4]**

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 opportunity cost (explicit or implied) and an explanation that money spent on debt servicing means that there is less spending on development objectives, such as health care or education or for identifying information from the extract, such as one-third of government revenue was spent on debt servicing in the 80's and 90's, or since 2008, debt servicing accounts for 15 % of government revenue.	1–2
2 <i>The written response is accurate.</i> For a definition of opportunity cost (explicit or implied) and an explanation that money spent on debt servicing means that there is less spending on development objectives, such as health care or education and for identifying information from the extract, such as one-third of government revenue was spent on debt servicing in the 80's and 90's, or since 2008, debt servicing accounts for 15 % of government revenue.	3–4

- (d) Using information from the text/data and your knowledge of economics, evaluate government intervention in promoting economic development in Ivory Coast. **[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>	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 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 government intervention policies
- definition of economic development.

Advantages of government intervention policies:

- price floor increases farmers' incomes however, floor not as high as Ghana which may promote smuggling of cocoa into Ghana (paragraph ①)
- inelastic supply and demand reduces problems of surplus supply usually caused by price floors
- government investment will help improve crop yields thus increasing net X and AD and employment possibilities (paragraph ⑤)
- investment will also promote diversification into the production of rice as well
- government provides necessary infrastructure – increase PPC (paragraph ⑤)
- government can provide merit goods (paragraph ⑤)
- investment in human capital – improved life expectancy and literacy rate (Figure 1 and paragraph ⑤)
- possibility of income redistribution through taxation
- possibility to correct market failures – improvement in literacy rate (paragraph ⑥)
- capacity to reduce corruption (paragraph ④)
- Ivory Coast has seen improvement in literacy rates (paragraph ⑥)
- market-oriented policy of reducing business regulations (paragraph ④) may attract MNC's which may provide jobs therefore possibly breaking the poverty cycle for some.

Disadvantages of government intervention policies:

- increased government expenditures could exacerbate the existing debt problems for heavily indebted poor countries (Extract 2)
- corruption remains a problem
- lack of incentive to become more efficient with price floor in place
- price floor may encourage over-supply
- can lead to excessive bureaucracy and hence red tape and inefficiency plus increased demands on the budget
- policies not helping women – women under-represented in new businesses (paragraph ④)
- reduced government expenditure on health care will negatively impact development which may lead to lower life expectancy leading to a lower HDI rank. On the positive side, free health care to mothers and children would limit the negative impact of the cut. As such Ivory Coast may not continue to see a steady improvement in life expectancy (Figure 1)
- if citizens now have to pay for health care, they may forego expenditure in other areas, such as education.

Any reasonable evaluation that offers a considered and balanced review of the strengths and limitations of government interventionist policies in promoting economic development in Ivory Coast.

4. (a) (i) Define the term *gross national income (GNI)* 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>	0
1 <i>Vague definition.</i> The idea that it is a measure of national income.	1
2 <i>Accurate definition.</i> An explanation that it is the total value of incomes (or output or expenditure) earned by a nation's factors of production regardless of where the assets are located (plus net property income from abroad).	2

An alternative definition of Gross Domestic Product + net property income from abroad is acceptable for full marks.

- (ii) List **two** of the measures that make up the Human Development Index (Figure 1). [2]

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> Any one of the following measures: <ul style="list-style-type: none"> • life expectancy at birth • mean years of schooling (for those aged 25 years and above) • expected years of schooling (for a child of school entrance age, capped at 18 years of age) • GNI per capita (or GDP per capita). 	1
2 <i>There is clear understanding.</i> Any two of the following measures: <ul style="list-style-type: none"> • life expectancy at birth • mean years of schooling (for those aged 25 years and above) • expected years of schooling (for a child of school entrance age, capped at 18 years of age) • GNI per capita (or GDP per capita). 	2

(b) Using an AD/AS diagram, explain why “the oil boom has led to inflationary pressures” (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

