



# **MARKSCHEME**

**May 2010**

**ECONOMICS**

**Standard Level**

**Paper 2**

22 pages

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

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

<b>(i) opportunity cost (paragraph ①)</b>	<b>[2 marks]</b>
level	
0 <i>Wrong definition</i>	<b>0</b>
1 <i>Vague definition</i> The idea that something is being given up.	<b>1</b>
2 <i>Precise definition</i> An explanation that it is the next best alternative foregone when an economic decision is made.	<b>2</b>
<b>(ii) investment (paragraph ④).</b>	<b>[2 marks]</b>
level	
0 <i>Wrong definition</i>	<b>0</b>
1 <i>Vague definition</i> The idea that it is spending by businesses.	<b>1</b>
2 <i>Precise definition</i> An explanation that it is the addition of capital stock to the economy or expenditure by firms on capital.	<b>2</b>

- (b) **Using an appropriate diagram, explain how a subsidy is likely to affect the price and quantity of wind-generated energy.** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing a correctly labelled demand/supply diagram, showing a shift to the right/increase in supply of wind-generated energy <b>or</b> explaining that a subsidy paid by the government will reduce the cost of producing wind energy and lead to an increase in supply, an increase in output and a lower price.</p>       | <b>1-2</b> |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing a correctly labelled demand/supply diagram, showing a shift to the right/increase in supply of wind-generated energy <b>and</b> explaining that a subsidy paid by the government will reduce the cost of producing wind energy and lead to an increase in supply, an increase in output and a lower price.</p> | <b>3-4</b> |

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

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

- (c) **Using an AD/AS diagram, explain how increased private domestic investment and a decreased need to import oil from overseas are likely to contribute to economic growth in the US economy.** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing a correctly labelled AD/AS diagram showing a shift to the right (increase) in the AD curve <b>or</b> for explaining that I (private investment) and M (imports) are components of aggregate demand (<math>C + I + G + X - M</math>) and an increase in spending on I and a decrease in spending on M will increase AD. (1 component = <b>[1 mark]</b>)</p>                  | <b>1-2</b> |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing a correctly labelled AD/AS diagram showing a shift to the right (increase) in the AD curve <b>and</b> for explaining that I (private investment) and M (imports) are components of aggregate demand (<math>C + I + G + X - M</math>) and an increase in spending on I and a decrease in spending on M will increase AD. (Diagram + 1 component = <b>[3 marks]</b>)</p> | <b>3-4</b> |

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

For AD/AS, the vertical axis may be price level, average price level, or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y), or GDP. Any appropriate abbreviations, such as APL, CPI, RNO or RNY are allowable. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the decision to construct the world’s largest wind farm in Texas.** [8 marks]

Responses **may** include:

Possible advantages of wind-generated energy:

- it is clean and efficient
- it provides electricity to power one million homes (*paragraph 2*)
- it can be used as a substitute for natural gas (*paragraph 2*)
- it can reduce the dependency on oil (*paragraph 2*)
- it can reduce the dependency on petrol (gasoline) to fuel cars (*paragraph 2*)
- it creates employment (*paragraph 4*)
- it creates new investment demand
- it creates extra tax revenue to provide services (*paragraph 4*)
- it reduces the need to import oil and may reduce the US current account deficit
- forward and backward linkages deriving from investment in the wind farm.

Possible disadvantages of wind-generated energy:

- the wind farms are ugly (*paragraph 3*)
- negative externalities such as the impact on wildlife (*paragraph 6*)
- the noise caused by the wind turbines (*paragraph 6*)
- the cost to taxpayers of the energy subsidy
- the main motive of T Boone Pickens is to make a profit.

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 text/data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

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

**Level**

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

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

(i) **foreign direct investment** (*paragraph 1*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is a company investing in another country.

2 *Precise definition* 2

An explanation that it is a long-term investment by multinational corporations in another country.

(ii) **inflation** (*Table 1*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is rising prices.

2 *Precise definition* 2

An explanation that it is a sustained increase in the general or average level of prices.

- (b) Using an appropriate diagram, explain how the continuing increase in prices of imported raw materials (*paragraph 2*) could have contributed to the impact on the general price level and output in 2008 (*Table 1*). [4 marks]

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram (upward sloping AS) showing a decrease in AS <b>or</b> an explanation of how increased prices for raw materials will increase the costs of production, shifting AS and contributing to a higher price level and lower output.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram (upward sloping AS) showing a decrease in AS <b>and</b> an explanation of how increased prices for raw materials will increase the costs of production, shifting AS and contributing to a higher price level and lower output. | <b>3-4</b> |

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

For AD/AS, the vertical axis may be price level, average price level, or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y), or GDP. Any appropriate abbreviations, such as APL, CPI, RNO or RNY are allowable. A title is not necessary.



