

Markscheme

May 2016

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 *dumping* 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 selling goods in another country at very low prices.	1
2 <i>Accurate definition.</i> An explanation that it is the selling of goods in another country: <ul style="list-style-type: none"> • at a price below the cost of production, or • below the price charged in the home market. 	2

(ii) State **two** functions of the World Trade Organization (WTO) (paragraph ③). **[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> One function is stated or two functions are partially stated.	1
2 <i>There is clear understanding.</i> A clear understanding demonstrated by listing two of the following functions of the WTO for its member countries: <ul style="list-style-type: none"> • to set and enforce rules for international trade • to provide a forum for negotiating trade liberalization • to monitor further trade liberalization • to resolve trade disputes • to increase the transparency of decision-making processes • to cooperate with other major international economic institutions involved in global economic management • to help developing countries benefit fully from the global trading system. 	2

(b) Using an international trade diagram, explain how the imposition of “tariffs of about 10% to 16%” will affect the revenues of foreign steel exporters in the US market (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 international trade diagram, showing the imposition of a tariff, the world supply curve shifting up to world supply plus tariff, and correct increases in price on the vertical axis and changes in quantities on the horizontal axis **or** for an explanation, with reference to the diagram, that export revenues will fall as the foreign exporters will sell lower amounts of steel at the same price they were receiving before the imposition of the tariff.

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

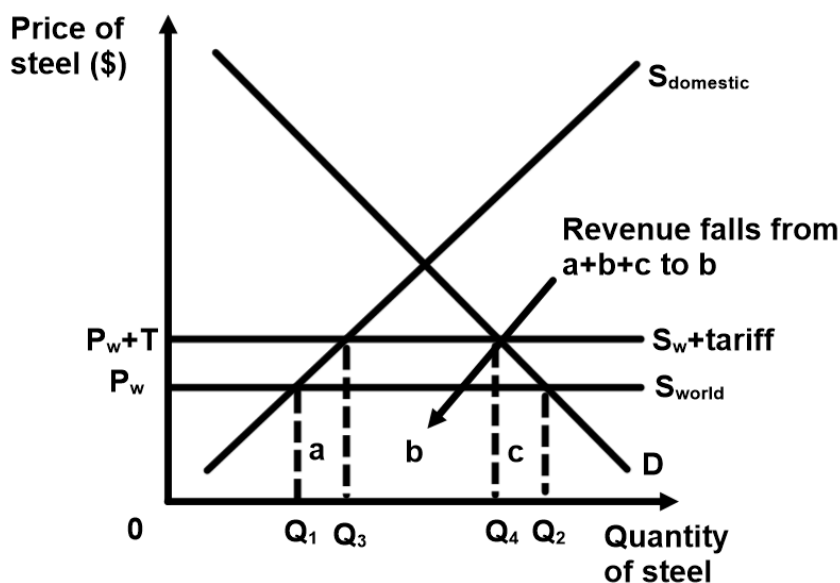
3–4

For drawing a correctly labelled international trade diagram, showing the imposition of a tariff, the world supply curve shifting up to world supply plus tariff, and correct increases in price on the vertical axis and changes in quantities on the horizontal axis **and** for an explanation, with reference to the diagram, that export revenues will fall as the foreign exporters will sell lower amounts of steel at the same price they were receiving before the imposition of the tariff.

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

Candidates may show understanding by using the revenue boxes on their diagrams to explain the falling revenues of foreign steel exporters and, if correctly explained, this approach should be fully rewarded.

The use of P and Q on the axes is sufficient for an international trade diagram. World supply must be distinguished from domestic supply. A title is not necessary.

