

Markscheme

May 2017

Economics

Standard level



















Paper 2


















22 pages


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The following are the annotations available to use when marking responses.

Annotation	Explanation
	Attempts Evaluation
	Answers the Question
	Benefit Of Doubt
	Clear Knowledge Shown
	Cross - Incorrect Point
	Effective Evaluation
	Good Analysis
	Good Definition
	Good Diagram
	Good Example
	Good Explanation
	Good Use of Text
	Highlight tool
	Incorrect Labelling
	Irrelevant
	Inappropriate Use
	Lacks Depth
	Lacks Logical Structure
L0	Level 0
L1	Level 1
L2	Level 2
L3	Level 3

	Not Answered Question
	No Examples
	No Use of Text
	Num 1 + 1; Split Criteria Mark
	Num 1 + 2; Split Criteria Mark
	Num 2 + 1; Split Criteria Mark
	Num 2 + 2; Split Criteria Mark
	On-page comment text box (for adding specific comments)
	Poor Diagram
	Question mark - unclear
	Apply to blank pages
	Theory is Clearly Explained
	Theory is Not Clearly Explained
	Tick – correct point (colourable)
	Too Vague
	Underline tool
	Unbalanced Response

You **must** make sure you have looked at all pages. Please put the  annotation on any blank page, to indicate that you have seen it.

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

Section A

1. (a) (i) Define the term **tariff** indicated in bold in the text (paragraph 2). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i> The idea that it is a barrier to trade or a tax.	1
2	<i>Accurate definition.</i> An explanation that it is a tax on imported goods.	2

- (ii) Define the term **economic growth** indicated in bold in the text (paragraph 2). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i> The idea that it is a growing economy (or an increase in GDP/output).	1
2	<i>Accurate definition.</i> An explanation that it is one of the following: <ul style="list-style-type: none"> • an increase in real GDP • an increase in the real value of output (over time) • an increase in potential output. 	2

N.B. The term “over time” is not necessary for [2].

- (b) Using an international trade diagram, explain the impact on the Kenyan government of implementing a tariff on steel imports.

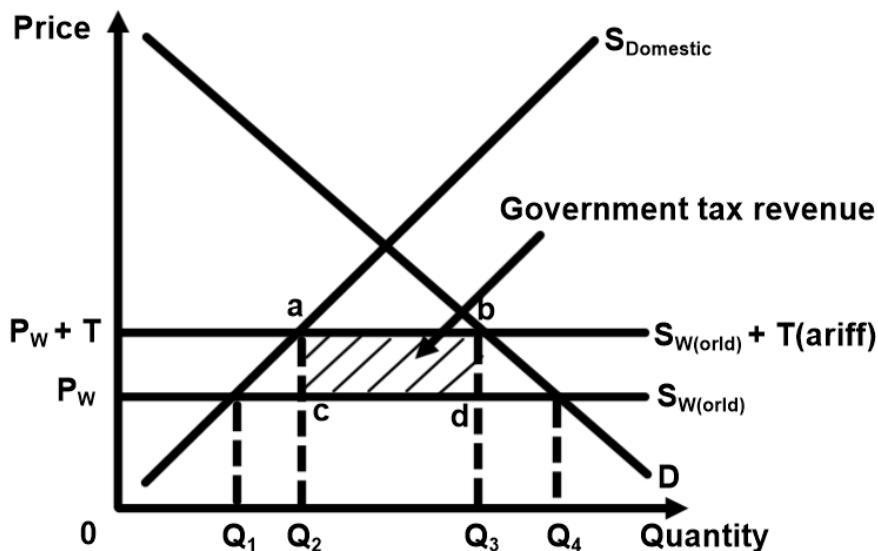
[4]

Level		Marks
0	The work does not meet 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 tariff diagram showing a shift upwards of the world supply curve, with enough labelling so that it is possible to indicate, in some way, the area representing government revenue or for providing an explanation that the tariff causes the world supply curve to shift upwards (or the tariff causes the price to rise), creating government revenue [1] with the amount referenced to the diagram [2].	
2	There is a correct diagram and an accurate written response.	3–4
	For drawing a correctly labelled tariff diagram showing a shift upwards of the world supply curve (with enough labelling so that it is possible to indicate, in some way, the area representing government revenue) and for providing an explanation that the tariff causes the world supply curve to shift upwards (or the tariff causes the price to rise), creating government revenue [1] with the amount referenced to the diagram [2].	

