



# **MARKSCHEME**

**November 2010**

**ECONOMICS**

**Standard Level**

**Paper 1**

17 pages

*This markscheme is **confidential** and for the exclusive use of examiners in this examination session.*

*It is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of IB Cardiff.*

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

**1. (a) Explain how taxes and subsidies differ in their effect on the market price and quantity of a good. [10 marks]**

Answers **should** include:

- a definition of indirect taxes
- a definition of subsidies
- a diagram showing an indirect tax
- an explanation of the indirect tax diagram and its effect on the market price and quantity of a good
- a diagram showing a subsidy
- an explanation of the subsidy diagram and its effect on the market price and quantity of a good
- an explanation of the differences.

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

**Assessment Criteria**

**Part (a) 10 marks**

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1–3   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 4–6   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included  | 7–8   |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used | 9–10  |

- (b) **“It is essential that a government supports its farmers by subsidizing agricultural output.” Evaluate this view.** [15 marks]

Answers **may** include:

Arguments in favour of subsidizing:

- encourages agricultural output
- sustains an agricultural sector/prevents rural depopulation
- reduces reliance on imports/may promote exports
- raises incomes of poor farming
- reduces prices to consumers
- makes food affordable for low income consumers
- encourages the consumption of healthy food as a merit good
- food security for a country in a crisis.

Arguments against subsidizing:

- misallocation of resources
- hidden costs/opportunity costs of funds that could be used for public services
- damage to foreign farmers/unfair protectionism
- cost to tax payers
- subsidies paid to rich farmers
- equity issues *e.g.* why not other sectors of the economy?

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.

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

**Assessment Criteria****Part (b) 15 marks**

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1–5   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 6–9   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included<br>An attempt at evaluation  | 10–12 |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used<br>Evidence of appropriate evaluation | 13–15 |

2. (a) **Using appropriate diagrams, explain the difference between demand-side and supply-side economic policies.** *[10 marks]*

Answers **should** include:

- a definition of monetary policy
- a definition of fiscal policy
- an explanation of demand-side policies
- an explanation of fiscal policy as a demand-side instrument
- an explanation of monetary policy as a demand-side instrument
- use of an AD/AS diagram to illustrate the likely impact on AD
- an explanation of supply-side policies
- an explanation of the impact of supply-side policies
- use of an AD/AS diagram to illustrate the likely impact on AS
- examples of supply-side policies.

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

### Assessment Criteria

#### Part (a) 10 marks

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1–3   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 4–6   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included  | 7–8   |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used | 9–10  |

- (b) **Evaluate the use of supply-side policies to improve the performance of an economy.**

*[15 marks]*

Answers **may** include:

- a distinction between market-oriented and interventionist supply-side policies
- advantages of supply-side policies in terms of their impact on:
  - productivity
  - economic growth
  - employment
  - inflation
  - current account
  - distribution of income
- use of AD/AS diagrams to illustrate the above
- Disadvantages of supply-side policies in terms of:
  - welfare benefits
  - cost of funding them
  - public services
  - exploitation of labour
  - time it takes them to work.

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.

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



**Assessment Criteria****Part (b) 15 marks**

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1–5   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 6–9   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included<br>An attempt at evaluation  | 10–12 |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used<br>Evidence of appropriate evaluation | 13–15 |

3. (a) Explain *two* factors which may cause an appreciation of a country's exchange rate.

[10 marks]

Answers **should** include:

- a definition of exchange rate
- an explanation of appreciation
- relevant demand and supply analysis in the context of exchange rates
- an explanation of any **two** of the following:
  - the role of demand for imports and exports
  - the role of relative interest rates
  - the role of relative inflation rates
  - the role of FDI and portfolio investment
  - the role of speculation
  - the role of government management of the foreign currency reserves.
- use of diagrams to illustrate the above.

Where only one factor is considered maximum level 2 can be awarded.

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

**Assessment Criteria**

**Part (a) 10 marks**

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1-3   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 4-6   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included  | 7-8   |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used | 9-10  |

- (b) **Evaluate the extent to which an appreciating exchange rate may benefit or harm an economy.**

*[15 marks]*

Answers **may** include:

- an explanation of how an appreciation might benefit an economy in terms of:
  - lowering import prices
  - lowering inflation
  - reducing costs for domestic tourists overseas
  - reducing the cost of FDI abroad
  - making servicing and repaying external debt cheaper
- an explanation of how an appreciation might harm an economy in terms of:
  - exports business becoming less competitive
  - increasing current account deficit
  - reducing domestic AD
  - reducing domestic growth
  - increasing domestic unemployment
- use of AD/AS diagrams
- consideration of the relative size of the appreciation
- consideration of the cause of the appreciation.

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.

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

**Assessment Criteria**

**Part (b) 15 marks**

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1–5   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 6–9   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included<br>An attempt at evaluation  | 10–12 |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used<br>Evidence of appropriate evaluation | 13–15 |

4. (a) **Explain why economic growth rates may differ between developing countries.** *[10 marks]*

Answers **should** include:

- a definition of economic growth
- an explanation of reasons for differences which **may** include:
  - natural factors
  - human factors
  - physical capital and technological factors
  - various institutional factors.

Answers **may** include:

- illustration of growth using a PPC diagram
- reference to the Harrod-Domar growth model
- effects on growth of different strategies, *e.g.* export-led versus import substitution
- reference to the compound nature of growth in the effects of varying growth rates over time
- examples of particular countries.

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

**Assessment Criteria**

**Part (a) 10 marks**

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1–3   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 4–6   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included  | 7–8   |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used | 9–10  |

- (b) **Evaluate the role of foreign direct investment in assisting a developing country to achieve greater growth and development.**

*[15 marks]*

Answers **may** include:

- a definition of development
- a definition of growth
- an explanation of FDI
- a distinction between growth and development
- MNCs as the main agents of FDI
- FDI and the impact on AD and AS
- FDI as part of a market-led/outward-orientated growth strategy
- FDI and the distribution of income and wealth
- FDI and the creation of “dual” economies
- FDI as part of IMF/World Bank structural adjustment programmes, including privatization of utilities
- the impact of FDI on employment
- FDI and multiplier/accelerator effects
- the impact of FDI on rural/urban migration
- FDI and the tax base
- FDI and the destination and use of profits
- FDI and the allocation of scarce resources (towards MNC production rather than the needs of the population)
- the impact of FDI on the environment
- FDI and the vulnerability of the host country to global cities
- examples from particular countries.

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.

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



**Assessment Criteria**

**Part (b) 15 marks**

| Level |   | Marks |
|-------|---|-------|
| 0     | Completely inappropriate answer   | 0     |
| 1     | Little understanding of the specific demands of the question<br>Very little recognition of relevant economic theory<br>Relevant terms not defined<br>Significant errors   | 1–5   |
| 2     | Some understanding of the specific demands of the question<br>Some recognition of relevant economic theory<br>Some relevant terms defined<br>Some errors  | 6–9   |
| 3     | Understanding of the specific demands of the question<br>Relevant economic theory explained and developed<br>Relevant economic terms defined<br>Few errors<br>Where appropriate, diagrams included<br>An attempt at evaluation  | 10–12 |
| 4     | Clear understanding of the specific demands of the question<br>Relevant economic theory clearly explained and developed<br>Relevant economic terms clearly defined<br>No major errors<br>Where appropriate, diagrams included and explained<br>Where appropriate, examples used<br>Evidence of appropriate evaluation | 13–15 |