



MARKSCHEME

November 2011

ECONOMICS

Higher Level

Paper 3

27 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:

(i) **demerit good (paragraph 2)** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that the good has a bad effect on society.

2 *Precise definition* 2

An explanation that it is a good considered to be harmful to people that would be over-provided by the market and so over-consumed **or** a good whose consumption creates negative externalities, **or** a good whose consumption creates costs for third parties, not involved in the purchase or sale of the product.

(ii) **regressive taxes (paragraph 5).** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that people with higher incomes pay lower taxes.

2 *Precise definition* 2

An explanation that:

- they are taxes where marginal tax rates are below average tax rates, **or**
- they are taxes where as incomes increases, the tax rate (or fraction of income paid as tax), decreases, **or**
- they are taxes which have a greater impact on low income groups because they spend a larger proportion of their income on the consumption of this good/service.

(b) Calculate the price elasticity of demand (PED) for cigarettes for youths and for adults (paragraph 9), and explain the significance of the PED figures you have calculated.

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1–2

For providing correct calculations of the two PEDs (0.65 for youths and 0.2 for adults), **or** for explaining that the demand for cigarettes is inelastic in the case of both youths and adults.

2 *Correct application of appropriate theory*

3–4

For providing correct calculations of the two PEDs (0.65 for youths and 0.2 for adults), **and** for explaining that the demand for cigarettes is inelastic in the case of both youths and adults.

For full marks, there needs to be some explanation of “the significance of the figures”, such as:

- the difference in the values, *i.e.* that demand by adults is more inelastic than demand by youths, **or**
- the PED for adults might lower than that for youth, given that the price as a fraction of income is lower for adults, **or**
- the demand for cigarettes is inelastic because of the fact that cigarettes are an addictive product.

(c) **Using an appropriate diagram, show how the incidence of tax on cigarettes is likely to be shared between producers and consumers of cigarettes.** [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram with a relatively steep demand curve a shift of the supply curve due to the tax, showing the share of the tax paid by firms and the relatively larger share paid by consumers, or for an explanation that since demand for cigarettes is price inelastic, consumers face a relatively larger tax incidence compared to producers. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram with a relatively steep demand curve a shift of the supply curve due to the tax, showing the share of the tax paid by firms and the relatively larger share paid by consumers, and for an explanation that since demand for cigarettes is price inelastic, consumers face a relatively larger tax incidence compared to producers. | 3-4 |

Candidates who do not attempt to identify that the incidence of tax is shared can be rewarded with a maximum of [2 marks]. It is not sufficient to simply show a shift of the supply curve.

The tax incidence may be shown as either a vertical distance or a shaded area.

(Attention must be paid to the accuracy of either a vertical distance or shaded area. The incidence must be shown in relation to the new price/quantity, not the original equilibrium price/quantity.)

Candidates who incorrectly label diagrams can be rewarded with 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.

There may be different diagrams and/or labelling used to show the above, and any appropriate diagram and/or labelling may be fully rewarded.

- (d) Using information from the text/data and your knowledge of economics, evaluate the policy of increasing the tax on cigarettes as a measure to reduce the negative externalities caused by smoking.

[8 marks]

Responses **may** include:

- a definition of negative externalities
- an explanation of negative externalities
- a diagram showing negative externalities
- an explanation of the negative externalities caused by smoking (*paragraph 2*)
- use of negative externalities diagram to show how increases in the cigarette tax could help reduce these negative externalities
- use of a diagram to show the revenue gained by the state government
- an explanation that tax revenues may be used to finance other measures to reduce smoking such as anti-smoking campaigns
- explanations of why the cigarette tax could be ineffective, or only partially effective, in reducing the negative externalities, such as:
 - the overall inelastic demand for cigarettes ($PED = 0.4$) means a relatively low responsiveness of consumers to higher cigarette prices due to the tax, so that quantity demanded – will fall by a proportionately smaller amount (although such a large tax moves the price farther up the demand curve, making demand less inelastic)
 - the availability of cheaper cigarettes in nearby states means that consumers can buy them there (*paragraph 4*) even though this will involve higher transport costs
 - the emergence of parallel markets
- a disadvantage of higher cigarette taxes is that they are regressive, raising issues of fairness, since lower income people (who also tend to smoke more) would be harder hit by the tax increases (*paragraph 5*)
- the imposition of such a large tax (US\$0.55 – US\$1.20 per pack) (*paragraph 1*) may be politically unacceptable
- taxes alone are argued to be an ineffective way to reduce cigarette smoking (*paragraph 3*)
- level of effectiveness for different types of consumers, poor versus rich; youths versus adults
- anti-smoking campaigns on television and programmes to help smokers quit (*paragraph 3*) as alternatives or additions to tax increase
- taxation may hurt employment in West Virginia while benefiting that of Kentucky.

