



MARKSCHEME

November 2012

ECONOMICS

Standard Level

Paper 2

24 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 the IB Assessment Centre.*

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) indirect taxes (paragraph ①) [2 marks]

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that they are taxes paid indirectly to the government.

2 *Precise definition* **2**

An explanation that they are taxes on goods and services (or expenditure taxes or consumption taxes).

(ii) price inelastic (paragraph ②). [2 marks]

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that quantity (demanded) is not very responsive to price.

2 *Precise definition* **2**

An explanation of any **one** of the following:

- a change in the price of a product leads to a proportionately smaller change in the quantity (demanded)
- PED is less than 1
- % change in quantity (demanded) is less than % change in price.

(b) Using an appropriate diagram, explain how consumption of unhealthy foods creates negative externalities (paragraph 1). [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled negative consumption externality diagram with MPB to the right of MSB and an indication of a negative externality or for providing an explanation that the consumption of unhealthy foods creates external costs in the form of higher health care costs for everyone in society. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled negative consumption externality diagram with MPB to the right of MSB and an indication of a negative externality and for providing an explanation that the consumption of unhealthy foods creates external costs in the form of higher health care costs for everyone in society. | 3-4 |

For full marks, candidates must recognise that there are **external** costs, not just the health costs to the overweight themselves.

Candidates may provide a negative production externality diagram with the MSC to the left of MPC and the free market equilibrium to the right of the socially efficient level of output. If this is correctly labelled and explained in terms of the **external** costs to society, then full marks may be awarded.

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

The vertical axis may be price (or P) or costs and benefits. The horizontal axis may be output or quantity (or Q). A title is not necessary.

- (c) Using an appropriate diagram, explain how a tax on foods with a high fat content is expected to impact on the market for substitute products with a lower fat content (*paragraph 2*). [4 marks]

level

- | | | |
|---|--|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled supply and demand diagram for substitute products showing a rightward shift in the demand curve, resulting in higher equilibrium price and quantity or for explaining that the tax leads to lower quantity demanded of high-fat foods and therefore an increase in demand for substitute products which are now relatively cheaper. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled supply and demand diagram for substitute products showing a rightward shift in the demand curve, resulting in higher equilibrium price and quantity and for explaining that the tax leads to lower quantity demanded of high-fat foods and therefore an increase in demand for substitute products which are now relatively cheaper. | 3–4 |

Another approach would be to illustrate the effect of a tax on foods with a high fat content (decrease in supply) resulting in a decrease in the quantity of fatty foods demanded and an explanation that this would lead to an increase in demand for substitute products. If this diagram is accurately drawn, with an appropriate explanation, then it may be awarded full marks.

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

The vertical axis may be price (or P). The horizontal axis may be output or quantity (or Q). A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate the likely consequences of indirect taxes applied to junk food and sugary drinks.

[8 marks]

Responses **may** include:

- explanation of how indirect taxes increase the price paid by consumers, causing a decrease in the quantity demanded and/or a switch to relatively cheaper products
- a diagram illustrating the effect of an indirect tax.

Arguments **in favour** of the indirect taxes on junk food and sugary drinks or arguments why the tax may be effective and/or desirable:

- a suggestion that if junk food has inelastic demand, the burden will fall mainly on the consumers (HL), which is appropriate since they are the ones consuming the products
- higher price of taxed goods may encourage consumers to switch to healthier products, which are substitutes (*paragraph 2*)
- a switch to healthier products (fall in demand for unhealthy foods) reduces the size of the negative externality and lowers health care costs (*paragraph 1*)
- government earns tax revenues (*paragraph 3*) (this may be shown on a diagram)
- government tax revenues can be used to educate the public about the harmful effects of high-fat foods, causing demand for these to decrease (*paragraph 5*)
- low income individuals who are less healthy could become healthier
- government intervention may be necessary since manufacturers are unlikely to voluntarily improve their products (*paragraph 6*).

