



MARKSCHEME

November 2014

ECONOMICS

Higher Level

Paper 2

23 pages

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Use the paper-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

SECTION A

1. (a) (i) **Define the term *foreign direct investment (FDI)*, indicated in bold in the text (paragraph 2).** **[2 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is investment between countries.	1
2 <i>Accurate definition.</i> An explanation that it is any two of the following <ul style="list-style-type: none"> • investment by a multinational corporation • long term investment in another country • investment in productive capacity in another country • investment in another country representing at least 10% ownership. 	2

(ii) **Define the term *exchange rate*, indicated in bold in the text (paragraph 4).** **[2 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is to do with the price of a currency.	1
2 <i>Accurate definition.</i> An explanation that it is the value (price) of one currency expressed in terms of another currency.	2

- (b) Using an appropriate diagram, explain *one* reason why the rupee may have fallen in value “by about 20 % in the period January 2011 to January 2012” (paragraph 4). [4 marks]

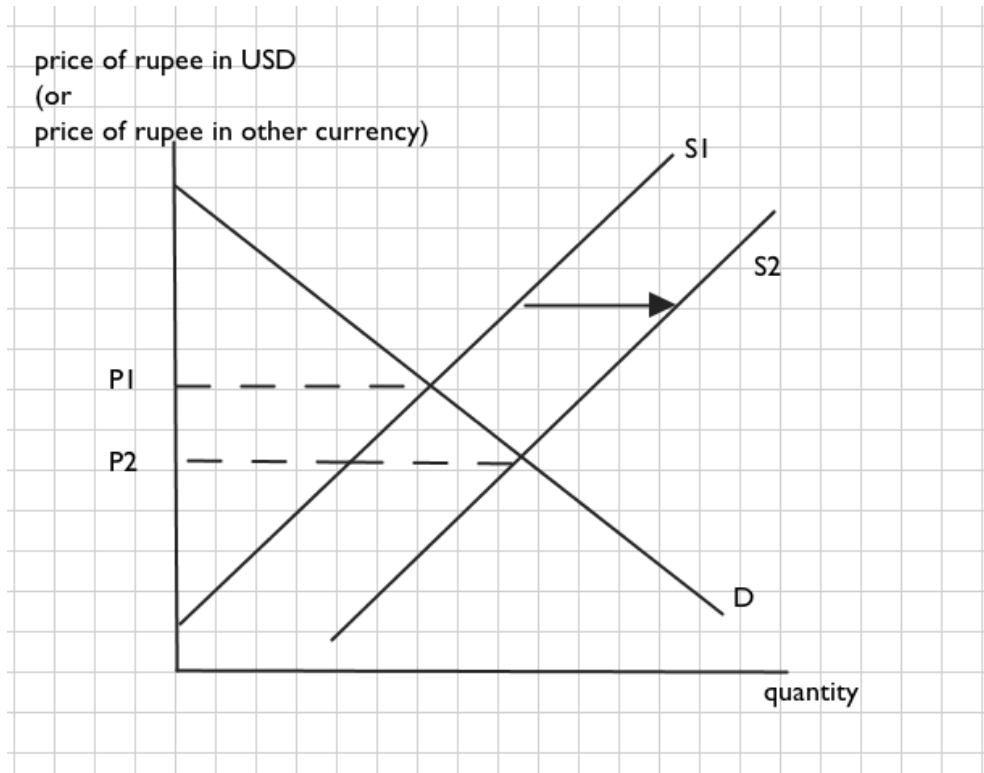
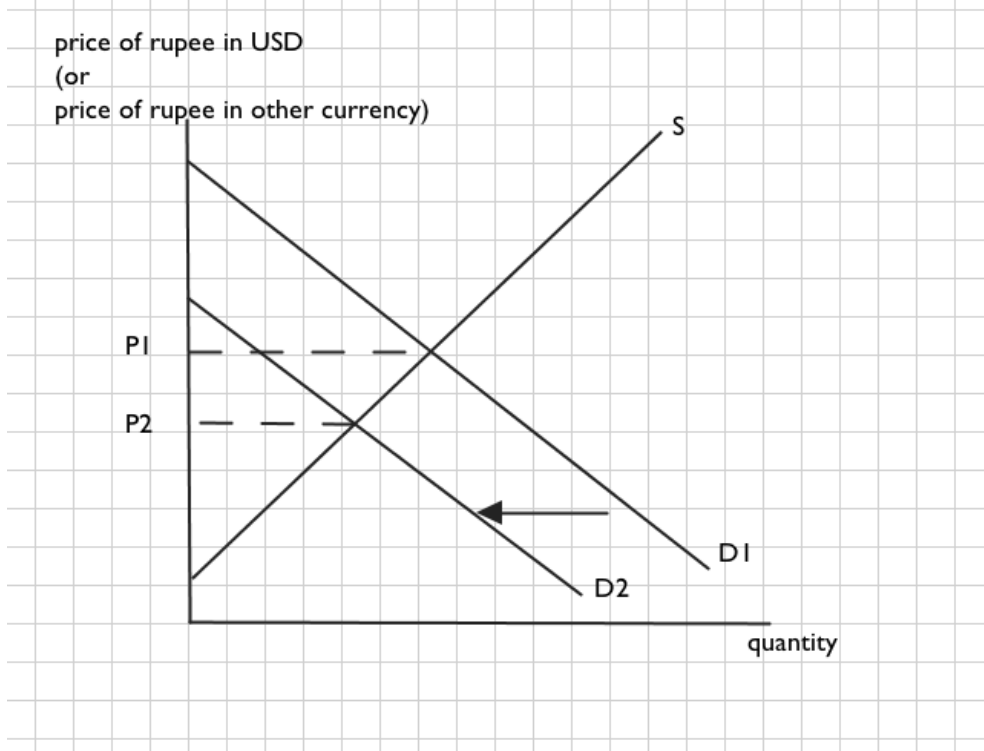
Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled exchange rate diagram to show a fall in the demand for the rupee and a lower exchange rate or an explanation that as demand in the US and Europe for Indian goods and services is falling, the demand for the rupee will fall and so the exchange rate will also fall.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled exchange rate diagram to show a fall in the demand for the rupee and a lower exchange rate and an explanation that as demand in the US and Europe for Indian goods and services is falling, the demand for the rupee will fall and so the exchange rate will also fall.	3–4