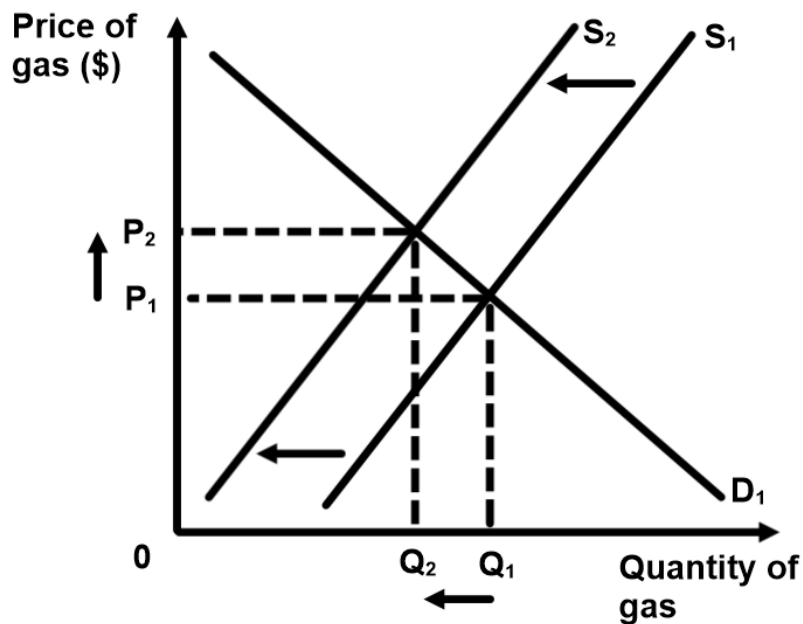


(c) Using a demand and supply diagram, explain how the tariffs will affect the gas energy market (paragraph 5). [4]

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 demand and supply diagram, showing a shift of the supply curve to the left or for an explanation that tariffs will (lead to higher prices for imported steel) raise the costs of the firms in the gas energy market, thus increasing the price of gas and reducing the quantity.	1-2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled demand and supply diagram, showing a shift of the supply curve to the left and for an explanation that tariffs will (lead to higher prices for imported steel) raise the costs of the firms in the gas energy market, thus increasing the price of gas and reducing the quantity.	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.



- (d) Using information from the text/data and your knowledge of economics, discuss the possible impact of the US steel tariffs on the different economic stakeholders. **[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

Discuss requires candidates to offer a considered and balanced review that includes a range of arguments, factors, or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses may include:

- definition of economic stakeholders
- a tariff diagram (already given in part (b)).

Domestic steel producers:

- the opportunity to charge higher prices, therefore increasing revenue (paragraph ④)
- more sold at a higher price
- protection from “dumping” (paragraph ②)
- more employment.

Foreign steel producers:

- will sell less steel, reducing their revenues (already given in part (b)), and having an effect on employment and economic growth.

Domestic users of steel:

- firms will face higher costs (paragraph ① and ⑤ and already given in part (c)), which may reduce output and, eventually, employment (paragraph ⑦)
- domestic energy prices will increase (paragraph ① and ⑤).

Consumers of products made with steel:

- consumers will face higher prices for many products (paragraphs ④ and ⑦).

The government:

- in the short term, the government will receive revenue from the tariffs, but there will be a danger of retaliation (paragraph ⑥)
- higher costs of infrastructure
- demands from other industries to be protected also.

US economy:

- short term positive effect on the balance of trade as import expenditure on steel falls
- effects of falling employment in non-steel industries versus increased (or maintained) employment in the steel industry
- increased energy prices could lead to cost-push inflation
- tariffs will reduce South Korean export revenues, and thus their GDP, which in turn may reduce their imports from the US.

International trade:

- retaliation (paragraphs ① and ⑥)
- threats to current trade talks and other free trade talks.

World efficiency:

- there will be a shift of production from more efficient foreign producers to less efficient US producers and thus a waste of world resources.

Any reasonable discussion.

2. (a) (i) Define the term *monetary union* indicated in bold in the text (paragraph ①). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> An explanation that it is any one of the following: <ul style="list-style-type: none"> • common market • a common currency • common central bank • common interest rates (monetary policy). 	1
2 <i>Accurate definition.</i> An explanation that it is any two of the following: <ul style="list-style-type: none"> • common market • a common currency • common central bank • common interest rates (monetary policy). 	2

(ii) Define the term *inflation* 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 <i>Vague definition.</i> The idea that it is an increase in prices in the economy.	1
2 <i>Accurate definition.</i> An explanation that it is a sustained increase in the average (general) price level in the economy.	2

- (b) Using an exchange rate diagram, explain how an increase in the West African Monetary Zone (WAMZ) interest rate would affect the value of the eco (paragraph 7). [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