- (c) **Using the data from Table 1, explain *two* factors that might contribute to the estimated fall in the inflation rate in 2009.** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For explaining that a fall in economic growth from 5.8 % to 4.4 % should ease demand pressure on inflation <b>or</b> for explaining that an appreciation of the Pakistani rupee from 66 rupees to the US dollar to 64 rupees to the US dollar will make imports cheaper and will reduce cost pressure on inflation.</p>       | <b>1-2</b> |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For explaining that a fall in economic growth from 5.8 % to 4.4 % should ease demand pressure on inflation <b>and</b> for explaining that an appreciation of the Pakistani rupee from 66 rupees to the US dollar to 64 rupees to the US dollar will make imports cheaper and will reduce cost pressure on inflation.</p> | <b>3-4</b> |

The exact mention of “demand pressure” and “cost pressure” is not required.

Candidates may suggest that since the Real GDP growth is still positive, demand pressure on inflation will not really be eased. If so, this should be fully rewarded.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the impact on the Pakistani economy of the decision to introduce tariffs (paragraph 4).**

[8 marks]

Responses **may** include:

- a definition of tariffs
- a tariff diagram
- revenue from tariffs could help reduce the budget deficit (paragraph 4)
- tariffs on imported goods will discourage their purchase and so less imports will reduce the current account deficit (paragraph 4)
- tariffs will encourage production in domestic import-competing industries
- tariffs can protect and encourage employment in domestic industries
- tariffs contribute to a dead-weight loss of welfare (paragraph 4), because of the loss of consumer surplus
- tariffs lead to an inefficient allocation of resources (paragraph 4), because goods are produced by relatively inefficient domestic farmers as opposed to more efficient foreign farmers
- tariffs can have an inflationary impact in a country with an existing problem of high inflation (Table 1)
- tariffs could encourage producers to diversify (paragraph 5) and avoid the risk of over-specialization
- the introduction of tariffs may result in retaliation which may affect export industries making it difficult to achieve export-led growth
- the tariffs may go against WTO rules (Pakistan is a member)
- a worsening of international political relations.

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 text/data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

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

**Level**

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

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

(i) **unemployment rate** (*paragraph ③*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1  
The idea that it is the number of people unemployed in a country.

2 *Precise definition* 2  
An explanation that it is the number of unemployed expressed as a percentage of the workforce. (If this is expressed as an equation, then full marks should be awarded if the equation is correct).

(ii) **Gross Domestic Product (GDP)** (*paragraph ④*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1  
The idea that it is a measure of output.

2 *Precise definition* 2  
An explanation that it is the value of all goods and services produced in an economy in a given time period.

- (b) **Using an appropriate diagram, explain how falling domestic demand is likely to contribute to higher levels of unemployment.** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram showing a shift to the left (decrease) in AD <b>or</b> for explaining that as domestic demand falls, output will fall contributing to unemployment in the economy.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram showing a shift to the left (decrease) in AD <b>and</b> for explaining that as domestic demand falls, output will fall contributing to unemployment in the economy. | <b>3-4</b> |

Candidates may draw a demand-deficient unemployment diagram, with  $AD_L$  shifting to the left and employment decreasing. If so, this should be fully rewarded. (Axes would be Wages and Employment or Number of Workers.)

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

For AD/AS, the vertical axis may be price level, average price level, or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y), or GDP. Any appropriate abbreviations, such as APL, CPI, RNO or RNY are allowable. A title is not necessary.

- (c) **Using an appropriate diagram, explain how an increase in the minimum wage could “worsen the unemployment problem” in Ireland (paragraph 5).** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled labour market diagram showing a shift upwards in the minimum wage curve <b>or</b> for explaining that an increase in the minimum wage above equilibrium will cause a fall in the quantity of labour demanded meaning businesses require less labour causing unemployment to go up.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled labour market diagram showing a shift upwards in the minimum wage curve <b>and</b> for explaining that an increase in the minimum wage above equilibrium will cause a fall in the quantity of labour demanded meaning businesses require less labour causing unemployment to go up. | <b>3-4</b> |

Candidates who write about falling demand instead of quantity demanded should not be penalized.

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

The vertical axis may be wages, or price of labour. The horizontal axis may be employment or number of workers.