Candidates who incorrectly label diagrams can receive a maximum of [3].

The use of P and Q on the axes is sufficient for an international trade diagram. The world supply curve must be labelled S_w , or S_{world} . A title is not necessary.

Candidates who use P and Q values to indicate the government revenue, eg $(Q_2Q_3 \times P_{w+T} - P_w)$, should be fully rewarded.



The area of government tax revenue may be indicated in various ways, such as letters, shading, or an indication using an arrow and label.

- (c) Using an exchange rate diagram, explain why a deficit in the current account may result in downward pressure on the Kenyan shilling (Kenya's currency) (paragraph 5).

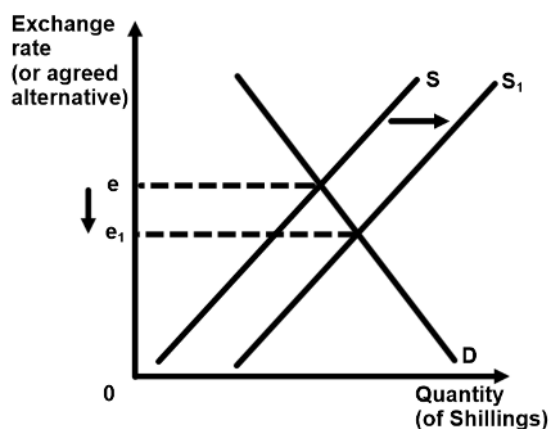
[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i>	1–2
	For drawing a correctly labelled exchange rate diagram showing a shift of the supply curve to the right and a fall in the exchange rate or for an explanation that a current account deficit means that there will be more currency leaving the country to pay for imports, than coming in from the sale of exports, and so the supply of the shilling on the international money market increases, lowering its value.	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	For drawing a correctly labelled exchange rate diagram showing a shift of the supply curve to the right and a fall in the exchange rate and for an explanation that a current account deficit means that there will be more currency leaving the country to pay for imports, than coming in from the sale of exports, and so the supply of the shilling on the international money market increases, lowering its value.	

Candidates who incorrectly label diagrams can receive a maximum of [3].

For an exchange rate diagram, the vertical axis may be exchange rate, price of shilling in another currency, other currency/shilling or other currency per shilling. The horizontal axis should be quantity, or quantity of shillings. A title is not necessary.

Candidates may state that the deficit means that overall there has been less demand for the currency because there has been less demand for the country's exports, thus causing a shift in the demand curve to the left and a fall in the value of the shilling. If properly explained, with a correct diagram, then this approach may be fully rewarded.



- (d) Using information from the text/data and your knowledge of economics, evaluate the claim that trade protection measures will support economic growth in Kenya. [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 meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Responses may include:

- definition of economic growth
- definition of trade protection measures.

Strengths of protectionist measures:

- infant industry argument – allows steel and iron industry time to become internationally competitive, which can bring about growth
- helps diversify economy away from over reliance on primary exports, which is necessary for sustained growth (paragraph 5)
- create more jobs thus increase consumption, AD and growth (+ diagram) (paragraph 2)
- raises government revenue (paragraph 2) that can be invested by the government in ways that will promote growth
- if imports are being unfairly subsidized, protectionism will level the playing field (paragraph 2)
- can help correct the persistent current account deficit, which is hindering growth (paragraph 5).

Limitations of protectionist measures:

- does not encourage long term efficiency, which may be better achieved through deregulation (paragraph 5)
- inefficient allocation of resources argument
- protected industries can become over-reliant on government support and so may not contribute to economic growth
- politically difficult to remove protectionist measure once in place
- revenue from tariffs can be subject to corruption
- potential problems of retaliatory tariffs from trading partners, which could damage Kenya's exports and thus threaten future growth
- removing barriers and deregulation (administrative barriers) rather than protectionism could encourage domestic entrepreneurship and FDI which will support growth
- tariffs increase "cost of doing business" (paragraph 4) for those producers reliant on imported components
- higher prices on steel and iron which will increase input costs for construction and infrastructure projects – necessary for economic growth
- higher input costs may reduce SRAS, causing a reduction in real GDP, threatening growth.

Any reasonable discussion.