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.

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

Level

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

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

(i) **free market economy** (*paragraph 1*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is an economy where there is very little government intervention.

2 *Precise definition* 2

An explanation that it is an economy where resources are allocated by demand and supply, **or** where the means of production are privately held by individuals and firms, **or** where demand and supply determine how much to produce, how to produce, and for whom to produce.

Candidates who confuse this with free-trade, or the absence of protectionist policies should be given [0 marks].

(ii) **monopoly** (*paragraph 5*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that there is only one firm.

2 *Precise definition* 2

An explanation that it is a market structure where:

- there is only one firm in the industry, **or**
- a single firm dominates the market.

(b) Using an appropriate diagram, explain how Coca-Cola’s economies of scale could “hurt small competitors” (*paragraph 5*). [4 marks]

level

- 0 *Inappropriate answer* 0
- 1 *Identification of appropriate theory* 1-2
 For drawing a correctly labelled diagram of the long-run average total cost curve, **or** for explaining that as a firm grows in size, it may achieve economies of scale leading to lower average costs, thus enabling it to sell output at a lower price than its smaller competitors and thus “hurt small competitors”.
- 2 *Correct application of appropriate theory* 3-4
 For drawing a correctly labelled diagram of the long-run average total cost curve, **and** for explaining that as a firm grows in size, it may achieve economies of scale leading to lower average costs, thus enabling it to sell output at a lower price than its smaller competitors and thus “hurt small competitors”.

Candidates are not expected to include an “envelope curve” with SRAC curves to justify their answer.

An alternative approach would be to illustrate economies of scale with falling SRAC curves. If correctly explained, this may be rewarded.

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

The vertical axis should be cost or Average Cost. The horizontal axis should be output or quantity or quantity/time. A title is not necessary.

N.B. For full marks there should be some indication of an increase in output and a fall in cost on the diagram – e.g. 2 output levels and 2 cost levels, with an arrow indicating the change. The curve(s) must be labelled.

(c) Using an appropriate diagram, explain how Coca-Cola’s “dominant position” (*paragraph 5*) may enable it to make supernormal (abnormal) profits in the long run. [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1–2

For drawing a correctly labelled diagram showing profit maximization by a firm making supernormal (abnormal) profits **or** for explaining that a firm in a dominant position is able to make supernormal (abnormal) profits in the long run because of either the barriers to entry it has or economies of scale which allow it to keep costs low, or its price setting power.

2 *Correct application of appropriate theory* 3–4

For drawing a correctly labelled diagram showing profit maximization by a firm making supernormal (abnormal) profits **and** for explaining that a firm in a dominant position is able to make supernormal (abnormal) profits in the long run because of either the barriers to entry it has or economies of scale which allow it to keep costs low, or its price setting power.

For full marks, there must be some explanation of the ability to earn abnormal profits in the long run. The reasons suggested above are the main examples, but others might be possible.

Candidates who incorrectly label diagrams or incorrectly shade the area of abnormal profits can be rewarded with a maximum of [3 marks]. For full marks, the MC must cross AC at the minimum of AC.

Price and quantity are sufficient for full marks. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate China’s commerce ministry’s decision to reject Coca-Cola’s application to buy Huiyuan.**

[8 marks]

Responses **may** include:

- an explanation that the anti-monopoly legislation could support China’s transition to a market economy by encouraging competition
- the acquisition would have resulted in a 20 % market share of Coca-Cola in the juice sector, which does not seem to suggest a dominant or monopoly position in the juice industry (and is much smaller than its share in the carbonated drinks sector, of about 50 %) (*paragraph 3*)
- by rejecting the Coca-Cola offer, China lost a number of potential benefits of FDI, such as:
 - inflows of foreign exchange
 - increased technical and managerial know-how
 - possibilities of increasing local investments by Coca-Cola that would have benefited the local economy
 - lower prices to consumers due to economies of scale
 - multiplier effect of investment
 - perceived image by other foreign investors
- possible costs of allowing the acquisition could include:
 - reduced economic efficiency as the market for soft drinks becomes less competitive
 - negative effects on domestic competition due to brand loyalty and economies of scale (*paragraph 5*)
 - prices to consumers could rise (rather than fall) due to Coca-Cola’s increasing market power
 - Coca-Cola’s market share could increase further if small firms cannot compete (*paragraph 5*)
 - consumers could face less choice as the market becomes increasingly dominated by a single firm (*paragraph 5*)
 - outflows of foreign exchange and funds due to profit repatriation
 - political costs due to Huiyuan, being a popular local brand, falling into foreign ownership (*paragraph 4*)
 - the government may want Huiyuan to stay in Chinese hands and profits to stay in China
 - actual decisions taken by the Chinese government suggest it might not be serious in wanting to encourage competition (approval of 24 out of 25 acquisitions) (*paragraph 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.