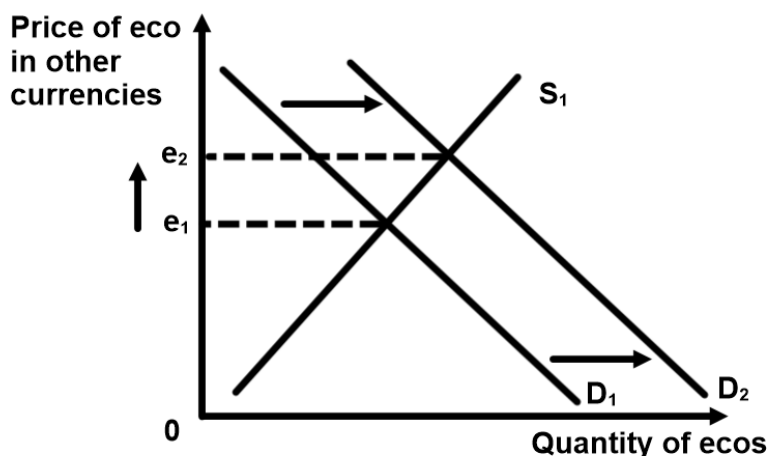
For drawing a correctly labelled exchange rate diagram showing a shift of the demand curve for the eco to the right and an increase in the value of the eco **or** for an explanation that the higher interest rates in the WAMZ would lead to an increase in the demand for the eco from foreigners seeking higher interest rates by saving in the WAMZ, resulting in an increase in the value of the eco.

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

For drawing a correctly labelled exchange rate diagram showing a shift of the demand curve for the eco to the right and an increase in the value of the eco **and** for an explanation that the higher interest rates in the WAMZ would lead to an increase in the demand for the eco from foreigners seeking higher interest rates by saving in the WAMZ, resulting in an increase in the value of the eco.

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 eco in terms of another currency, eco/other currency, or other currency per eco. The horizontal axis should be quantity, or quantity of ecos. A title is not necessary.



(c) Using an AD/AS diagram, explain the impact on the macroeconomy of reducing government expenditure on public services (paragraph 6). [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

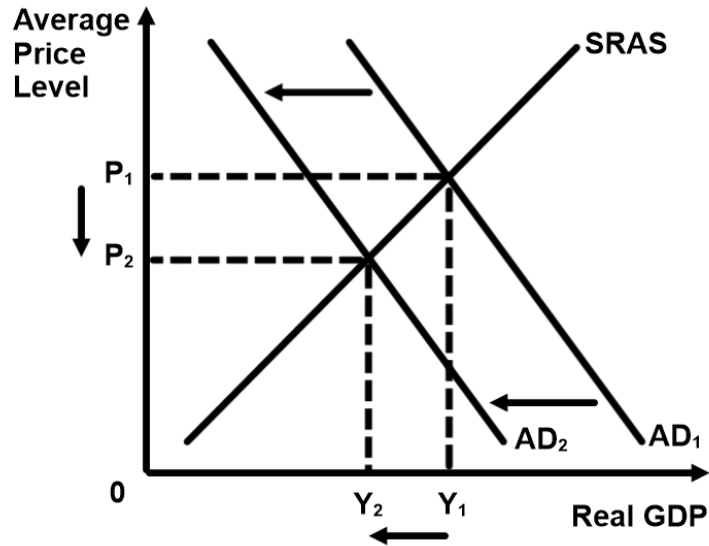
For drawing a correctly labelled AD/AS diagram showing a fall in aggregate demand **or** for explaining that reducing public expenditure means a fall in government spending, a component of AD: accordingly AD decreases causing a fall in real GDP and the average price level.

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

For drawing a correctly labelled AD/AS diagram showing a fall in aggregate demand **and** for explaining that reducing public expenditure means a fall in government spending, a component of AD: accordingly AD decreases causing a fall in real GDP and the average price level.

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

For AD/AS the vertical axis may be average (general) price level, APL or price level. For the horizontal axis, real output, real national output, real income, real national income, real GDP or real Y. Any abbreviations are acceptable. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, discuss the possible advantages and disadvantages of a monetary union for members of the West African Monetary Zone (WAMZ). [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

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:

Arguments for monetary union:

- increases trade between member states – increases AD and hence growth (paragraph ① and ⑦)
- facilitates investment among members – increasing growth
- a single currency should end currency instability in the participating countries and reduce it outside them
- reduces transaction costs – consumers would not have to change money when travelling and would encounter less red tape when transferring large sums of money across borders
- less red tape and transaction costs for businesses
- encourages more price transparency
- a single currency should result in lower interest rates as all members as a block have more power negotiating debt – lower risk
- forces fiscal discipline on member states (paragraph ⑥)
- encourages lower budget deficits (paragraph ④)
- encourages lower inflation (paragraph ④)
- encourages lower public debt (paragraph ④).