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i> The idea that the exchange rate falls.	1
2	<i>Accurate definition.</i> An explanation that it is a decrease in the value (price) of one currency (in terms of another currency) plus one of the following: <ul style="list-style-type: none"> • in a floating exchange rate system • as a result of market forces (supply and demand). 	2

(ii) Define the term *current account* indicated in bold in the text (paragraph ❶). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i> The idea that it is a measure of money, coming into and going out of a country, from international trade.	1
2	<i>Accurate definition.</i> An explanation that it is a measure of the net flows of funds from trade in goods and services, income and transfers (or the balances of trade in goods and services, net incomes, and net transfers).	2

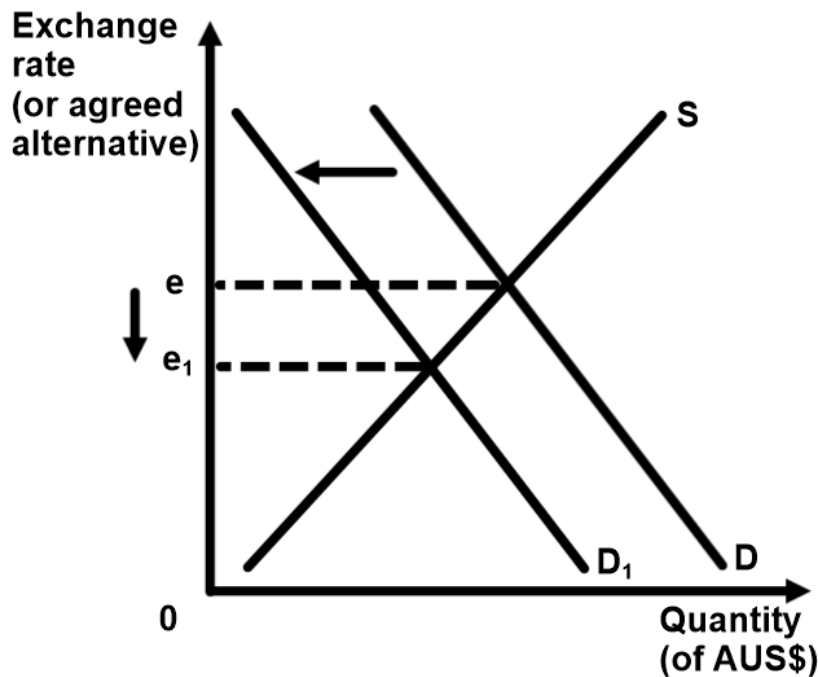
- (b) Using an exchange rate diagram, explain why “slowing growth in China” may have caused a depreciation of the Australian dollar (paragraph 1).

[4]

Level		Marks
0	The work does not meet 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 exchange rate diagram, with a shift of the demand curve for the Australian dollar to the left or for an explanation that slowing growth in China will lead to a fall in demand for Australian exports thereby reducing demand for the Australian dollar, causing the Australian dollar to depreciate.	
2	There is a correct diagram and an accurate written response.	3–4
	For drawing a correctly labelled exchange rate diagram, with a shift of the demand curve for the Australian dollar to the left and for an explanation that slowing growth in China will lead to a fall in demand for Australian exports thereby reducing demand for the Australian dollar, causing the Australian dollar to depreciate.	

Candidates who incorrectly label diagrams can receive a maximum of [3].

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



- (c) Using a demand and supply diagram, explain why “the double effect of slowing growth in China and higher levels of production in Australia has driven the price of iron ore lower” (paragraph 1).

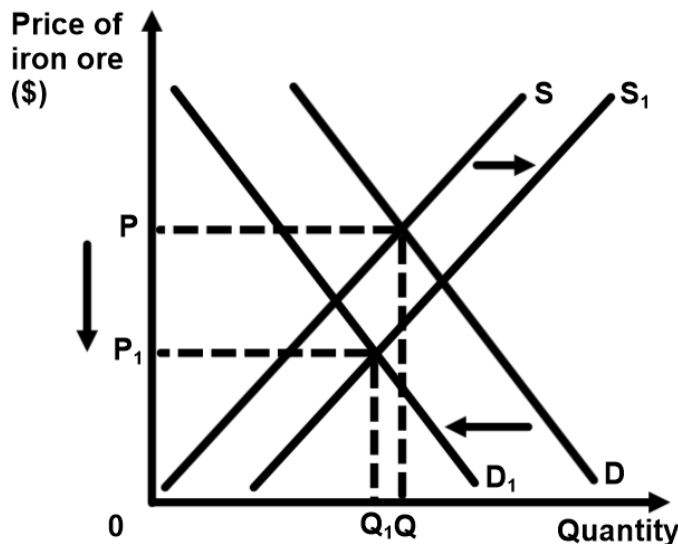
[4]

