

# Markscheme

November 2015

Economics

Standard level

Paper 2

19 pages

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

### Section A

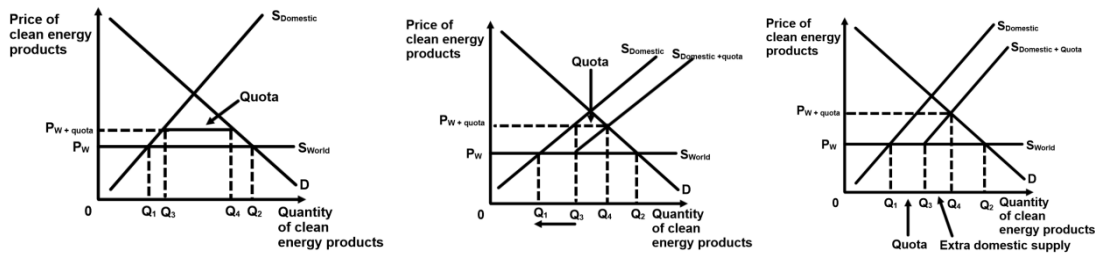
1.	(a)	(i)	State <b>two</b> functions of the World Trade Organization (WTO) (paragraph ❶).	<b>[2]</b>
			Level	Marks
			0	0
			<i>The work does not reach a standard described by the descriptors below.</i>	
			1	1
			<i>There is limited understanding.</i>	
			A limited understanding demonstrated by listing <b>one</b> of the following functions of the WTO:	
			<ul style="list-style-type: none"> <li>• to set and enforce rules for international trade</li> <li>• to provide a forum for negotiating trade liberalization</li> <li>• to monitor further trade liberalization</li> <li>• to resolve trade disputes</li> <li>• to increase the transparency of decision-making processes</li> <li>• to cooperate with other major international economic institutions involved in global economic management</li> <li>• to help developing countries benefit fully from the global trading system.</li> </ul>	
			2	2
			<i>There is clear understanding.</i>	
			A clear understanding demonstrated by listing <b>two</b> of the following functions of the WTO for its member countries:	
			<ul style="list-style-type: none"> <li>• to set and enforce rules for international trade</li> <li>• to provide a forum for negotiating trade liberalization</li> <li>• to monitor further trade liberalization</li> <li>• to resolve trade disputes</li> <li>• to increase the transparency of decision-making processes</li> <li>• to cooperate with other major international economic institutions involved in global economic management</li> <li>• to help developing countries benefit fully from the global trading system.</li> </ul>	
		(ii)	Define the term <i>dumping</i> indicated in bold in the text (paragraph ❷).	<b>[2]</b>
			Level	Marks
			0	0
			<i>The work does not reach a standard described by the descriptors below.</i>	
			1	1
			<i>Vague definition.</i>	
			The idea that it is the cheap selling of a good in another country.	
			2	2
			<i>Accurate definition.</i>	
			An explanation that it is when producers export a product to another country at a price that is <b>either</b> below its cost of production <b>or</b> below the price charged in its home market.	

- (b) Using an international trade diagram, explain the effects on individual APEC “member economies” of removing a quota on the market for clean energy products (paragraph 2). [4]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled quota diagram showing a decrease in the domestic quantity supplied, a fall in price to the level of the world price and an increase in quantity demanded <b>or</b> for explaining that removing a quota will result in an increase in the supply of imported clean energy products and a fall in price (and an increase in quantity demanded).	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled quota diagram showing a decrease in the domestic quantity supplied, a fall in price to the level of the world price and an increase in quantity demanded <b>and</b> for explaining that removing a quota will result in an increase in the supply of imported clean energy products and a fall in price (and an increase in quantity demanded).	<b>3–4</b>

