

Markscheme

November 2018

Economics

Standard level

Paper 2

21 pages

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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 *depreciation* 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 a currency is worth less or the idea that the exchange rate falls	
2	<i>Accurate definition.</i>	2
	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 a movement in market forces. 	

- (ii) Define the term *current account* 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 a measure of money coming into, and going out of, a country from international trade.	
2	<i>Accurate definition.</i>	2
	An explanation that it is a measure of (the net flow of funds from) trade in goods and services (exports and imports), income and transfers.	

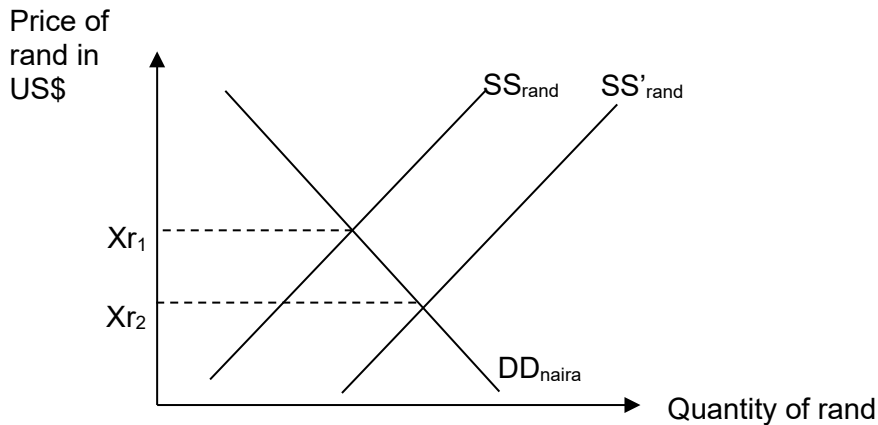
- (b) Using an exchange rate diagram, explain how “the need to import corn” will affect the value of the South African rand (paragraph ⑤).

[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 an exchange rate diagram showing an increase in supply of the rand and a fall in the exchange rate or for an explanation that the increase in imports of corn would result in selling the rand (to buy US dollars), thus increasing the supply of the rand and lowering its exchange rate.	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	For drawing an exchange rate diagram showing an increase in supply of the rand and a fall in the exchange rate and for an explanation that the increase in imports of corn would result in selling the rand (to buy US dollars), thus increasing the supply of the rand and lowering its exchange rate.	

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

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



- (c) Using a demand and supply diagram, explain the effect of government subsidies on the US corn market (paragraph 9).

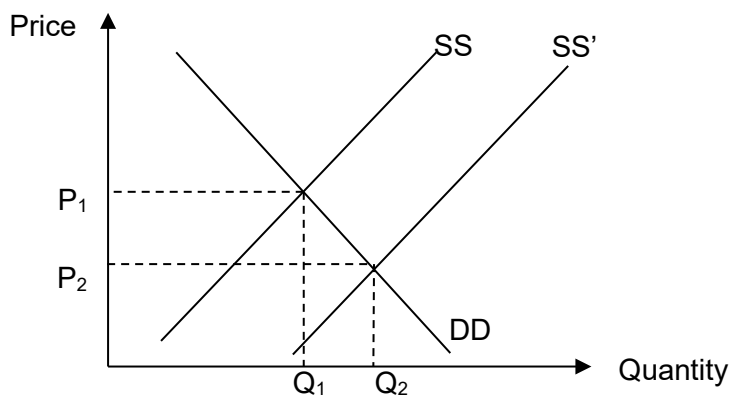
[4]

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 D&S diagram showing a shift of supply to the right, with a decrease in price and an increase in quantity or an explanation that a subsidy will cause a decrease in the costs of production of US corn farmers, therefore leading to an increase in supply, resulting in a lower price and an increased quantity.	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	For drawing a D&S diagram showing a shift of supply to the right, with a decrease in price and an increase in quantity and an explanation that a subsidy will cause a decrease in the costs of production of US corn farmers, therefore leading to an increase in supply, resulting in a lower price and an increased quantity.	