Level		Marks
0	The work does not meet 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 demand and supply diagram with a shift of the demand curve to the left and a shift of the supply curve to the right or for an explanation that slowing Chinese demand and increasing supply by iron ore producers will both have caused a fall in the price of iron ore.	
2	There is a correct diagram and an accurate written response.	3–4
	For drawing a correctly labelled demand and supply diagram with a shift of the demand curve to the left and a shift of the supply curve to the right and for an explanation that slowing Chinese demand and increasing supply by iron ore producers will both have caused a fall in the price of iron ore.	

If a candidate only shows and explains a single correct shift, then a maximum of [2] can be rewarded.

Candidates who incorrectly label diagrams can receive 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.



Quantity may increase or decrease, either is acceptable, so long as the D and S shifts are correct.

- (d) Using information from the text/data and your knowledge of economics, discuss the possible consequences for the Australian economy of the fall in the value of the Australian dollar.

[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 meet 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.

Possible negative consequences include:

- “Australian mining companies are losing significant revenue” due to the fall in demand for exports (paragraph ②)
- “falling iron ore prices create downward pressure on economic growth” because mining profits fall, forcing mining companies to cut back on hiring and growth-oriented investment (paragraph ④)
- possibility of imported inflation through higher priced imports leading to higher input costs for manufacturers
- weak economy makes it difficult for central bank to raise interest rates to support the dollar (paragraph ⑤)
- falling value of currency can lead to low business confidence and uncertainty
- cutting interest rates will further depreciate the Australian dollar exacerbating a deterioration in the balance of trade and current account (paragraph ⑤)
- depreciating currency increases outflows on income line of current account as more dollars required to exchange for foreign currencies with which to pay income obligations – worsens current account deficit
- may lead to speculative outflows due to concerns that the Australian dollar is likely to depreciate further, leading to further downward pressure.

Possible positive consequences include:

- “persistent weakness in non-mining sectors” – depreciating currency likely to reduce relative price of service exports (tourism and education) thus improve balance of trade in services (paragraph 5)
- can encourage inflows on financial account as Australian assets are cheaper.

Possible mixed consequences include:

- Australian commodity exports should be more competitive but “slowing growth in China” likely to offset any gains from fall in relative price of commodity exports
- mixed impact on balance of trade – likely to improve services but less likely to improve goods because of dependency on commodity exports “Iron ore is Australia’s largest export” (paragraph 1).

Any reasonable discussion that offers a considered and balanced review of the possible effect of a depreciating currency on Australia’s economic growth.

Section B

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i>	1
	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 (facilitates) economic activity • an addition to the capital stock of a nation • usually supplied by the government. 	
2	<i>Accurate definition.</i>	2
	For 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 (facilitates) economic activity • an addition to the capital stock of a nation • usually supplied by the government. 	

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i>	1
	The idea that it is where countries agree to trade freely.	
2	<i>Accurate definition.</i>	2
	For an explanation that it is a form of economic integration where member countries agree to liberalize trade (trade freely amongst themselves) and adopt a common external tariff (or common trade policies) towards non-members.	