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

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



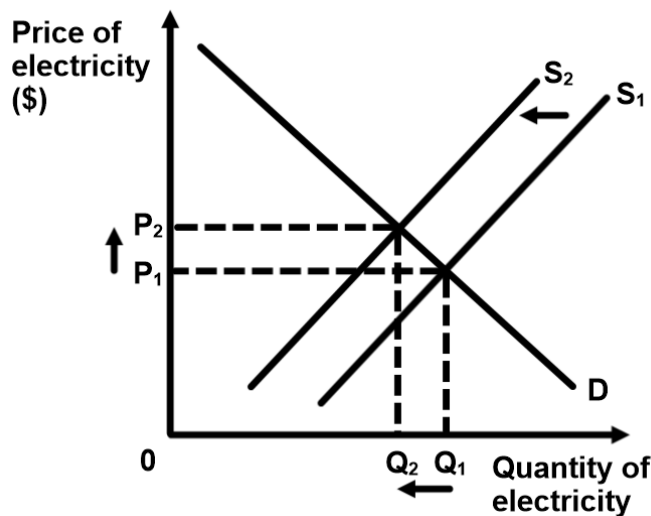
- (c) Using a demand and supply diagram, explain how a tariff on solar panels would affect the market for solar power electricity (paragraph 5). [4]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled demand and supply diagram showing a shift of the supply curve to the left, an increase in price and a decrease in quantity <b>or</b> for an explanation that a tariff on the market for solar panels would increase the costs of production for solar power electricity causing a decrease in supply, an increase in the price for solar power electricity, and a decrease in the quantity.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled demand and supply diagram showing a shift of the supply curve to the left, an increase in price and a decrease in quantity <b>and</b> for an explanation that a tariff on the market for solar panels would increase the costs of production for solar power electricity causing a decrease in supply, an increase in the price for solar power electricity, and a decrease in the quantity.	<b>3–4</b>

*An alternative correct answer is for the candidate to show a diagram with a tariff being imposed on solar panels, increasing the price of solar panels and then explaining that the increase in the price of solar panels is an increase in costs in the solar power electricity market, which would lead to a fall in supply (output) and an increase in price.*

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

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



- (d) Using information from the text/data and your knowledge of economics, discuss the arguments for and against free trade in the global market for clean energy products. [8]

*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>	<b>0</b>
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	<b>1–2</b>
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
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.	<b>6–8</b>

*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:

- definition of free trade.

Arguments for free trade:

- lower prices and more choice for consumers (paragraph ⑥)
- competition from imports encourages domestic producer efficiency and innovation
- possibilities of economies of scale
- specialization would allow continued growth in the global trade in clean energy products (paragraph ①)
- free trade prevents trade wars (paragraph ⑦)
- free trade prevents retaliatory tariffs on unrelated goods and services (paragraph ⑦)
- low priced clean energy products replace energy sources that produce negative externalities thus addressing climate change (paragraph ⑥)
- low priced clean energy products creates demand in associated markets (solar power generators and installers)
- anti-dumping measures for solar panels have a negative impact on associated markets such as solar power generators and installers (paragraph ⑥)
- supports growth of emerging economies such as Vietnam and China (US\$27 billion in exports of solar panels to the EU) (paragraph ⑦)

Arguments against free trade:

- anti-dumping measures discourage dumping and create fair trade (paragraph 4)
- protect emerging industries (paragraph 4)
- protects employment in domestic industries competing with imports (paragraph 7)
- protects domestic industries from low cost labour in China and Vietnam
- protect quality of clean energy products from cheap and lower quality imports (paragraph 7).

2.	(a)	(i)	Define the term <i>fixed exchange rate</i> indicated in bold in the text (paragraph 1).	[2]
			Level	Marks
			0	0
			1	1
			2	2
			0	0
			1	1
			2	2
		(ii)	Define the term <i>economic growth</i> indicated in bold in the text (paragraph 6).	[2]
			Level	Marks
			0	0
			1	1
			2	2

- (b) Using an exchange rate diagram, explain how the United Arab Emirates (UAE) could maintain a fixed value of its dirham to the US dollar if there were upward pressure on the dirham.

[4]

Level

Marks

0 *The work does not reach a standard described by the descriptors below.*

0

1 *There is a correct diagram **or** an accurate written response.*

1-2

For drawing a correctly labelled currency diagram showing a fixed exchange rate value, an equilibrium above the fixed value and an increase in the supply curve to return the currency to the fixed value **or** for explaining that if the currency goes above its fixed value, the central bank (government/UAE) will have to intervene and sell its currency (buy foreign currency) to restore the fixed value of the currency.