OR

- | | |
|---|------------|
| 1 <i>There is a correct diagram or an accurate written response.</i>
For drawing a correctly labelled exchange rate diagram to show an increase in the supply of the rupee and a lower exchange rate or an explanation that outflows of portfolio investment result in an increase in the supply of the rupee, lowering its value. | 1–2 |
| 2 <i>There is a correct diagram and an accurate written response.</i>
For drawing a correctly labelled exchange rate diagram to show an increase in the supply of the rupee and a lower exchange rate and an explanation that outflows of portfolio investment result in an increase in the supply of the rupee, lowering its value. | 3–4 |

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

For an exchange rate diagram, the vertical axis may be exchange rate, price of rupees in other currencies, \$ per rupee, or any currency per rupee. The horizontal axis should be quantity, or quantity of rupees. A title is not necessary.



- (c) Using an AD/AS diagram, explain why “the falling rupee has also created inflationary pressures” (paragraph 4). [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing a shift of SRAS to the left and increased average price level or for explaining that imports will become more expensive when the exchange rate falls, thus pushing up the costs of production of firms leading to inflationary pressure.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing a shift of SRAS to the left and increased average price level and for explaining that imports will become more expensive when the exchange rate falls, thus pushing up the costs of production of firms leading to inflationary pressure.	3–4

OR

1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing a shift of AD to the right and increased average price level or for explaining that exports will become less expensive when the exchange rate falls, thus leading to an increase in exports and an increase in AD, leading to inflationary pressure.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram showing a shift of AD to the right and increased average price level and for explaining that exports will become less expensive when the exchange rate falls, thus leading to an increase in exports and an increase in AD, leading to 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, general price level or any abbreviations of these. The horizontal axis may be output, real output, national output, real national output, national income, or any abbreviations of these. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the possible economic consequences of the fall in the value of the rupee on the Indian economy.** **[8 marks]**

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

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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and weaknesses.