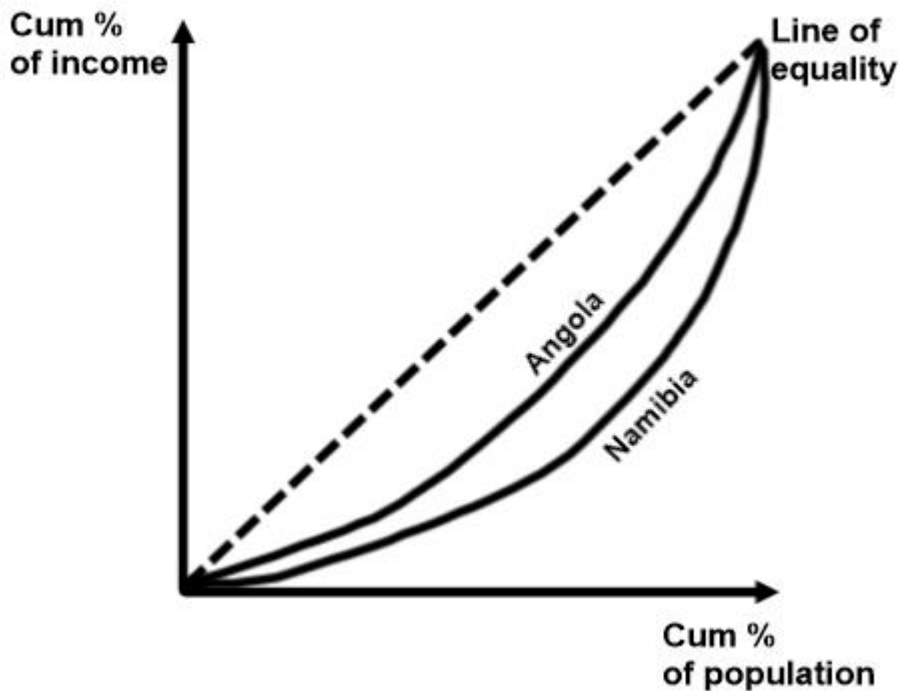
(b) Angola and Namibia have different Gini coefficient values. Using a Lorenz curve diagram, explain what this means (Figure 1).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1–2
	For drawing a clearly labelled Lorenz curve diagram showing the curve for Angola to be closer to the line of equality than the curve for Namibia or for an explanation that the lower Gini coefficient value for Angola means that income distribution is more equal in Angola than in Namibia.	
2	<i>The written response is accurate.</i>	3–4
	For drawing a clearly labelled Lorenz curve diagram showing the curve for Angola to be closer to the line of equality than the curve for Namibia and for an explanation that the lower Gini coefficient value for Angola means that income distribution is more equal in Angola than in Namibia.	

Candidates who incorrectly label diagrams can receive a maximum of [3].

For Lorenz curve diagram, the vertical axis should be labelled cumulative % of income or % of income and the horizontal axis should be cumulative % of population or % of population. It is not necessary to provide a label on the “line of absolute equality”. There should be labels on the Lorenz curves for Angola and Namibia. A title is not necessary.



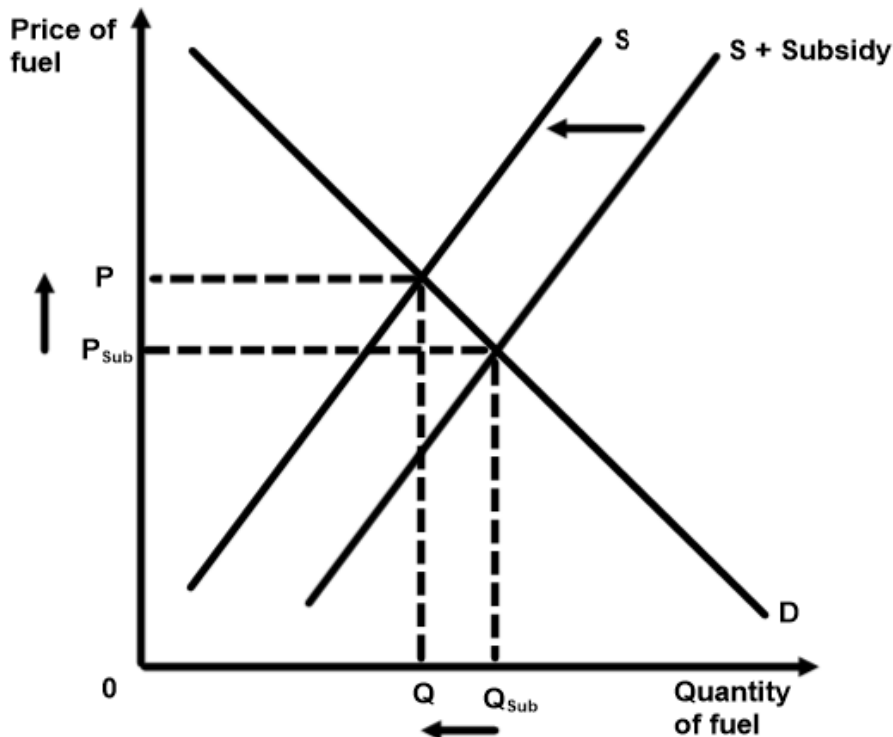
- (c) Using a demand and supply diagram, explain the effect on the price and quantity of fuel consumed in Angola, caused by the elimination of domestic fuel subsidies (paragraph 4).