Candidates may include a World Supply Curve/Line and should not be penalized for doing so. It may be positioned in such a way as to impede imports or to promote exports. Both are valid approaches. So long as the explanation and diagram explain why the domestic supply line shifts right and the correct effects on the price and the quantity of corn produced in the USA, the answer can receive full marks.

Candidates who incorrectly label diagrams can be awarded 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) Evaluate the economic impacts of trade protection in the South African corn market. [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

“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:

- a definition of trade protection
- an international trade diagram to explain impact of requested tariff on consumers, producers and importers (paragraph ①).

Advantages:

- US subsidies distort the functioning of the free market and can result in an inefficient allocation of resources.
- Helps to protect South African corn farmers from unfair practices since US subsidies artificially lower the price of US corn imported into South Africa (paragraph ⑤).
- It would prevent a deterioration of South Africa’s current account balance since import expenditure falls as the result of decreased corn imports and the depreciation of currency (paragraph ⑥).
- Tariff allows domestic corn farmers to maintain higher revenues / incomes to help them to survive the drought (paragraph ⑤).
- Corn farmers can compete with subsidized US corn that has caused the global glut and subsequent low prices.
- May only be a short-term measure.
- A source of tax revenue for the South African government.
- Agriculture is a strategic industry.

Disadvantages:

- Domestic supply of corn in South Africa is likely very price inelastic so the tariff would not increase domestic production significantly.
- Tariff will increase input costs for millers and food-related businesses requiring corn as an input (paragraph ②).

- Impact of rising corn prices on low income households when corn is an essential food (paragraph ②).
- Tariff will cause rising input costs for livestock producers further increasing food prices (paragraph ②).
- Corn is likely to be a major input to food manufacturing hence tariff could cause decrease in SRAS due to rising input costs and thus cause cost-push inflation and lower real GDP.
- Price of South African food exported to other countries will rise in trading partner countries.
- Trading partners might retaliate by imposing their own protectionist measures.
- The corn industry is not an infant industry (paragraph ⑤).
- The depreciation of Rand is already reversing the low price of imports.

2. (a) (i) Define the term ***inflation*** 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> The idea that it is an increase in prices in the economy.	1
2	<i>Accurate definition.</i> An explanation that it is a sustained increase in the average (general) price level in the economy. For 2 marks there must be some indication of time eg sustained, persistent, continuous.	2

- (ii) Define ***devaluation*** indicated in bold in the text (paragraph 7). [2]

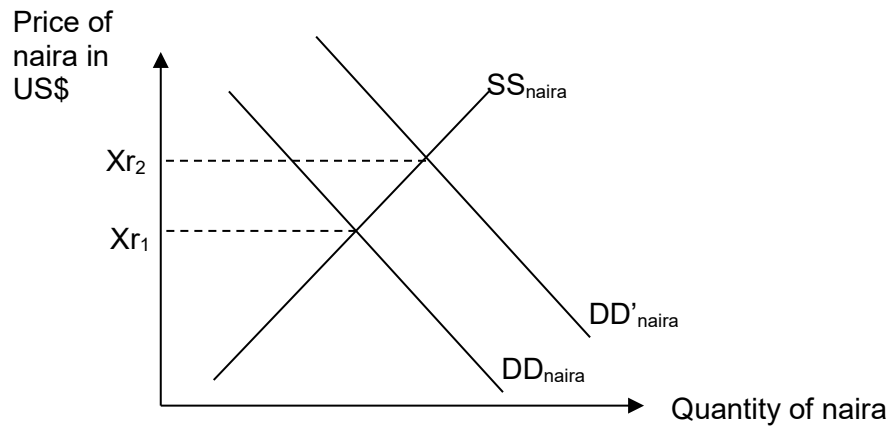
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that a currency is worth less or the idea that the exchange rate falls	1
2	<i>Accurate definition.</i> An explanation that it is a decrease in the value (price) of one currency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