Responses **may** include:

Effect(s) on:

- Inflation
 - the price of imports will increase, leading to a decrease in SRAS and creating cost-push inflationary pressure (*paragraph 4*)
 - prices of exports will fall, leading to an increase in AD and creating demand-pull inflationary pressure (*paragraph 4*)
 - consumers will suffer from higher prices
- Employment/unemployment
 - the price of imports will increase, making domestic goods more attractive and so increasing employment in domestic industries
 - the price of imports will increase causing problems for producers who use imported inputs and possibly damaging employment (*paragraph 5*)
 - the price of exports will fall, leading to an increase in net exports and thus an increase in AD and so an increase in employment in export industries (depending on PED)

- Economic growth
 - if net exports rise, this will result in an increase in AD and economic growth
 - the falling exchange rate and increasing inflation may cause the government to raise interest rates (*paragraph 4*) leading to a contraction of the economy
 - it may encourage greater FDI (if the rupee remains low) as costs of investment fall, eventually leading to growth
- Balance of payments
 - improvement in the current account balance which is badly needed (*paragraphs 1 and 5*)
 - the effect on the current account depends on the price elasticity of demand for imports and exports.
 - In the SR, demand for exports and imports likely to be inelastic, thus leading to a worsening of the current account
 - In the LR, demand for imports and exports likely to become more elastic, thus leading to an improvement in the current account (Marshall-Lerner condition and J-curve).

Any reasonable evaluation.

2. (a) (i) Define the term **quota** indicated in bold in the text (*paragraph ⑥*). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is to do with a restriction on imports.	1
2 <i>Accurate definition.</i> An explanation that it is a physical limit on the number or value of a good that can be imported into a country.	2

(ii) List *two* reasons why the government might wish to protect the domestic poultry industry. [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> Any one of the following reasons: <ul style="list-style-type: none"> • to protect jobs • to ensure higher revenues for domestic chicken producers • to reduce the potential impact on growth as the industry makes up 60 % of the agriculture sector • to compensate for the subsidies given to foreign producers • to improve the balance of payments • to earn government tariff revenue • to protect safety standards • to counter-act dumping. 	1
2 <i>Accurate definition.</i> Any two of the following reasons: <ul style="list-style-type: none"> • to protect jobs • to ensure higher revenues for domestic chicken producers • to reduce the potential impact on growth as the industry makes up 60 % of the agriculture sector • to compensate for the subsidies given to foreign producers • to improve the balance of payments • to earn government tariff revenue • to protect safety standards • to counter-act dumping. 	2