[4]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	The written response is limited.	1-2
	For drawing a correctly labelled demand and supply diagram, with a subsidy supply curve below the market supply curve, indication that the subsidy curve is moving back to the market supply curve, and a rise in price and a fall in quantity demanded and supplied or for an explanation that the reduction in fuel subsidies will increase firms' costs, leading to a fall in supply with a higher price and a lower quantity.	
2	The written response is accurate.	3-4
	For drawing a correctly labelled demand and supply diagram, with a subsidy supply curve below the market supply curve, indication that the subsidy curve is moving back to the market supply curve, and a rise in price and a fall in quantity demanded and supplied and for an explanation that the reduction in fuel subsidies will increase firms' costs, leading to a fall in supply with a higher price and a lower quantity.	

Candidates who incorrectly label diagrams can receive 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, compare and contrast factors that are likely to lead to economic development in Angola and Namibia.

[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 meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

Command term

“Compare and contrast” requires candidates to give an account of similarities and differences between two (or more) items or situations referring to both (all) of them throughout.

Responses may include:

- definition of economic development.

Factors affecting development

- Unequal income distribution (paragraph ⑥, Figure 1) – Angola and Namibia
- Life expectancy at birth (Figure 1) – Angola and Namibia
- Expenditure on health care (Figure 1) – Angola and Namibia
- Expenditure on education (Figure 1) – Angola and Namibia
- Population below poverty line (Figure 1) – Angola and Namibia.

Factors affecting growth **which may impact** economic development

- Oil export revenue (paragraph ②) – Angola
- Mineral export revenue (paragraphs ② and ⑤) – Angola and Namibia
- Global recession (paragraph ⑤) – Angola (and Namibia)
- Falling commodity prices (paragraphs ③ and ⑦) – Angola and Namibia
- Lack of diversification (paragraph ⑦) – Angola and Namibia
- Membership of the customs union (paragraph ⑥) – Namibia
- Population sizes (Figure 1) – Angola and Namibia
- Real GDP growth rates (Figure 1) – Angola and Namibia
- Inflation rates (Figure 1) – Angola and Namibia.

Any reasonable evaluation.

4. (a) (i) List **two** characteristics of an economically less developed country. [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i>	1
	For listing one of the following characteristics: <ul style="list-style-type: none"> • low levels of GDP per capita • high levels of poverty • relatively large agricultural sector • large informal sectors • high birth rates (population growth rates) • poor infrastructure • underdeveloped capital markets (banking sector) • heavily indebted • unable to access international markets • over-specialized on a narrow range of products • small tax base • dependency on primary sector exports. 	
2	<i>Accurate definition.</i>	2
	For listing two of the following characteristics: <ul style="list-style-type: none"> • low levels of GDP per capita • high levels of poverty • relatively large agricultural sector • large informal sectors • high birth rates (population growth rates) • poor infrastructure • underdeveloped capital markets (banking sector) • heavily indebted • unable to access international markets • over-specialized on a narrow range of products • small tax base • dependency on primary sector exports. 	

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i>	1
	The idea that it is when the government no longer owns a company.	
2	<i>Accurate definition.</i>	2
	An explanation that the government sells state-owned enterprises (assets/firms) plus one of the following: <ul style="list-style-type: none"> • to the private sector • to raise revenue. 	