Arguments against monetary union:

- integrating the monetary systems of 14 separate countries with differing economic performances and different languages is complex and likely to create short-term disadvantage in some regions (paragraph 5)
- obligation to meet the requirements means individual members are limited with how they can use fiscal and monetary policy to address individual macroeconomic concerns (paragraph 7)
- loss of monetary policy control (paragraph 7)
- loss of exchange rate policy, such as countries with higher inflation resulting in a balance of trade deficit (eg Ghana (Figure 1)) cannot let the exchange rate depreciate (or devalue it) as a means of correcting the deficit
- loss of national sovereignty
- economically stronger states may dominate policy agenda to the detriment of economically weaker states (paragraph 5)
- economically stronger states may have to support economically weaker states with high levels of net government debt (Figure 1)
- cost to member states of introducing the single currency
- proposal has already been postponed four times and so there is danger that the single currency may be accepted without all 14 countries meeting the requirements (similar to the situation with the euro), and then face long-term problems (paragraph 5)
- there may be corruption in some of these countries, therefore “honesty among member countries” (paragraph 6) may be difficult to attain.

Any reasonable discussion.

Section B

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

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

(ii) Define the term *infrastructure* indicated in bold in the text (paragraph ③). [2]

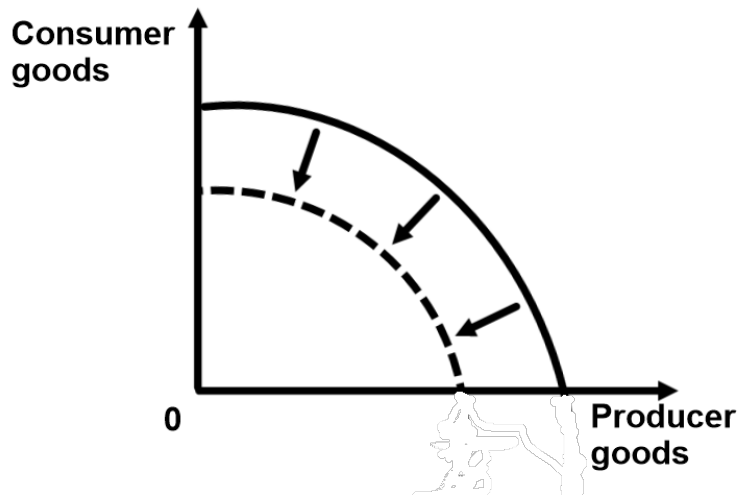
Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is (any one of the following is sufficient): <ul style="list-style-type: none"> • large scale public systems (services and facilities) of a country • necessary for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

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

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

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

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



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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>The written response is limited.</i> For showing an awareness of the difference between GNI and GDP or for an explanation that if the GNI per capita is lower than the GDP per capita, then this means that the net income from abroad is negative (or that foreign owners of productive resources in Timor-Leste are earning more income than owners from Timor-Leste are earning in foreign countries).	1–2
2 <i>The written response is accurate.</i> For showing an awareness of the difference between GNI and GDP and for an explanation that if the GNI per capita is lower than the GDP per capita, then this means that the net income from abroad is negative (or that foreign owners of productive resources in Timor-Leste are earning more income than owners from Timor-Leste are earning in foreign countries).	3–4

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

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

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level	Marks
0 <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

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

Responses may include:

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

References to other material in the data:

- Timor-Leste only gained independence in 2002, so the country has only existed for 11 years. This makes comparison difficult (paragraph ②)
- foreign direct investment is much higher in Singapore and can contribute to higher economic growth, which may be used to achieve economic development
- Timor Leste's relatively small urban population in comparison with Singapore (Figure 1) and endowment of natural resources (paragraph ③) suggests an economy more reliant on primary commodities which can present problems for economic development
- developments in Timor-Leste such as increased government spending on infrastructure, development of skills and institutional changes (paragraph ④) could lead to a higher HDI ranking in coming years and also greater development.

Any reasonable discussion.

4.	(a)	(i)	List two of the Millennium Development Goals (paragraph ③).	[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> One goal is accurately listed or two goals are partially listed.	1
			2 <i>There is clear understanding.</i> Two of the following goals are accurately listed: <ul style="list-style-type: none"> • eradicate extreme poverty and hunger • achieve universal primary education • promote gender equality and empower women • reduce child mortality • improve maternal health • combat HIV/AIDs, malaria and other diseases • ensure environmental sustainability • develop a global partnership for development. 	2
		(ii)	Define the term <i>economic growth</i> 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 <i>Vague definition.</i> The idea that it is a growing economy (or an increase in GDP).	1
			2 <i>Accurate definition.</i> An explanation that it is one of the following: <ul style="list-style-type: none"> • an increase in real output (over time) • an increase in real GDP • an increase in potential output. 	2