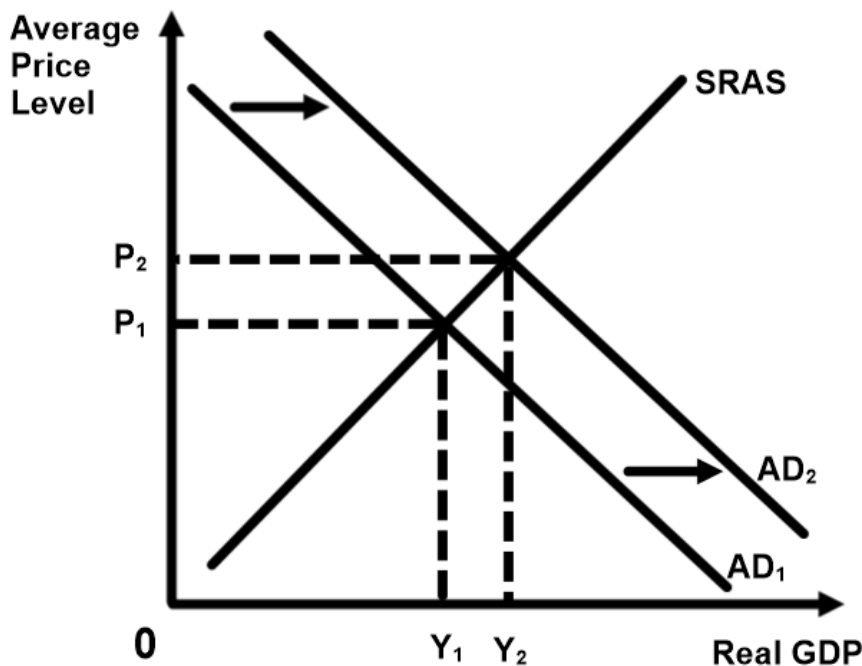
For drawing a correctly labelled AD/AS diagram showing a shift to the right of AD and an increase in the price level **or** for an explanation that increased oil exports will increase the net exports (X-M), thus leading to greater aggregate demand and more inflationary pressure.

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

For drawing a correctly labelled AD/AS diagram showing a shift to the right of AD and an increase in the price level **and** for an explanation that increased oil exports will increase the net exports (X-M), thus leading to greater aggregate demand and more inflationary pressure.

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 output, real output, national output, real national output, national income, or GDP. A title is not necessary.



- (c) With reference to the text/data, explain **two** possible barriers to economic development in Equatorial Guinea. **[4]**

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 any one of the following in terms of possible barriers to economic development: <ul style="list-style-type: none"> • lack of ability to export refined products (paragraph ①) • dependence on subsistence farming (paragraph ①) • lack of clean drinking water, stable power, and sanitation (paragraph ③) • low life expectancy (paragraph ③) • growing inequality (paragraph ③) • lack of resources in education and health (paragraph ⑤) • relatively high population growth rate (Figure 1) • primary school enrolment below 100 % (Figure 1). 	1–2
2 <i>The written response is accurate.</i> For explaining any two of the following in terms of possible barriers to economic development: <ul style="list-style-type: none"> • lack of ability to export refined products (paragraph ①) • dependence on subsistence farming (paragraph ①) • lack of clean drinking water, stable power, and sanitation (paragraph ③) • low life expectancy (paragraph ③) • growing inequality (paragraph ③) • lack of resources in education and health (paragraph ⑤) • relatively high population growth rate (Figure 1) • primary school enrolment below 100 % (Figure 1). 	3–4

- (d) Using information from the text/data and your knowledge of economics, evaluate the likely contribution of the oil export revenues as a means toward achieving economic growth and development in Equatorial Guinea. [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>	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 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 economic growth
- a definition of economic development
- the increased export revenue (paragraph ❶) will lead to economic growth, but not necessarily development
- loans (paragraph ❶) may lead to growth and/or development, depending upon their type
- inflationary pressures (paragraph ❶)
- income per capita will increase (paragraph ❷), but this is not necessarily economic growth
- little of the wealth leads to development (paragraph ❸)
- the influence of MNCs (paragraph ❶)
- likelihood of growing inequality (paragraph ❸)
- long-run problems when the oil reserves run out
- diversification – redirection of funds to new economic sectors (paragraph ❹)
- surge in infrastructure
- oil revenue may facilitate exploration of other natural resources such as gold, zinc and diamonds (paragraph ❶) which will lead to growth but not necessarily development
- World Bank recommended a reallocation of resources towards education and health (paragraph ❸) – oil revenues may be directed at implementing the recommendation
- at the very least the government does have a National Development Plan and they are into Phase 2 of this plan (paragraph ❹).

Any reasonable evaluation that offers a considered and balanced review of the possible contribution of oil export revenues towards achieving economic growth and development in Equatorial Guinea.