Arguments **against** the indirect taxes on junk food and sugary drinks or arguments why the tax may not be effective and/or desirable:

- foods and beverages have price inelastic demand (*paragraph 6*) because junk food is addictive (or healthy food is not seen as a substitute for junk food) and so there may be a proportionately smaller decrease in quantity demanded than hoped for
- the tax might have to be very high (and move into the elastic region of the demand curve) to have a significant impact on quantity demanded
- the tax might encourage consumers to buy the high fat content foods in neighbouring countries, which would have the effect of not reducing consumption **and** not contributing to higher tax revenues
- indirect taxes are regressive because they take a higher share of income from low-income households and so they affect low income individuals disproportionately (*paragraph 6*)
- low income individuals are also affected more than the wealthy because they consume more high-fat/sugary foods (*paragraph 4*)
- low income households may have a more price-inelastic demand than high income households because such goods are cheaper (*paragraph 4*) and could respond by increasing their consumption of unhealthy foods and cutting back on their expenditures on healthy foods (*paragraph 4*)
- reduced revenues for producers of high-fat foods and sugary drinks might lead to unemployment in these industries

- an increase in demand for healthy foods could increase their price and make them even more unaffordable for low income households
- opposition to the tax (*paragraph 5*) may prevent its long-term effectiveness.

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

Effective evaluation may be to:

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

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) **informal market** (*paragraph ①*) *[2 marks]*

level

- | | | |
|---|--|----------|
| 0 | <i>Wrong definition</i> | 0 |
| 1 | <i>Vague definition</i>
The idea that it is a market that exists outside the formal economy/is illegal (not regulated). | 1 |
| 2 | <i>Precise definition</i>
An explanation that it is a market where economic activity is not recorded by government and/or is not included in the calculation of GDP. | 2 |

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

level

- | | | |
|---|--|----------|
| 0 | <i>Wrong definition</i> | 0 |
| 1 | <i>Vague definition</i>
The idea that it is a rise in prices. | 1 |
| 2 | <i>Precise definition</i>
An explanation that it is a sustained increase in the general or average level of prices. | 2 |

- (b) Using an appropriate diagram, explain why “food items with price controls sometimes disappear from supermarket and grocery-store shelves”. (paragraph ③). [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 where the price is set below the equilibrium level so that a shortage results or providing an explanation that since a price ceiling is a price set below market equilibrium it leads to a decrease in quantity supplied and an increase in quantity demanded so that a shortage results. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram where the price is set below the equilibrium level so that a shortage results and providing an explanation that since a price ceiling is a price set below market equilibrium it leads to a decrease in quantity supplied and an increase in quantity demanded so that a shortage results. | 3–4 |

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

The vertical axis may be price (or P). The horizontal axis may be output or quantity (or Q). A title is not necessary.

- (c) **Using an appropriate diagram, explain an anti-inflation policy that Venezuela might use as an alternative to the price controls described in the text.** **[4 marks]**

level

- | | | |
|---|--|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled AD/AS diagram showing AD shifting to the left or LRAS shifting to the right or for explaining a deflationary demand side policies or supply side policy that will reduce inflationary pressure. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled AD/AS diagram showing AD shifting to the left or LRAS shifting to the right and for explaining a deflationary demand side policy or supply side policy that will reduce inflationary pressure. | 3–4 |

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 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 extent to which price ceilings are an effective means of protecting consumers from higher prices. [8 marks]

Responses **may** include:

Arguments **for** price ceilings:

- by keeping the price of basic goods such as food from rising, a price ceiling increases the purchasing power of consumers
- price ceilings on basic goods protect people with low incomes.

Arguments **against** price ceilings:

- shortages of goods and/or disappearance of goods occurring in markets (*paragraph 3*)
- there is need for non-price rationing mechanisms
- some consumers, not necessarily the neediest, may benefit
- possibility for informal markets arises (*paragraph 3*)
- some firms are forced to close down (*paragraph 4*) so productive capacity of the economy is hurt
- quality may decrease in the long run
- some businesses in their attempt to avoid the controls switch to the production of other goods making the shortages more severe or change the product, *i.e.* dye the rice (*paragraph 5*)
- may lead to more imports putting pressure on the current account (*paragraph 5*)
- price ceilings do not deal with the root cause of rising prices (*paragraph 6*)
- prices may rise dramatically once controls are lifted (*paragraph 6*)
- the distorted price signals misallocate resources (*paragraph 5*)
- policing costs.