- (b) Using an exchange rate diagram, explain how the central bank could “use its foreign reserves” to restore the value of the naira (paragraph 8). [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> An exchange rate diagram showing a shift in the demand curve to the right and an increase in the value of the naira or an explanation that the central bank (uses its reserves to) buy the naira thus bringing about an appreciation of its currency to restore its minimum value.	1–2
2	<i>There is a correct diagram and an accurate written response.</i> An exchange rate diagram showing a shift in the demand curve to the right and an increase in the value of the naira and an explanation that the central bank (uses its reserves to) buy the naira thus bringing about an appreciation of its currency to restore its minimum value.	3–4

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

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



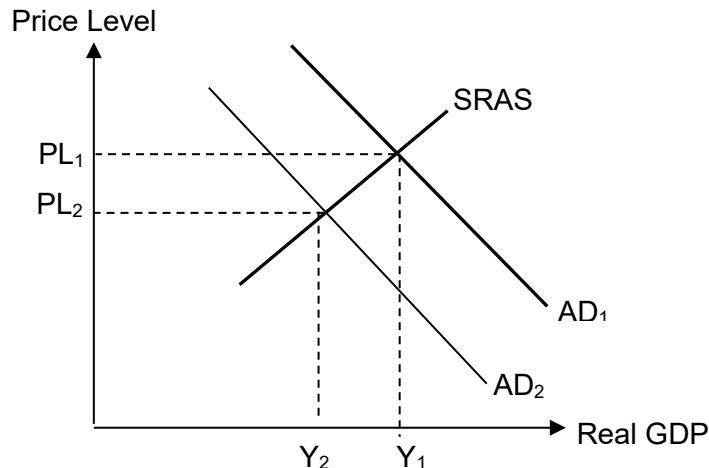
- (c) Using an AD/AS diagram, explain how a decision to “tighten monetary policy” might be harmful to the economy (paragraph ②).

[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
	AD/AS diagram showing a shift of the AD curve to the left and a decrease in real GDP or an explanation that higher interest rates or a reduced (rate of growth of the) money supply would reduce consumption and/or investment therefore causing a fall in AD and a fall in real GDP (increase in unemployment).	
2	There is a correct diagram and an accurate written response.	3–4
	AD/AS diagram showing a shift of the AD curve to the left and a decrease in real GDP and an explanation that higher interest rates or a reduced (rate of growth of the) money supply would reduce consumption and/or investment therefore causing a fall in AD and a fall in real GDP (increase in unemployment).	

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

For AD/AS, the vertical axis may be “average (general) price level”, “APL” or “price level”. For the horizontal axis, “real output”, “real national output”, “real income”, “real national income”, “real GDP” or “real Y”. Any abbreviations are acceptable. A title is not necessary. “AS” is a valid label for the SRAS curve.



- (d) Evaluate the likely effects of Nigeria’s change from a fixed exchange rate system to a managed exchange rate system.

[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

“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:

- definitions of fixed and managed exchange rate systems.

Strengths:

- Will not need to use foreign currency reserves as much, which have fallen, to control the exchange rate (paragraph ❶).
- The lower exchange rate should improve the balance of trade and so increase aggregate demand, helping to combat the negative economic growth (paragraph ❷).
- The lower exchange rate may attract foreign investment.
- Interest rates will be free for use in other policies.
- Could reduce levels of speculation.
- Lower export prices and higher import prices may increase AD and cause economic growth (paragraph ❸).
- Could encourage import substitution (paragraph ❹) and help to diversify the Nigerian economy.

Limitations:

- There may still be some need to use reserves to maintain the “managed float” (paragraph ❺).
- The fall in the value of the naira will raise the prices of imported necessity goods, negatively affecting poverty.
- Increased uncertainty and harder to plan ahead which may limit the inflow of FDI.
- The falling value of the naira may cause cost-push inflation/imported inflation (paragraph ❻).
- There may be a need for a tighter monetary policy to deal with the higher inflation. This would increase the exchange rate and undo many of the benefits (paragraph ❼).

To reach level 3, students must be aware of the particular situation in the Nigerian economy, not just present a discussion of changing from a fixed exchange rate to a floating exchange rate in general.