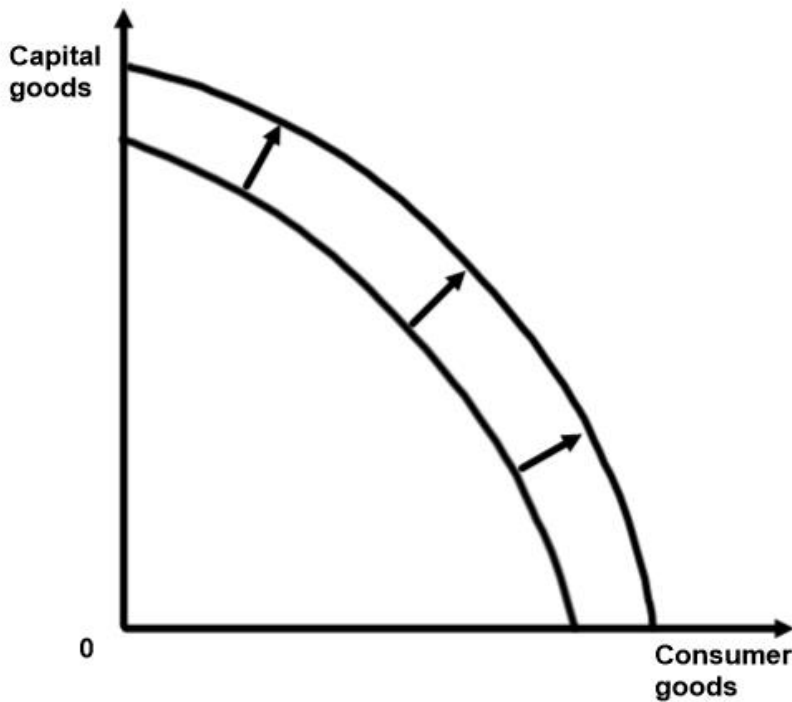
- (b) Using a production possibilities curve (PPC) diagram, explain how “billions of US dollars worth of infrastructure investment from China” may affect potential economic output (paragraph 1).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i>	1–2
	For drawing a PPC (outward shift) showing an increase in the potential output in Sri Lanka or for an explanation that China’s investment in infrastructure would likely improve the quality and/or the quantity of the factor of production capital and therefore may increase production possibilities (potential economic output).	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	For drawing a PPC (outward shift) showing an increase in the potential output in Sri Lanka and for an explanation that China’s investment in infrastructure would likely improve the quality and/or the quantity of the factor of production capital and therefore may increase production possibilities (potential economic output).	

Candidates who incorrectly label diagrams can receive a maximum of [3].

For PPC, there must be two goods or groups of goods competing for the same resources on the axes. Good A and Good B would be sufficient.



- (c) Using a definition of the term opportunity cost **and** information from the text, explain how the servicing of debt has an opportunity cost that may affect economic development in Sri Lanka.

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram or an accurate written response.</i>	1–2
	For a correct definition of opportunity cost or for an explanation that money spent on debt servicing in Sri Lanka will reduce the government’s ability to spend on achieving development objectives, such as infrastructure spending, reducing youth unemployment, increasing household incomes.	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	For a correct definition of opportunity cost and for an explanation that money spent on debt servicing in Sri Lanka will reduce the government’s ability to spend on achieving development objectives, such as infrastructure spending, reducing youth unemployment, increasing household incomes.	

- (d) Using information from the text/data and your knowledge of economics, discuss the possible effects of the proposed market-oriented reforms on Sri Lanka’s economic development.

[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 meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	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:*

- definition of economic development
- definition of market-oriented reforms/policies.

Possible positive effects:

- investing in infrastructure (paragraph ❶) to improve infrastructure (paragraph ❸), reducing the cost of economic activity
- opening up financial system (paragraph ❶) may encourage foreign banks and increased lending to business, thus increased capital formation in the long-run, possible shift in LRAS to the right
- liberalizing the currency (paragraph ❶ and ❷) allows for greater access to credit and encourages tourism and business (paragraph ❸)
- trade deals (liberalization) (paragraph ❶) may promote export growth, reducing current account deficit, creating (youth) employment and increasing household incomes (paragraph ❸)
- reducing bureaucracy (paragraph ❷) which would reduce the cost of doing business
- privatization of state-owned enterprise may lead to greater efficiency and more reliable power supply in the energy generation industry (paragraph ❷ and ❸) supporting industry efficiency
- creating 46 economic zones with low tax rates may encourage FDI leading to increased AD and job creation to tackle high youth unemployment (paragraph ❷)
- creation of economic zones likely to increase manufacturing and industrialization encouraging a shift away from low income agricultural jobs to higher income manufacturing jobs thereby tackling the large percentage of the population living on less than US\$2.50 per day (paragraph ❷)
- potential for increased government revenue to repay debt by privatizing state-owned enterprises (paragraph ❷)
- export-led growth and the attraction of FDI (paragraph ❸) - Sri Lanka is actively encouraging FDI so trade and investment are likely to increase, thus increasing AD, and/or LRAS, and possibly breaking the poverty trap
- easier for businesses to register (paragraph ❸)
- improving access to credit for small companies and increasing long-run potential output – creates jobs (paragraph ❸).

Possible negative effects:

- increased unemployment
- privatizations of utilities could result in higher utility prices thus harming low income households
- possible negative externalities created by the opening of the economic zones
- possibility of increased income inequality in the distribution of income
- privatized firms may have monopoly power
- FDI may lead to more outflows of incomes on the current account
- liberalization of currency markets (paragraph ❷) may lead to capital flight (outflows on financial account).

Any reasonable discussion.