2 *There is a correct diagram **and** an accurate written response.*

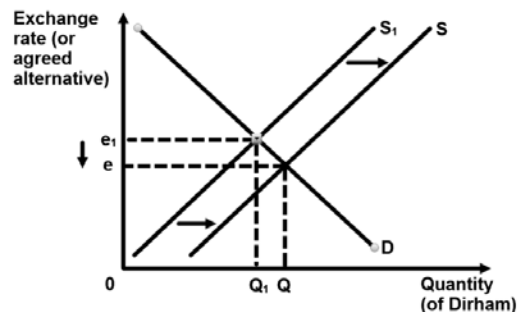
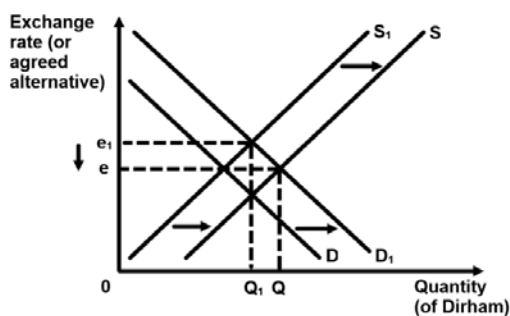
3-4

For drawing a correctly labelled currency diagram showing a fixed exchange rate value, an equilibrium above the fixed value and an increase in the supply curve to return the currency to the fixed value **and** for explaining that if the currency goes above its fixed value, the central bank (government/UAE) will have to intervene and sell its currency (buy foreign currency) to restore the fixed value of the currency.

*An alternative correct answer is for the diagram to show a decrease in demand for the dirham to return the currency to its fixed value, with an explanation that the central bank can lower interest rates, making financial investments in the UAE less attractive, thus causing a fall in the demand for the dirham. If correctly explained a diagram showing a decrease in demand should be fully rewarded with a maximum of [4].*

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

*For an exchange rate diagram, the vertical axis may be exchange rate, price of dirham in US\$, US\$/dirham, dirham/US\$, or US dollars per dirham. The horizontal axis should be quantity, or quantity of dirham. A title is not necessary.*



*N.B.* The cause of the increase in the dirham's value may or may not be shown.



(c) Distinguish between a devaluation and a depreciation of a currency. **[4]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> A devaluation is the deliberate downward adjustment of the official exchange rate by the central bank (government) to reduce the currency's value in a fixed exchange rate system <b>or</b> in contrast, a depreciation is a fall in the value of a currency due to market forces in a floating exchange rate system.	<b>1–2</b>
2 <i>There is clear understanding.</i> A devaluation is the deliberate downward adjustment of the official exchange rate by the central bank (government) to reduce the currency's value in a fixed exchange rate system <b>and</b> in contrast, a depreciation is a fall in the value of a currency due to market forces in a floating exchange rate system.	<b>3–4</b>

(d) Using information from the text/data and your knowledge of economics, discuss the view that some Gulf States “should consider moving from a fixed exchange rate” to “a floating exchange rate system” (paragraph 1). **[8]**

*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>	<b>0</b>
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	<b>1–2</b>
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
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.	<b>6–8</b>

*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:

- definition of floating exchange rate.

Arguments for fixed exchange rate:

- provide greater predictability and certainty for exporters and importers to calculate earnings (paragraph ④)
- creates a stable environment for firms to invest and households to consume due to greater exchange rate certainty
- encourages government policies to maintain low inflation which can be caused by fixing the currency – “inflation rates have been low and stable” (paragraph ⑤)
- can discourage speculation – assuming sufficient foreign currency reserves to protect the currency.

Arguments against fixed exchange rates:

- loss of domestic monetary policy freedom – if priority is to keep exchange rate fixed then little room to set interest rates to manage AD; was a problem for UAE in 2007 (paragraph ④) when it had to lower interest rates to maintain peg to US dollar
- when the exchange rate is fixed to a currency that is weak, it can lead to imported inflation when the costs of imported resources rise
- low value of US dollar causes relatively cheaper exports and expensive imports hence potential inflationary gap for UAE (paragraph ⑥)
- central bank needs large amounts of foreign reserves to maintain the fixed currency and discourage speculators (paragraph ③) but this is not a problem (currently) for Saudi Arabia and UAE (paragraph ⑤)
- fixing the currency at the most appropriate level is difficult
- can create conflict with trading partners if fixed too low.

Arguments for floating exchange rates:

- allows current account to be self-correcting
- more freedom to set interest rates and domestic monetary policy
- large amounts of foreign reserves are not required (paragraph ③).