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

Effective evaluation may be to:

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

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) current account surplus (paragraph 2) *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is exports being greater than imports.	1
2	<i>Precise definition</i> An explanation of any one of the following: <ul style="list-style-type: none"> • revenue from the export of goods and services is greater than the expenditure on the import of goods and services • net exports of goods and services plus net investment income and net current transfers are greater than zero. 	2

(ii) fiscal policy (paragraph 3). *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is related to government expenditure and taxation.	1
2	<i>Precise definition</i> An explanation that it is a policy that uses changes in government spending (G) and/or taxation (T) to affect aggregate demand.	2

(b) Using an AD/AS diagram, explain why the German government is “planning to use contractionary fiscal policy” (paragraph ③). [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled AD/AS diagram where AD has shifted to the right and the average price level is increasing or for explaining that not using contractionary fiscal policy may increase inflation. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled AD/AS diagram where AD has shifted to the right and the average price level is increasing and for explaining that not using contractionary fiscal policy may increase inflation. | 3–4 |

Some candidates may draw an AD/AS diagram showing a leftward shift of AD explaining that the original AD represents the economy under inflationary pressures and AD₁ represents the effect of the planned contractionary fiscal policy. If the diagram and explanation are correct, then these candidates should be fully rewarded.

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 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) Explain why a “weak euro” may be responsible for Germany’s growing current account surplus (*paragraph 2*). [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For explaining that a depreciating currency makes exports cheaper and thus may increase export revenues or for explaining that a depreciating currency makes imports more expensive and thus may decrease import expenditures.</p> | 1–2 |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For explaining that a depreciating currency makes exports cheaper and thus may increase export revenues and for explaining that a depreciating currency makes imports more expensive and thus may decrease import expenditures, resulting in a growing current account surplus as (X-M) increases.</p> | 3–4 |

- (d) Using information from the text/data and your knowledge of economics, evaluate the decision of the German government to use contractionary fiscal policy. [8 marks]

Responses **may** include:

- explanation of contractionary fiscal policy
- diagram to illustrate contractionary fiscal policy
- an explanation of how an increase in taxes and/or reducing government spending reduces aggregate demand.

Advantages of contractionary fiscal policy:

- explanation of how contractionary fiscal policy reduces inflationary pressures (*paragraph 3*)
- benefits of lower rates of inflation
- contractionary fiscal policy reduces the budget deficit.

Disadvantages of contractionary fiscal policy:

- cuts in social welfare and unemployment benefits reduce aggregate demand
- redistributive effects of social welfare cuts (*paragraph 4*)
- the impact of falling aggregate demand on economic growth and unemployment (*paragraph 4*)
- the impact of higher taxes on worker incentives and tax revenues
- practical difficulties of applying a tight fiscal policy *e.g.* time lags, political difficulties
- contractionary fiscal policy will further reduce Germany’s imports (*paragraph 2*)
- continuing risk of recession makes the use of contractionary fiscal policy dangerous (*paragraph 1*).

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

Effective evaluation may be to:

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

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) **dumping** (*extract 1, paragraph ①*) [2 marks]

level

- | | | |
|---|---|---|
| 0 | <i>Wrong definition</i> | 0 |
| 1 | <i>Vague definition</i>
The idea that it refers to firms selling abroad cheaply. | 1 |
| 2 | <i>Precise definition</i>
An explanation of any one of the following: <ul style="list-style-type: none">• the selling of a good in another country at a price below its unit/average cost of production• the selling of a good in another country at a price below the price it sells for in the home/domestic market. | 2 |

(ii) **recession** (*extract 1, paragraph ②*). [2 marks]

level

- | | | |
|---|--|---|
| 0 | <i>Wrong definition</i> | 0 |
| 1 | <i>Vague definition</i>
The idea that it is a drop in economic activity. | 1 |
| 2 | <i>Precise definition</i>
An explanation that it is a decrease in real GDP for at least two consecutive quarters (or two consecutive quarters of negative economic growth). | 2 |