- (d) **Using information from the text/data and your knowledge of economics, evaluate whether demand-side policies or supply-side policies should be used to reduce the current level of unemployment in Ireland.**

[8 marks]

Responses **may** include:

Evaluation of the demand-side policies:

- a definition of demand-side policies
- an AD/AS diagram showing a rightward shift of the AD function
- a connection between the shape of the AS function and the likelihood that demand-side policies may or may not succeed (*i.e.* given the economic slowdown in Ireland it is likely that the AD function may intersect the AS function on a point close to its horizontal range so that an increase in AD may result in an increase in output with negligible inflationary costs. Otherwise, on a steeper range of AS, the demand-side policies may have a heavy inflationary cost)
- the role of increased government spending which can create additional employment opportunities, for example, through infrastructural investment that would stimulate the economy (*paragraph 4*)
- reduced indirect and direct taxation may successfully increase consumer expenditure and stimulate the economy
- however, if not carefully targeted, increased government spending may leak from the circular flow of income through increased savings and/or import spending
- the large budget deficit in Ireland may prevent further government borrowing and reduce the scope for aggregate demand stimulation (*paragraph 4*)
- reduced interest rates may allow businesses to invest more and employ more people
- reduced interest rates may not stimulate increased investment by businesses because of pessimistic expectations during a crisis.

Evaluation of supply-side policies:

- a definition of supply-side policies
- an AD/AS diagram showing a rightward shift of the LRAS function
- wage restraint through reduction of union power may add flexibility to the labour market (*paragraph 6*)
- wage restraint may be conducive to social instability (industrial action) that may further worsen the economic slowdown
- reducing unemployment benefits
- social consequences of reducing benefits (poverty, inequality)
- decrease in income tax may provide incentives for workers to work more
- decrease in income tax has a limited effect on highly-paid workers as they opt for an increase in leisure
- labour market flexibility will allow market forces to set wages and lower costs for businesses
- deregulation may have severe safety or environmental consequences
- interventionist policies, such as increased training/education, encouraging R+D, the provision of infrastructure, and improved information flows may be high cost and involve serious opportunity costs.

Overall evaluation:

- demand-side policies have a macroeconomic focus
- demand-side policies may be more effective in times of cyclical downturns
- demand-side policies are flexible in timing and focus
- demand-side policies are difficult to implement with limited fiscal resources
- supply-side policies have a microeconomic focus
- time lags may reduce the impact of any supply-side policy in the short term
- in the long run, supply-side policies may improve efficiency and assist international competitiveness.

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 text/data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

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

**Level**

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

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

(i) **economic growth** (*paragraph ①*) *[2 marks]*

level

0 *Wrong definition* **0**

1 *Vague definition* **1**  
The idea that it is a growth of economic activity in the economy.

2 *Precise definition* **2**  
An explanation that it is the growth of real output in an economy over time.

(ii) **interest rates** (*paragraph ⑥*). *[2 marks]*

level

0 *Wrong definition* **0**

1 *Vague definition* **1**  
The idea that it is a payment to or from financial institutions.

2 *Precise definition* **2**  
An explanation that it is the price of borrowed or loaned money.



- (b) **Using an appropriate diagram, explain how increased foreign investment has impacted on the value of the Indian currency (paragraph ②).** [4 marks]

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled demand/supply diagram showing a shift to the right/increase in demand for the Indian rupee <b>or</b> for explaining how increased foreign investment inflows have caused an increase in the demand for the Indian rupee and an appreciation of the currency.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled demand/supply diagram showing a shift to the right/increase in demand for the Indian rupee <b>and</b> for explaining how increased foreign investment inflows have caused an increase in the demand for the Indian rupee and an appreciation of the currency. | <b>3-4</b> |

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

The vertical axis may be price (value) of rupee in US\$ (or other currencies), rupee/US\$ (rupee/other currencies), or simply exchange rate. The horizontal axis may be quantity of rupees or just quantity. A title is not necessary.

- (c) **Using an appropriate diagram, explain how strong exports will “support economic growth in India” (paragraph ③).** [4 marks]

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing an AD/AS diagram showing a shift of the AD curve to the right <b>or</b> for explaining that strong exports will increase net exports (exports minus imports) and contribute to a growth in aggregate demand, output and, therefore, real GDP (economic growth).       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing an AD/AS diagram showing a shift of the AD curve to the right <b>and</b> for explaining that strong exports will increase net exports (exports minus imports) and contribute to a growth in aggregate demand, output and, therefore, real GDP (economic growth). | <b>3-4</b> |

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

For AD/AS, the vertical axis may be price level, average price level, or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y), or GDP. Any appropriate abbreviations, such as APL, CPI, RNO or RNY are allowable. A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate the impact of a rising currency on the Indian economy.