Arguments against floating exchange rates:

- instability and lack of predictability for firms, consumers, importers and exporters – difficult to plan (paragraph ④)
- governments not required to keep exchange rate fixed, hence there is less incentive for governments to keep inflation in check
- speculative activity can greatly influence the exchange rate.

Any reasonable discussion.

**Section B**

3. (a) (i) Define the term *informal sector* indicated in bold in the text (paragraph ❷). **[2]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that it is unrecorded (illegal/not taxed) economic activity.	<b>1</b>
2 <i>Accurate definition.</i> For explaining that it is economic activity that is unrecorded (illegal/not taxed) plus any <b>one</b> of the following: <ul style="list-style-type: none"> <li>• in national income accounts</li> <li>• by the government (authorities)</li> <li>• a suitable example, eg moonlighting.</li> </ul>	<b>2</b>

(ii) Define the term *gross domestic product (GDP)* indicated in bold in the text (paragraph ❷). **[2]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that it is the output produced in an economy.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is the total value of all goods and services produced in an economy (in a given time period). <b>OR</b> An explanation that it is the sum of consumption, investment, government spending and net exports.	<b>2</b>

(b) Explain why the Human Development Index (HDI) is considered to be a useful indicator of economic development (paragraph 3). [4]

Level Marks

0 *The work does not reach a standard described by the descriptors below.* 0

1 *The written response is limited.* 1–2

Gives all elements of the HDI:

- life expectancy (at birth)
- mean years of schooling **and/or** expected years of schooling
- GNI per capita (PPP US\$)

**or**

explains that the HDI is a composite index and includes indicators of health, education and income that shows development and so is considered to be a useful indicator of economic development.

2 *The written response is accurate.* 3–4

Gives all elements of the HDI:

- life expectancy (at birth)
- mean years of schooling **and/or** expected years of schooling
- GNI per capita (PPP US\$)

**and**

explains that the HDI is a composite index and includes indicators of health, education and income that shows development and so is considered to be a useful indicator of economic development.

*Candidates who correctly describe one element of the HDI should be awarded [0] out of [2].*

*Candidates who correctly describe two elements of the HDI should be awarded [1] out of [2].*

(c) Using an externalities diagram, explain how the establishment of palm-oil plantations could lead to market failure in the Democratic Republic of the Congo (DRC) (paragraph 9).

[4]

Level

Marks

0 *The work does not reach a standard described by the descriptors below.*

0

1 *There is a correct diagram **or** an accurate written response.*

1-2

For drawing a correctly labelled diagram showing a negative externality of production with MSC above MPC **or** for explaining that the production of more palm-oil creates external costs (or negative externalities) resulting in any **one** of the following:

- a misallocation of resources
- a situation where the market is operating at a level where  $MSC > MSB$  (the product is being over-supplied)
- a situation where the market is operating at a level that is not socially efficient ( $MSC \neq MSB$ )
- a situation where there is a welfare loss to society.

2 *There is a correct diagram **and** an accurate written response.*

3-4

For drawing a correctly labelled diagram showing a negative externality of production with MSC above MPC **and** for explaining that the production of more palm-oil creates external costs (or negative externalities) resulting in any **one** of the following:

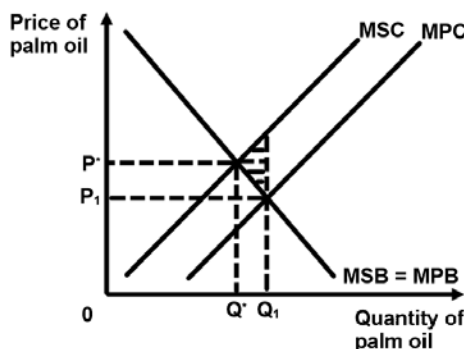
- a misallocation of resources
- a situation where the market is operating at a level where  $MSC > MSB$  (the product is being over-supplied)
- a situation where the market is operating at a level that is not socially efficient ( $MSC \neq MSB$ )
- a situation where there is a welfare loss to society.

Welfare loss does not need to be mentioned. However, if the candidate mentions welfare loss and shades an area that is not correct then full marks cannot be awarded.

There must be two output levels shown for full marks, but there does not need to be two prices shown.