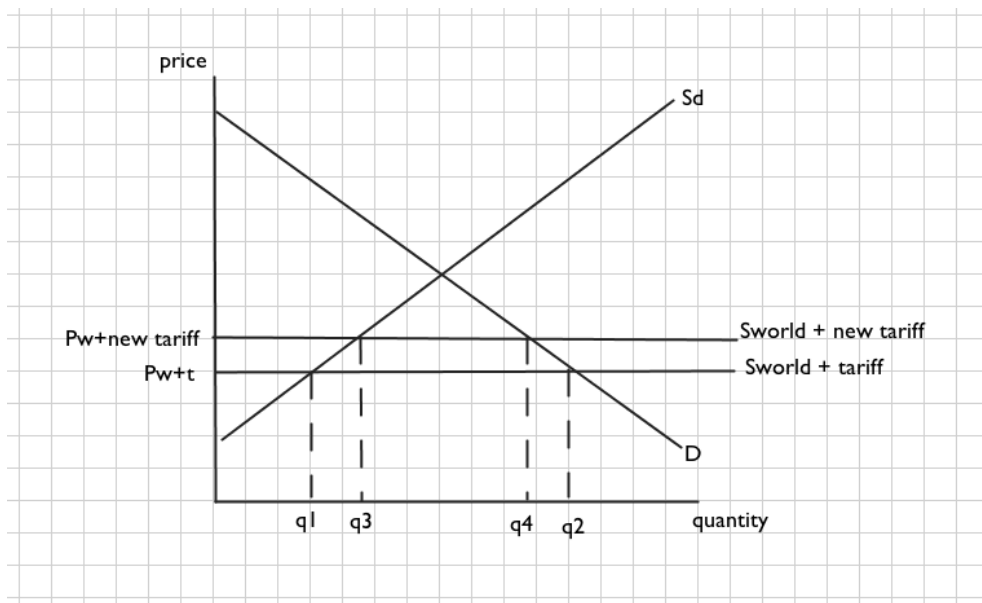
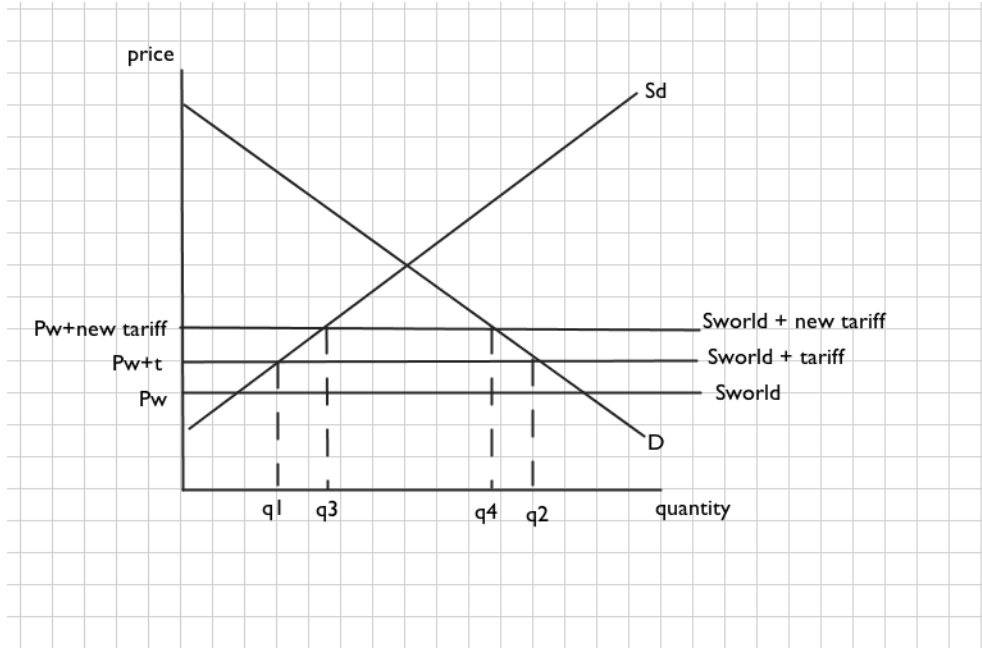
(b) Using an appropriate diagram, explain the likely effect that the suggested increase in the tariff (paragraph ③) would have on the domestic production of chicken. **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled tariff diagram to show an increase in the tariff through an upward shift of the world supply + tariff curve and an increase in domestic production or an explanation that there would be an increase in domestic production as the price of chicken rises (or an imports increase).	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled tariff diagram to show an increase in the tariff through an upward shift of the world supply + tariff curve and an increase in domestic production and an explanation that there would be an increase in domestic production as the price of chicken rises (or as imports increase).	3–4

Candidates who do not recognize that there is an increase in the tariff and simply show the imposition of a tariff, can be rewarded with a maximum of **[1 mark]** for the diagram. If the explanation correctly refers to an increase in domestic production, **[2 marks]** may be awarded.

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. The world supply curve with the tariff should be labelled Sw+T or S_{world}+ tariff. A title is not necessary.



(c) Using an AD/AS diagram, suggest what will happen to employment if imports continue to damage the domestic chicken industry. **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the left or for explaining that increasing imports will reduce AD (net exports) which will reduce real national output, thus reducing employment in the economy.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the left and for explaining that increasing imports will reduce AD (net exports) which will reduce real national output, thus reducing employment in the economy.	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, general price level or any abbreviations of these. The horizontal axis may be output, real output, national output, real national output, national income, or any abbreviations of these. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, discuss the arguments for and against the protection of the domestic chicken market.** **[8 marks]**

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

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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

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

Responses **may** include:

- a definition of trade protection
- Arguments for trade protection
 - it will make things “fairer” between local and imported markets (*paragraph 3*)
 - it will protect employment in the local industry (*paragraph 9*)
 - it will protect employment in other, connected industries
 - increased tariff revenue for the government
 - local producers cannot compete (*paragraph 3*)
 - there are hints of dumping taking place since the producers in the US, the EU and Brazil are heavily subsidized (*paragraph 3*)
 - the government cannot afford subsidies therefore a tariff is justified (*paragraph 5*)
 - Trinidad and Tobago has the lowest tariff in the region (*paragraph 3*) so a higher tariff may be justified
 - the industry is important to the economy for both jobs and revenue (*paragraph 9*)
 - agriculture is important for self-sufficiency
- Arguments against trade protection
 - it may raise the price to consumers, despite reassurances (*paragraph 1*)

- it may raise the price to producers who buy the imported chicken as an input for their final product
- competition may diminish and local producers may become inefficient
- it may lead to retaliation from other countries
- it may reduce consumption of chicken
- equity issue, since spending on food is likely to represent a substantial proportion of income of low income households
- welfare loss
- misallocation of world's scarce resources.

Any reasonable discussion.

SECTION B

3. (a) (i) **Define the term *subsidies* indicated in bold in the text (paragraph 4).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that they are sums of money given to firms.	1
2 <i>Accurate definition.</i> An explanation that they are sums of money given by government to firms and one of the following: – to lower their costs of production. – to increase output of a desired product – to reduce imports	2

(ii) **Define the term *negative externalities* indicated in bold in the text (paragraph 7).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that they are negative economic effects on others.	1
2 <i>Accurate definition.</i> An explanation that they are costs (harmful effects) suffered by a third party as a result of an economic transaction (or when a good or service is produced or consumed).	2

(b) Using an externalities diagram, explain the benefits of the Ethio-China Polytechnic College (*paragraph 6*). **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled MSB/MSC diagram showing an MSB curve to the right of the MPB curve and indicating underprovision of education and/or welfare loss (potential welfare gain) or for an explanation of any plausible external benefit that might be gained from education, such as: <ul style="list-style-type: none"> • the external benefits of a more educated workforce • a reduction in the welfare loss • a capture of the potential welfare gain • a movement towards the socially efficient level of output. 	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled MSB/MSC diagram showing an MSB curve to the right of the MPB curve and indicating underprovision of education and/or welfare loss (potential welfare gain) or for an explanation of any plausible external benefit that might be gained from education, such as: <ul style="list-style-type: none"> • the external benefits of a more educated workforce • a reduction in the welfare loss • a capture of the potential welfare gain • a movement towards the socially efficient level of output. 	3–4

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

The vertical axis may be price, but could be costs or benefits. The horizontal axis is quantity. A title is not necessary.

(c) Explain *two* economic reasons why China may benefit from its involvement in the Ethiopian economy. [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct explanation of theory for one economic reason.</i> For explaining any one of the following: <ul style="list-style-type: none"> • lower costs of production for Chinese firms • more demand for Chinese products • interest payments on the loans made • profits to be repatriated from the Chinese MNCs • contracts for Chinese companies providing infrastructure. • access to resources/raw materials. Any reasonable response.	1–2
2 <i>There is a correct explanation of theory for two economic reasons.</i> For explaining any two of the following: <ul style="list-style-type: none"> • lower costs of production for Chinese firms • more demand for Chinese products • interest payments on the loans made • profits to be repatriated from the Chinese MNCs • contracts for Chinese companies providing infrastructure. • access to resources/raw materials. Any reasonable response.	3–4

(d) Using information from the text/data and your knowledge of economics, discuss the possible effects of Chinese involvement in Ethiopia on economic growth and development in the Ethiopian economy. [8 marks]

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

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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5

- 3 *Relevant concepts are recognized and developed in reasonable depth.* 6–8
There is clear knowledge/understanding.
There is effective application/analysis.
There is synthesis/evaluation, supported by appropriate theory and evidence.

Command term

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

Responses **may** include:

- identification of FDI, subsidies, commercial loans, aid (training) as the types of involvement, with definitions of (some of) these
- definitions of economic growth and economic development
- Positive outcomes for growth and/or development
 - improved education for the workforce (*paragraph 2*)
 - improvements in infrastructure (*paragraph 3*)
 - increased economic growth rates (*paragraph 3*)
 - improvements in communication (*paragraph 4*)
 - benefits for consumers (*paragraph 5*)
 - increased domestic employment (*paragraph 6*)
 - filling of the savings gap
 - breaking the poverty cycle
 - transfer and technology
- Negative outcomes for growth and/or development
 - negative externalities (*paragraph 7*)
 - possible loss of control of assets and infrastructure (economic sovereignty)
 - opportunity cost of interest payments
 - dependency on China
 - any other possible disadvantages associated with FDI, commercial loans and aid.