Section B

3. (a) (i) Define the term *entrepreneurship* indicated in bold in the text (paragraph 4). [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 stating one activity/function/characteristic of an entrepreneur: <ul style="list-style-type: none"> • starting up a business • employing/organizing/managing resources or factors of production • one of the resources or factors of production • profit-driven • taking risks • introduces innovation. 	
2	<i>Accurate definition.</i>	2
	For stating two activities/function/characteristics of an entrepreneur: <ul style="list-style-type: none"> • starting up a business • employing/organizing/managing resources or factors of production • one of the resources or factors of production • profit-driven • taking risks • introduces innovation. 	

(ii) Define the term *economic growth* indicated in bold in the text (paragraph 5). [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 a growing economy (or an increase in GDP).	
2	<i>Accurate definition.</i>	2
	An explanation that it is one of the following: <ul style="list-style-type: none"> • an increase in output (over time) • an increase in real GDP • an increase in potential output. 	

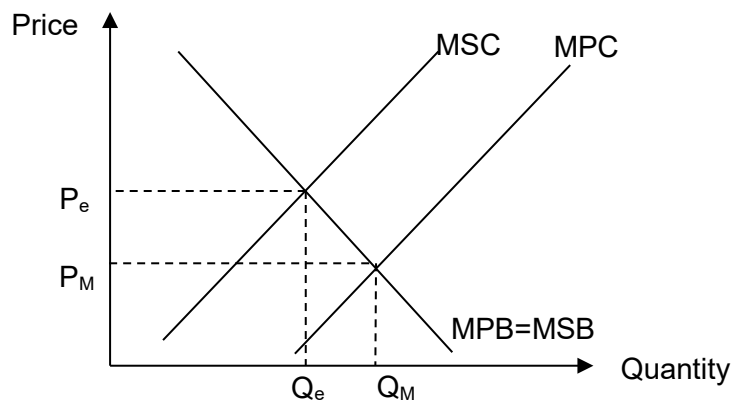
- (b) Using an externalities diagram, explain how “Deforestation caused by harvesting timber” has caused a market failure in Guatemala (paragraph 2).

[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 market failure diagram showing negative externalities of production, with MSC greater than MPC and a socially efficient (optimum) level of output lower than the equilibrium level of output or for explaining that harvesting of timber might impose costs on third parties (soil erosion) which are not reflected in the market price, thus creating a market failure or leading to over-allocation of resources (results in a welfare loss).	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	For drawing a market failure diagram showing negative externalities of production, with MSC greater than MPC and a socially efficient (optimum) level of output lower than the equilibrium level of output and for explaining that harvesting of timber might impose costs on third parties (soil erosion) which are not reflected in the market price, thus creating a market failure or leading to over-allocation of resources (results in a welfare loss).	

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

The y axis may be labelled price or P or costs or benefits, and the x-axis labelled quantity or Q.



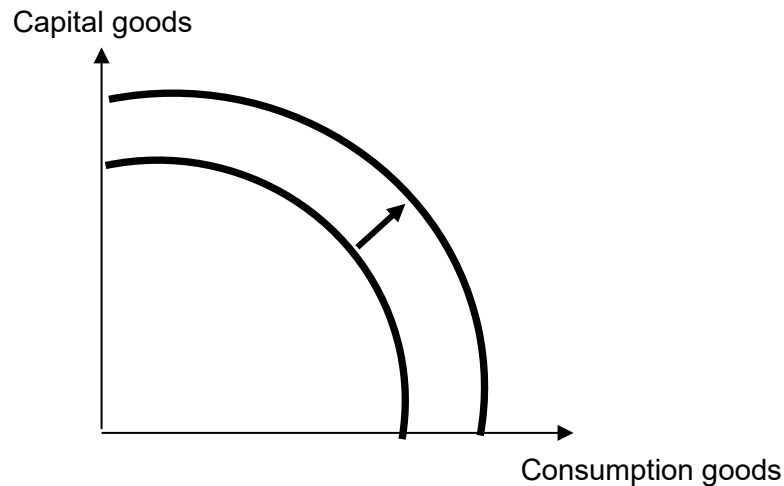
- (c) Using a production possibilities curve (PPC) diagram, explain the likely effect of the “Feed the Future” project on Guatemala’s economy (paragraph ③).