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

*The y axis may be labelled price but could be costs or benefits and the x axis labelled quantity.*



- (d) Using information from the text/data and your knowledge of economics, discuss the extent to which economic growth has led to economic development in the Democratic Republic of the Congo (DRC). [8]

*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>	<b>0</b>
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	<b>1–2</b>
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
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.	<b>6–8</b>

*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:*

- definitions of economic growth and economic development
- explanation of how growth can lead to development
- discussion of how growth may not lead to development
- recognition that growth has not led to development or has led to minimal development in DRC
  - DRC's HDI value remains the lowest
  - corruption as a barrier to development (paragraph ①)
  - informal sector reduces capacity for government to collect tax (paragraph ②)
  - role of conflict in undermining economic development (paragraph ③)
  - potential for GDP to exceed GNI/GNP meaning profits repatriated by MNCs in mining industry rather than reinvested back into the DRC economy
  - impact of negative externalities of mining and deforestation on development (paragraph ④)
- growth has not resulted in sufficient government revenue to improve health care for those displaced by “violence who then died due to diarrhoea, malaria and pneumonia” (paragraph ⑤)
- increased activity in the mining sector may increase government revenues and improve the opportunity for development in the future (paragraph ⑥).

Any reasonable discussion.

4. (a) (i) Define the term *concessional long-term loans* indicated in bold in the text (paragraph ⑤). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> For stating any <b>one</b> of the following: <ul style="list-style-type: none"> <li>• a form of aid</li> <li>• very low (below market rate) or no rate of interest</li> <li>• repayments are stretched over a long time period (25 to 40 years)</li> <li>• may include a grace period</li> <li>• may be repayable in local currency.</li> </ul>	1
2 <i>Accurate definition.</i> For stating any <b>two</b> of the following: <ul style="list-style-type: none"> <li>• a form of aid</li> <li>• very low (below market rate) or no rate of interest</li> <li>• repayments are stretched over a long time period (25 to 40 years)</li> <li>• may include a grace period</li> <li>• may be repayable in local currency.</li> </ul>	2

(ii) Define the term *absolute poverty* indicated in bold in the text (paragraph ⑥). [2]

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 finding it difficult to survive.	1
2 <i>Accurate definition.</i> An explanation that it is one of the following: <ul style="list-style-type: none"> <li>• having insufficient income to meet basic human needs</li> <li>• living on less than US\$2 (PPP) a day (or US\$1 or US\$1.25).</li> </ul>	2

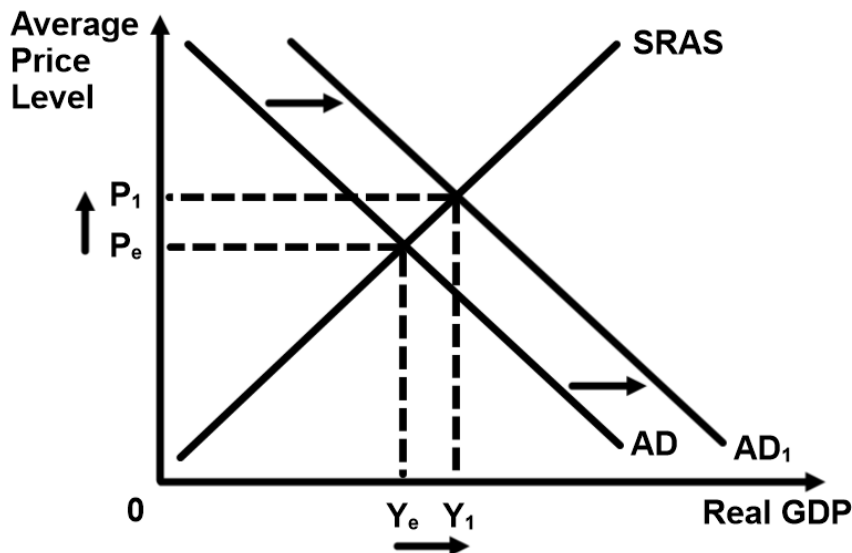
(b) Using an AD/AS diagram, explain how the new hydroelectric project will create jobs in the region (paragraph 4). [4]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram illustrating a shift to the right of the AD curve resulting in a higher level of output <b>or</b> for explaining that the hydroelectric project increases investment in the region, increasing AD, and resulting in higher output and increasing employment.	<b>1-2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled AD/AS diagram illustrating a shift to the right of the AD curve resulting in a higher level of output <b>and</b> for explaining that the hydroelectric project increases investment in the region, increasing AD, and resulting in higher output and increasing employment.	<b>3-4</b>