- (b) Using an appropriate diagram, explain the effects on the market for car wheels in Europe if the European Union (EU) had chosen to impose a quota instead of a tariff on car wheels imported from China. [4 marks]

level

- | | | |
|---|---|------------|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled diagram showing the introduction of a quota in the EU market for car wheels or for correctly explaining the effect of the quota will be any two of the following:
i. a higher price for car wheels
ii. an increase in domestic production
iii. a fall in imports
iv. a fall in the consumption of car wheels. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled diagram showing the introduction of a quota in the EU market for car wheels and for correctly explaining the effect of the quota will be any two of the following:
i. a higher price for car wheels
ii. an increase in domestic production
iii. a fall in imports
iv. a fall in the consumption of car wheels. | 3–4 |

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

The vertical axis may be price (or P). The horizontal axis may be output or quantity (or Q). A title is not necessary.

- (c) Using an appropriate demand and supply diagram, explain why the recession had negatively affected European car wheel manufacturers (*extract 1, paragraph 2*). [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 the demand for car wheels decreasing and shifting to the left or for explaining that in a recession incomes decrease and, since cars are normal goods, their demand will decrease leading to lower output (and lower prices). | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram with the demand for car wheels decreasing and shifting to the left and for explaining that in a recession incomes decrease and, since cars are normal goods, their demand will decrease leading to lower output (and lower prices). | 3–4 |

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

The vertical axis may be price (or P). The horizontal axis may be quantity (or Q), or output. A title is not necessary.

(d) Using information from the text/data and your knowledge of economics, evaluate the possible effects on European economies of imposing tariffs on Chinese goods.

[8 marks]

Responses may include:

- an explanation of how tariffs affect Chinese exports to the EU
- the expected benefits of imposing tariffs:
 - European manufacturers may enjoy increased market share (*extract 2, paragraph 1*)
 - increase in employment
 - tariff revenue to government
 - justified if the WTO agrees that China is dumping
 - reduced current account deficit with China (*extract 2, paragraph 1*)
- the expected costs of imposing tariffs:
 - worsening resource allocation
 - greater inefficiency in production
 - retaliation
 - higher prices to consumers
 - EU manufacturers may not benefit as imports from Turkey may simply increase (*extract 1, paragraph 2*)
 - increased costs for importing businesses (*extract 1, paragraph 1*).

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

Effective evaluation may be to:

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

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) **infrastructure** (*paragraph 2*) [2 marks]

level

- | | | |
|---|--|----------|
| 0 | <i>Wrong definition</i> | 0 |
| 1 | <i>Vague definition</i>
The idea that it is a type of capital good. | 1 |
| 2 | <i>Precise definition</i>
An explanation of any one of the following: <ul style="list-style-type: none">• essential facilities that add to the capital stock of the economy• capital typically provided by government to make economic activity possible. | 2 |

An answer that simply gives examples of infrastructure should not get any marks.

(ii) **multilateral aid** (*paragraph 4*). [2 marks]

level

- | | | |
|---|---|----------|
| 0 | <i>Wrong definition</i> | 0 |
| 1 | <i>Vague definition</i>
The idea that it is money given by countries. | 1 |
| 2 | <i>Precise definition</i>
An explanation that it is money that is given by countries to international (or multilateral) institutions which are distributed to countries. | 2 |

(b) Using an appropriate diagram, explain how investment in health and education facilities can contribute to economic growth (paragraph 2). [4 marks]

level

- 0 *Inappropriate answer* **0**

- 1 *Identification of appropriate theory* **1–2**
 For drawing a correctly labelled AD/AS or PPC diagram showing a rightward shift of the LRAS curve or PPC **or** for explaining that an improvement in the quality of labour (improvement in human capital) as a result of investment in health and education facilities, can be expected to result in an increase in potential output and therefore can contribute to economic growth.