To reach L3, there must be an awareness of the distinction between economic growth and economic development. However, this awareness does not guarantee a L3 response.

Any reasonable discussion.

4. (a) (i) Define the term **infrastructure** indicated in bold in the text (paragraph ❶). [2 marks]

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

Any reasonable response.

(ii) List *two* of the Millennium Development Goals (MDGs) (paragraph ❸). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is limited understanding</i> One goal is stated or two goals are partially stated.	1
2 <i>There is clear understanding</i> Two of the following goals are stated: <ul style="list-style-type: none"> • eradicate extreme poverty and hunger • achieve universal primary education • promote gender equality and empower women • reduce child mortality • improve maternal health • combat HIV/AIDS, malaria, and other diseases • ensure environmental sustainability • develop a Global Partnership for Development. 	2

- (b) Using a Lorenz curve diagram, explain the meaning of the difference in the Gini coefficient figures for Nigeria and Senegal (*Figure 1*). [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled Lorenz curve diagram showing the curve for Senegal to be closer to the line of equality than the curve for Nigeria or an explanation that the lower Gini coefficient figure for Senegal means that income is more equally distributed in Senegal than in Nigeria.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled Lorenz curve diagram showing the curve for Senegal to be closer to the line of equality than the curve for Nigeria and an explanation that the lower Gini coefficient figure for Senegal means that income is more equally distributed in Senegal than in Nigeria.	3–4

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

For a Lorenz curve, the vertical axis should be (cumulative) percentage of income and the horizontal axis should be (cumulative) percentage of population. A title is not necessary.

- (c) Using an AD/AS diagram, explain why “a fiscal stimulus that maintained strong growth ... can also be associated with Nigeria’s high inflation” (*paragraph 2*). [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the right and indicating a rise in the average price level or for explaining that a fiscal stimulus would increase AD through increased government spending and/or lower direct taxes (increased household consumption), thus leading to high inflation.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the right and indicating a rise in the average price level and for explaining that a fiscal stimulus would increase AD through increased government spending and/or lower direct taxes (increased household consumption), thus leading to high inflation.	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, general price level or any abbreviations of these. The horizontal axis may be output, real output, national output, real national output, national income, or any abbreviations of these. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, discuss the extent to which economic development is likely to be achieved in Nigeria in comparison to Senegal.** **[8 marks]**

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

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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

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

Responses **may** include:

- a definition of economic development
- a comparison of HDI values noting that the HDI value is the same in both countries
- GNI per capita is notably higher in Nigeria, so that the education and health indices for Nigeria must be lower than Senegal
- the difference in GNI per capita may be exaggerated as up to 60% of Senegal's economy is informal (*Paragraph 4*)
- Senegal’s larger public expenditure on health as a percentage of GDP may contribute to higher economic development and may be responsible for its higher life expectancy
- Senegal’s larger expenditure on education as a percentage of GDP may contribute to higher economic development (*Figure 1*)
- In the long run, greater expenditure on health care and education may result in a healthier and more productive work force, contributing to greater economic growth and development
- PPC curve or LRAS curve to show effect of improvement in quality of labour
- Senegal’s lower Gini coefficient suggests a more equal distribution of income (*Figure 1*); so even though Senegal’s GNI per capita income is lower than Nigeria, income is more equally distributed

- Nigeria has a much higher percentage of people living in absolute poverty (*Figure 1*)
 - While Nigeria has large reserves of natural resources (*Paragraph 1*), it may be over-reliant on oil revenues as a source of economic growth; non-oil growth needed (*Paragraph 3*)
 - Senegal’s economy may be more diversified (*Paragraph 4*), meaning that it may be able to withstand global fluctuations in commodity prices
 - Concern about poor governance in Nigeria, such that any benefits of economic growth may not translate into economic development
 - Concern about infrastructure in both countries
 - Use of data to make predictions of future economic development.
-