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.

Level

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

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

(i) **capital flight** (*paragraph ①*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that money goes to another country.

2 *Precise definition* 2
An explanation that it occurs when foreign currencies (or other financial assets) flow out of a country to seek a “safe haven” in another country.

N.B. The words “safe haven” do not need to be used.

Capital flight should not be seen as the same as “hot money”. A maximum of [1 mark] may be awarded if the response is limited to this explanation.

(ii) **appreciation** (*paragraph ②*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that a currency becomes more expensive.

2 *Precise definition* 2
An explanation that it is an increase in the value (or price) of one currency in terms of another currency in a floating exchange rate system.

(b) Using an appropriate diagram, explain the effect of expansionary fiscal policy in fighting Brazil’s recession (paragraph 1). [4 marks]

level

- 0 *Inappropriate answer* **0**

- 1 *Identification of appropriate theory* **1–2**
For drawing a correctly labelled AD/AS diagram showing a rightward shift in the AD curve towards the level of potential GDP (or full employment GDP), **or** for explaining that expansionary fiscal policy involves increases in government spending and/or decreases in taxes and cause an increase in aggregate demand moving the economy closer to full employment.

- 2 *Correct application of appropriate theory* **3–4**
For drawing a correctly labelled AD/AS diagram showing a rightward shift in the AD curve towards the level of potential GDP (or full employment GDP), **and** for explaining that expansionary fiscal policy involves increases in government spending and/or decreases in taxes and cause an increase in aggregate demand moving the economy closer to full employment.

For full marks, the diagram must show that the economy is initially operating below potential output. This may be by using a vertical LRAS with an SRAS curve or a Keynesian AS curve, and indicating an equilibrium to the left of potential output. The explanation should refer to the increase in output, but candidates are not required to use the term “recession” in the explanation.

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

For AD/AS, the vertical axis may be price level, average price level or general price level. The horizontal axis may be output, real output, national output, real national output, national income, or GDP. Abbreviations of the labels are acceptable. A title is not necessary.

(c) **Using an appropriate diagram, explain the likely impact of higher interest rates on the value of the real (paragraphs ② and ③).** [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled exchange rate diagram for the real, showing a rightward shift of the demand curve causing a higher exchange rate, or for an explanation that as interest rates rise, it becomes more attractive for foreigners to save in Brazilian banks, this causing an increase in the demand for the <i>real</i> and its appreciation. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled exchange rate diagram for the real, showing a rightward shift of the demand curve causing a higher exchange rate, and for an explanation that as interest rates rise, it becomes more attractive for foreigners to save in Brazilian banks, this causing an increase in the demand for the <i>real</i> and its appreciation. | 3–4 |

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

The vertical axis may be exchange rate, price (or value) of the *real* in US\$. The horizontal axis should be quantity, or quantity of *real*. A title is not necessary.

There are alternative approaches to this question. If correctly explained and consistent with the diagram drawn, these may be fully rewarded.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the effect on the Brazilian economy of a decision to raise interest rates (*paragraph 2*).**

[8 marks]

Responses **may** include:

- an explanation that when a central bank raises interest rates, this involves a contractionary monetary policy, intended to lower AD or to slow down the rate of growth of AD in order to prevent the economy from overheating by discouraging borrowing by firms and consumers
- a correctly labelled AD/AS diagram change in AD
- higher interest rates may attract foreign financial capital, thus increasing the value of the real (*paragraph 3*)
- a correctly labelled diagram to show an appreciation of the real.