- 2 *Correct application of appropriate theory* **3–4**
 For drawing a correctly labelled AD/AS or PPC diagram showing a rightward shift of the LRAS curve or PPC **and** for explaining that an improvement in the quality of labour (improvement in human capital) as a result of investment in health and education facilities, can be expected to result in an increase in potential output and therefore can contribute to economic growth.

Either the LRAS or Keynesian AS curves may be shifted. A maximum of [2 marks] may be awarded for shifting the SRAS.

Another approach would be an explanation that government spending on health and education may increase aggregate demand, shifting the AD curve to the right, contributing to economic growth. If this diagram is accurately drawn, with an appropriate explanation, then it may be awarded full marks.

An alternative approach may be to use a poverty cycle diagram to explain how investment in health and education facilities may break the poverty cycle and contribute to economic growth. If this diagram is accurately drawn, with an appropriate explanation, then it may be awarded full marks.

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 inflation. The horizontal axis may be real output, national output, real national output, national income (Y), or real GDP. Any appropriate abbreviations, such as APL, CPI, RNO or RNY are allowable. A title is not necessary.

For a PPC diagram, the axes should be any two categories of goods that compete for the economy’s resources.

(c) Explain how low incomes contribute to the poverty cycle in Malawi (paragraph 2). [4 marks]

level

- | | | |
|---|---|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For identifying (stating or illustrating) any poverty cycle, which begins and ends with low incomes. One common poverty cycle is an explanation that low incomes leads to low savings which leads to low investment which leads back to low incomes | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For identifying (stating or illustrating) any poverty cycle, which begins and ends with low incomes. One common poverty cycle is an explanation that low incomes leads to low savings which leads to low investment which leads back to low incomes and for explaining the linkages between low incomes and the other elements of the cycle. | 3-4 |

- (d) Using information from the text/data and your knowledge of economics, evaluate the likely effects of Malawi's trade and development agreement with the EU.

[8 marks]

Responses **may** include:

- an explanation of trade liberalisation
- a diagram illustrating the effect of trade liberalisation (*e.g.* tariff diagram).

Advantages of a possible agreement on liberalised trade:

- benefits of free trade (*paragraph 4*) including development, growth, and job creation
- other benefits of free trade include lower prices, increased choice, gains from specialization, improved political relations and more efficient allocation of resources
- possible increased exports to the EU leading to an improvement in the current account
- growth of manufacturing can contribute to increasing employment as well as economic growth in Malawi
- growth of manufacturing could be encouraged by tariff-free entry of Malawian products into the EU
- less potential for corruption.

Advantages of a possible agreement on development:

- provision by the EU of private sector grants, loans and technical assistance can contribute to the growth of a manufacturing sector in Malawi (*paragraph 4*)
- assistance from the EU in the form of aid for trade (building institutions and infrastructure) can also help Malawi take advantage of growing export opportunities, contributing to growth (*paragraph 4*).

Disadvantages of the potential agreement:

- Malawian exports, consisting mainly of agricultural commodities, may not increase much if the EU does not eliminate protection of its farmers
- tariff cuts will reduce the government's tariff revenues, leaving fewer resources to pursue economic development (*paragraph 3*)
- tariff cuts will eliminate protection of infant industries, and may not allow Malawi to develop manufacturing sector (*paragraph 3*)
- existing manufacturing firms in Malawi may not be able to survive because of low-cost manufacturing imports from the EU
- manufacturing exports from Malawi to the EU may be unable to compete with low-priced EU products
- the agreement may make it more difficult for Malawi to diversify into manufacturing, "locking" it into long term reliance on low-value agricultural commodity exports (*paragraph 3*)
- reliance on agricultural commodity exports subjects farmers to unstable incomes (due to low PED and PES for agricultural commodities) as well as long term deteriorating terms of trade (due to low YED) with negative effects on standard of living, investment, employment, the current account and economic growth

- possibility that the EU may not provide enough assistance for development of necessary transport infrastructure as well as health and education facilities and research and development (R&D) leading to the development of appropriate technologies
- aid may not necessarily be directed to the areas where it is most effective.

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

Effective evaluation may be to:

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

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