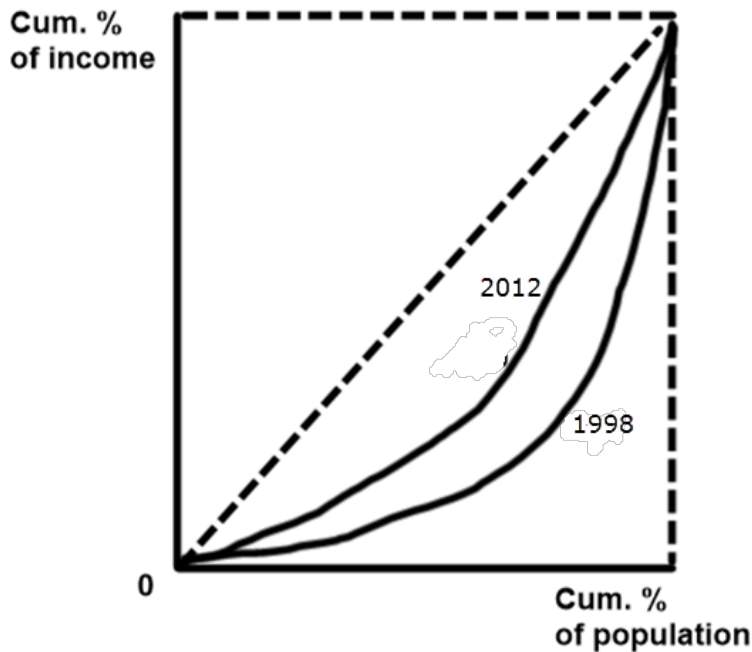
Note: The term “over time” is not necessary for **[2]**.

(b) Using a Lorenz curve diagram, explain what happened to income inequality in The Gambia between 1998 and 2012 (Figure 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 a correctly labelled Lorenz curve diagram showing the Lorenz curve to be shifting towards the line of perfect equality or for explaining that The Gambia's Gini coefficient has fallen meaning that The Gambia's income distribution is more equal shown by the inward shift in the Lorenz curve.	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 towards the line of perfect equality and for explaining that The Gambia's Gini coefficient has fallen meaning that The Gambia's income distribution is more equal shown by the inward shift in the Lorenz curve.	3-4

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

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



- (c) Explain why the servicing of international debt may have an opportunity cost for economic development (paragraph 4). [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 correct definition of opportunity cost (or an implied understanding) or for an explanation that when governments have to pay back their debts (with interest), then this reduces their ability to spend money on areas that might improve economic development, such as education or healthcare.	1–2
2 <i>The written response is accurate.</i> For a correct definition of opportunity cost (or an implied understanding) and for an explanation that when governments have to pay back their debts (with interest), then this reduces their ability to spend money on areas that might improve economic development, such as education or healthcare.	3–4

- (d) Using information from the text/data and your knowledge of economics, evaluate **two** trade strategies The Gambia might employ to achieve economic growth. **[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:*

Import substitution:

- definition of import substitution
- problems of producing the replacements for exports because of size of country (paragraph ❶), lack of diversification (paragraph ❶), lack of an educated work force (paragraph ❸)
- it may lead to retaliation from other countries
- it should reduce import expenditure and thus improve net exports
- it should increase employment
- it may lead to inefficiencies of domestic firms and global resource misallocation
- it may lead to higher domestic prices and inflation.

Export promotion:

- definition of export promotion
- the economy is already open (paragraph ❶), so is it a viable strategy
- the main areas of exports are limited (paragraph ❸) and so there is a need for diversification
- it may create greater income inequality, worsening the Gini coefficient (Figure 1)
- it may lead to increases in exports, improving the current account balance and contributing to increased employment and economic growth
- it may lead to domestic inefficiencies if it relies heavily on industrial policies (for example subsidies).

Trade liberalization:

- definition of trade liberalization
- possibility of benefits from increased exports
- it may lead to greater unemployment
- it may lead to greater income inequality and poverty due to inability to compete with increases in imports
- loss of tariff revenue.

Bilateral and regional preferential trade agreements:

- definition of types of trade agreements
- movements in Africa towards this
- the need for political stability and the problems of warfare in Africa
- benefit from regional economic integration (paragraph ①).

Diversification:

- definition of diversification
- benefits of diversification, especially since The Gambia suffers from lack of it
- lack of an educated workforce (paragraph ③)
- lack of capital and foreign direct investment (Figure 1).

Any reasonable evaluation.