Possible disadvantages of the decision:

- lower AD could reduce economic growth (reference to growth in Figure 1)
- lower AD may increase the rate of unemployment, which in 2008 was quite high at 8 % (figures forecast for 2009–2010)
- an appreciation of the real makes domestic producers and exporters less competitive (*paragraph 3*)
- an appreciation of the real may worsen the existing current account deficit, by encouraging imports and discouraging exports (*paragraph 3*)
- the government may have to resort to managing the real in order to try to counteract the effects of higher interest rates, *i.e.* sell real in the foreign exchange market, which would exert a downward pressure on its value (*paragraph 3*)
- investment expenditure consequences, due to higher interest rates
- time lags of impact of raising interest rates.

Possible advantages of the decision:

- lower growth of AD may lower the rate of inflation, which although not particularly high (at 4 %), and though lower than in the past couple of years, is higher than the average rate of inflation in the OECD
- a stronger real would be beneficial in bringing down the rate of inflation, as well as offering cheaper imported capital goods (*paragraph 3*) (but the government may try to manage the exchange rate...) (*paragraph 3*)
- cheaper imported capital goods may benefit industry and encourage economic growth, possibly counteracting the effects of higher interest rates on real GDP.

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.

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

Level

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

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

(i) **free trade** (*paragraph ①*) *[2 marks]*

level

0 *Wrong definition* **0**

1 *Vague definition* **1**
The idea that it is trade without government intervention.

2 *Precise definition* **2**
An explanation that it is (international) trade that takes place without any protectionist barriers, such as tariffs (or quotas or any other government protection).

(ii) **sustainable development** (*paragraph ⑥*). *[2 marks]*

level

0 *Wrong definition* **0**

1 *Vague definition* **1**
The idea that it is development that doesn't negatively affect the environment.

2 *Precise definition* **2**
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) Using an appropriate diagram, explain the effect of a minimum price on the garlic market (*paragraph 5*). [4 marks]

level

- | | | |
|---|--|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram showing a minimum price (price floor) and the excess quantity supplied that results at that price, or for explaining that since the minimum price lies above the market equilibrium price, the quantity of garlic that producers are willing and able to supply is greater than the quantity consumers are willing and able to buy, giving rise to a surplus (or excess supply) in the garlic market. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram showing a minimum price (price floor) and the excess quantity supplied that results at that price, and for explaining that since the minimum price lies above the market equilibrium price, the quantity of garlic that producers are willing and able to supply is greater than the quantity consumers are willing and able to buy, giving rise to a surplus (or excess supply) in the garlic market. | 3–4 |

Candidates who incorrectly label diagrams can be rewarded with 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 appropriate diagram, explain the impact of removing the tariff on garlic, on the quantity of garlic imported.** [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled tariff diagram, showing the fall in the domestic price to the level of the world price and the consequent increase in the quantity of imports, or for explaining that when the tariff on garlic is removed, the price received by domestic producers and paid by domestic consumers falls to the level of the world price, causing the quantity of imported garlic to increase. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled tariff diagram, showing the fall in the domestic price to the level of the world price and the consequent increase in the quantity of imports, and for explaining that when the tariff on garlic is removed, the price received by domestic producers and paid by domestic consumers falls to the level of the world price, causing the quantity of imported garlic to increase. | 3-4 |

If candidates use a standard supply and demand analysis, then there should be no reward for the diagram. However, they may be rewarded up to [2 marks] if the explanation is valid.

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

Price and quantity are satisfactory for full marks. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the consequences of the Thailand-China free trade agreement (FTA) on Thailand’s growth and development.**

[8 marks]

Responses **may** include:

- a consideration of potential benefits for Thailand’s growth and development due to the FTA with China, such as:
 - increased competition, leading to more efficient producers promoting economic growth
 - achievement of economies of scale, – promoting greater exports and economic growth
 - lower prices for consumers (*paragraph 2*) leading to higher standards of living
 - possible greater variety for consumers through more varied imports of fruit and vegetables
 - increases in agricultural output produced resulting in greater farmers’ income may break poverty cycles and promotes economic development
 - increases in Thai exports and greater export revenues which are positive for economic growth
 - increases in investment, contributing to economic growth
 - benefits of exploiting comparative and absolute advantage to achieve growth
 - increases in employment in those fruit and vegetable sectors that experience increases in exports
- a consideration of the potential costs for Thailand’s growth and development due to the FTA with China, such as:
 - tariff cuts in Thailand will cause less efficient producers to close down due to the increased competition from China (*paragraph 2*) worsening living standards
 - tariff cuts have different impacts on small and large producers, with large commercial producers that have achieved economies of scale benefiting from the FTA due to the possibility of increased exports to China, while the smaller producers go out of business
 - any benefits of economics growth might not be fairly distributed amongst the population (income distribution issues), questioning the “trickle down” assumption)
 - structural unemployment (as in the case of garlic farmers who cannot easily switch to other crops) (*paragraph 3*) limiting economic development