[8 marks]

Responses **may** include:

- the rising currency should reduce cost inflationary pressures
- imported goods and services will be cheaper, including some used in the production process, hence reducing cost inflation
- consumers may decide to purchase more overseas produced goods and services
- attempts to control the rising currency (through lower interest rates) may worsen inflation
- higher interest rates may make rural poverty worse (*paragraph 1*)
- a rising currency may endanger the recent record of high economic growth (*paragraph 3*)
- exports will be more expensive and demand may decline causing a reduction in export earnings (*paragraph 3*)
- if export revenue decreases, domestic employment and incomes may decline especially in India's labour-intensive manufacturing industries (*paragraph 3*)
- domestic goods and services may become less price competitive with imports
- business profits may decline
- unemployment may increase
- foreign investment may decrease
- domestic investment may decline
- contractionary demand-side policies may restrict economic growth
- in the long run the rupee may become less internationally competitive.

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 text/data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

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

**Level**

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

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

**(i) sustainable development (paragraph ①)** [2 marks]

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that it is related to the use of the world's resources.	<b>1</b>
2	<i>Precise definition</i> An explanation that it is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.	<b>2</b>

**(ii) free trade (paragraph ②).** [2 marks]

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that it is to do with international trade.	<b>1</b>
2	<i>Precise definition</i> An explanation that it is international trade that takes place without any protectionism (trade barriers).	<b>2</b>

- (b) **Using the concept of income elasticity of demand, explain the change in relative importance of the agricultural sector in comparison to the industrial and the service sectors in Vietnam (paragraph ③).** [4 marks]

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>An explanation that YED for manufactured goods and services is higher than for agricultural products <b>or</b> for explaining that as income increases, there will be a relatively greater increase in demand for manufactures and services, as they become relatively more important to consumers, than agricultural products.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>An explanation that YED for manufactured goods and services is higher than for agricultural products <b>and</b> for explaining that as income increases, there will be a relatively greater increase in demand for manufactures and services, as they become relatively more important to consumers, than agricultural products. | <b>3-4</b> |

- (c) **Using an appropriate diagram, explain the likely long-term impact of a rise in sea levels on the productive capacity of the Vietnamese economy (paragraph ⑤).** [4 marks]

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled PPC diagram showing an inward shift in the PPC <b>or</b> an explanation that rising sea levels will reduce the amount of productive land and thus reduce the productive capacity of the Vietnamese economy.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled PPC diagram showing an inward shift in the PPC <b>and</b> an explanation that rising sea levels will reduce the amount of productive land and thus reduce the productive capacity of the Vietnamese economy. | <b>3-4</b> |

Candidates may draw a diagram showing a shift of the LRAS curve to the left. If correctly labelled and explained this can be fully rewarded. If the Keynesian model is used, the productive capacity must be indicated on the horizontal axis. If not indicated, only one mark may be awarded for the diagram.

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

For a PPC, the axes could be two alternative products, one on each axis, e.g. Good A and Good B: or two groups of products, e.g. consumer goods and capital goods. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate diversification as a policy option for improving export performance in Vietnam.**

[8 marks]

Responses **may** include:

- explanations of diversification and specialization.

Arguments in favour of diversification (and against specialization):

- avoids long-term declines in commodity terms of trade
- avoids extreme agricultural price fluctuations (*paragraph 4*)
- avoids developed country barriers to trade (agricultural subsidies)
- reduces vulnerability to “shocks” such as extreme weather conditions (*paragraph 5*)
- takes advantage of possibilities offered by “craft industries” and tourism (*paragraph 4*)
- diversification into manufacturing provides opportunities for increased employment, use of new technologies and development of skills
- diversification allows countries to achieve economic transformation (*paragraph 3*)
- over very long term must diversify into production that will not be affected by rising sea levels (*paragraph 5*)
- by diversifying, countries may produce a good or service in which they might have a comparative advantage.

Arguments against diversification (and in favour of specialization):

- specialization according to comparative advantage increases productive efficiency and the quantity of output produced
- specialization and trade according to comparative advantage allow countries to consume at a point outside their PPC
- specialization according to comparative advantage improves the global allocation of resources
- specialization allows countries to take advantage of economies of scale
- specialization allows farmers to take advantage of increases in food prices (*paragraph 4*)
- diversification implies structural change and so may lead to structural unemployment.

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 text/data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

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

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1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

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