*An alternative correct answer is for the diagram to show a shift of the SRAS curve to the right resulting in a higher level of output and an explanation that the lower price of electricity (paragraphs 4, 5 & 6) will reduce production costs resulting in higher output and increasing employment.*

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

*For the vertical axis, the label may be Average (General) Price Level or Price Level. For the horizontal axis, real output, real national output, real income, real national income, real GDP or real Y. A title is not necessary.*



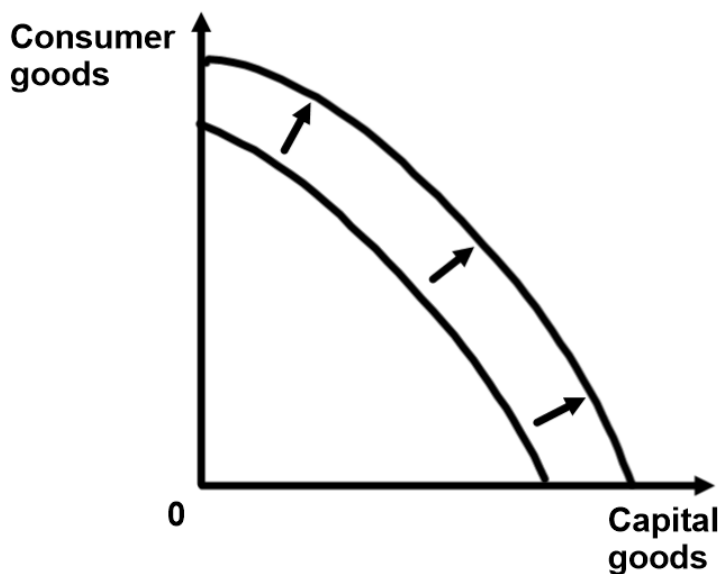


- (c) Using a production possibilities curve (PPC) diagram, explain how “improving literacy rates” will increase production possibilities (paragraph 6). [4]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a correctly labelled PPC diagram showing a shift outward of the production possibilities curve <b>or</b> for an explanation that improving literacy rates will improve the quality of human capital (a factor of production) and therefore increase production possibilities.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a correctly labelled PPC diagram showing a shift outward of the production possibilities curve <b>and</b> for an explanation that improving literacy rates will improve the quality of human capital (a factor of production) and therefore increase production possibilities.	<b>3–4</b>

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

For a PPC, the axes could be two alternative products, one on each axis, eg Good A & Good B or Schools & Motor Cars; or two groups of products, eg Consumer Goods and Producer Goods. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the role of the World Bank in promoting economic development in Africa. [8]

*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>	<b>0</b>
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	<b>1–2</b>
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
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.	<b>6–8</b>

*Command term*

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

Responses **may** include:

- outline of the objective of the World Bank
- description of types of development assistance and/or aid provided by the World Bank.

Strengths:

- creates a basis for development by providing a reliable power supply and reducing electricity costs (paragraph 5)
- provides investment, job creation and growth (paragraph 4)
- provides concessional loans helping poor countries avoid unsustainable debt (paragraph 3)
- the World Bank supports sustainable development “wants to use its loans to cut carbon dioxide and methane emissions” (paragraph 1)
- funds investment in essential infrastructure to promote economic growth (paragraph 7)
- projects support development of human capital (paragraph 6).

Limitations:

- imposing conditions on borrowing can hurt poor countries “the World Bank supported new lending guidelines” (paragraph ③)
- every President of the World Bank Group is appointed by the US giving the US undue influence over policy
- World Bank is dominated by rich countries with strong US influence “US provides most of the World Bank’s funds” (paragraph ③)
- priorities of major donors such as the US may not be the priorities of the ELDC
- many World Bank projects actually fail and this project may not achieve the anticipated benefits
- the new project may harm coal exports from neighbouring ELDCs
- every president has been North American which excludes suitable candidates from ELDCs.

Any reasonable evaluation of the relative strengths and limitations of the World Bank in promoting economic development.

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