- increased poverty among small farmers (*paragraph 2*)
- income distribution may worsen, depending on the government response
- economic growth may be reduced at least over the short term, if the negative impacts of increased Chinese imports and limited exports by small producers are very strong
- consumer choice in the case of some products may be reduced (as in the case of garlic)
- safety standards may be perceived to be compromised
- less tariff revenue for the government, which might cut into finances for education and health, thus limiting development

Effective evaluation can only be carried out if candidates specifically link the points made to the concepts of economic growth and development.

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.

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

Level

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

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

(i) **economic development** (*paragraph 2*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that living standards improve.

2 *Precise definition* 2
An explanation that it is a broad concept involving any **two** of the following:

- improvement in standards of living
- reduction in poverty
- improved health and education
- reduction in unemployment
- greater equality in income distribution
- environmental protection
- increased freedom and economic choice.

(ii) **subsidies** (*paragraph 4*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1
The idea that they are payments by the government to firms.

2 *Precise definition* 2
An explanation that they are payments by the government to firms aiming at:

- lowering their production costs **or**
- increasing output **or**
- lowering the price of a product.

(b) Using an appropriate diagram, explain the effect on America’s clothing market resulting from removing quotas on Chinese clothing (paragraph 4).

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1–2

For drawing a correctly labelled diagram showing that the supply of clothing will increase and the price of clothing will fall **or** for explaining that removing a quota will result in an increase in imports and thus an increase in supply so that there will be a lower price.

2 *Correct application of appropriate theory*

3–4

For drawing a correctly labelled diagram showing that the supply of clothing will increase and the price of clothing will fall **and** for explaining that removing a quota will result in an increase in imports and thus an increase in supply so that there will be a lower price.

There are a number of diagrams which may be used to indicate a removal of a quota, including a simple demand and supply diagram showing an increase in supply by the amount of the (removed) quota). Candidates who do not identify the (removed) quota in the diagram may not achieve full marks.

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

The use of P and Q on the axes is sufficient. A title is not necessary.

- (c) **Using an appropriate diagram, explain the effect on China’s aggregate demand of a decision by the Chinese government to provide the general population with health care insurance and pensions (paragraph ③).** [4 marks]

level

- | | | |
|---|---|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled AD diagram with the AD curve shifting to the right or for explaining that AD will increase as either government expenditure (G) will increase or consumers will not have to save as much for medical emergencies and retirement so that consumption (C) will increase. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled AD diagram with the AD curve shifting to the right and for explaining that AD will increase as either government expenditure (G) will increase or consumers will not have to save as much for medical emergencies and retirement so that consumption (C) will increase. | 3–4 |

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

The vertical axis may be price level, average price level, or inflation. The horizontal axis may be 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 China's export-oriented growth and development strategy.

[8 marks]

Responses may include:

- an explanation of export-oriented growth
- an explanation of development
- through export-oriented growth China has been able to pursue its growth and economic development goals (*paragraph 2*)
- China's Human Development Index (HDI) has improved dramatically since 1975 from 0.530 to 0.772 in 2007 (although this may not be due to the export-oriented strategy)
- China's level of absolute poverty, as measured by the number of people living on less than US\$1.25 a day has fallen dramatically (*Figure 1*) (although this may not be due to the export-oriented strategy)
- possible implications for the population of the increase in the value of HDI in terms of health care, education and purchasing power
- realization that the value of HDI may be limited as it is an average value
- growth and development may be experienced in some areas (urban and industrial centres), but not necessarily in rural areas
- discussion of possible shortcomings of export-oriented growth as a development strategy noting that it does not automatically imply development and it makes a country dependent on overseas demand: and vulnerable to a drastic decrease in export revenues (*paragraph 2*)
- opportunity cost of government subsidies to export industries
- the development strategy followed by China seems to have left most of the population still needing health care, even as absolute poverty fell (*paragraph 3*), (*Figure 1*)
- export-led growth may generate negative externalities and threaten sustainability
- low wages could be a requirement for export-oriented growth, but there may be complaints of exploitation of the labour force and demands for protectionism in other countries
- export led growth can come at the expense of a trading partner, causing political problems.

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.

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

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1–2
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