[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 diagram showing an outward shift of the PPC curve or for explaining that the “Feed the Future” project would increase the quantity and/or quality of factors of production (resources) or lead to an improvement in productivity in the economy, thus increasing production possibilities (potential output).	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	For drawing a PPC diagram showing an outward shift of the PPC curve and for explaining that the “Feed the Future” project would increase the quantity and/or quality of factors of production (resources) or lead to an improvement in productivity in the economy, thus increasing production possibilities (potential output).	

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

For a PPC, the axes could be two alternative products, one on each axis, eg Good A & Good B or agricultural goods and industrial goods; or two groups of products, eg Consumer Goods and Producer Goods.



- (d) Discuss the extent to which domestic factors, such as education and health, the use of appropriate technology, access to micro-credit and the empowerment of women, can contribute to economic development in Guatemala.

[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:

- a definition of economic development
- a diagram and explanation of the poverty trap (poverty cycle).

Education and health:

- Increased employment opportunities for young people (paragraph ④).
- Improvements in health and education lead to more productive workforce, raising incomes and increasing the standard of living of the people.
- Micro-credit is often accompanied by provision of basic skills that enable the borrowers to make better use of the loans – Feed the Future project provides training in land management (paragraph ⑤).
- Training for indigenous farmers to help them adopt better water management practices to promote food security and help break the poverty trap (paragraph ⑤).
- “The project team will be working with local agricultural schools and youth groups to provide students with a better understanding of water management and conservation practices in order to prepare them for jobs in commercial agriculture” (paragraph ④).

The use of appropriate technology:

- Use of agriculture strategies; provide rainwater tanks, improve irrigation systems, spread fertilizer, and practice crop rotation (paragraph ⑤) to reduce impacts of future droughts and reduce malnutrition.
- Use of appropriate technology to overcome the problems caused by deforestation (paragraph ②).

Micro-credit:

- A definition of micro-credit (paragraph ③).
- Micro-credit provides a means of escaping the poverty trap (paragraph ③).
- Micro-credit gives access to poor and indigenous farmers to obtain loans that they are unable to access from financial institutions as a result of having no security to offer (paragraph ⑤).
- Micro-credit fosters self-reliance and entrepreneurship skills through self-employment (paragraph ④).
- Gives farmers the finance necessary to purchase the technology needed to deal with climate change (paragraph ③).

The empowerment of women:

- Micro-credit given to women allows them to improve their physical and social well-being, and gives them the opportunity to raise the standards of living for their children (paragraph ④).
- Micro-credit gives borrowers the opportunity to earn more income from their land (paragraph ④).

To reach level 3, candidates must be aware of the particular situation in the economy of Guatemala, not just present a discussion of policies to achieve development in general. Candidates need not address all domestic factors mentioned in the question to be awarded a high L2 or L3 mark.

4. (a) (i) List **two** components of the Human Development Index (HDI) (paragraph ②). [2]

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
	Any one of the following measures: <ul style="list-style-type: none"> • life expectancy (at birth) • mean years of schooling (for those aged 25 years and above) • expected years of schooling (for a child of school entrance age, capped at 18 years of age) • GNI per capita (or GDP per capita). 	
2	<i>The written response is accurate.</i>	2
	Any two of the following measures: <ul style="list-style-type: none"> • life expectancy (at birth) • mean years of schooling (for those aged 25 years and above) • expected years of schooling (for a child of school entrance age, capped at 18 years of age) • GNI per capita (or GDP per capita). 	

- (ii) Define the term **monetary policy** indicated in bold in the text (paragraph ③). [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 to do with interest rates or money supply	
2	<i>Accurate definition.</i>	2
	An explanation that it is any two of the following: <ul style="list-style-type: none"> • demand-side policy • enacted by the Central Bank • changes in interest rates • changes in money supply. 	

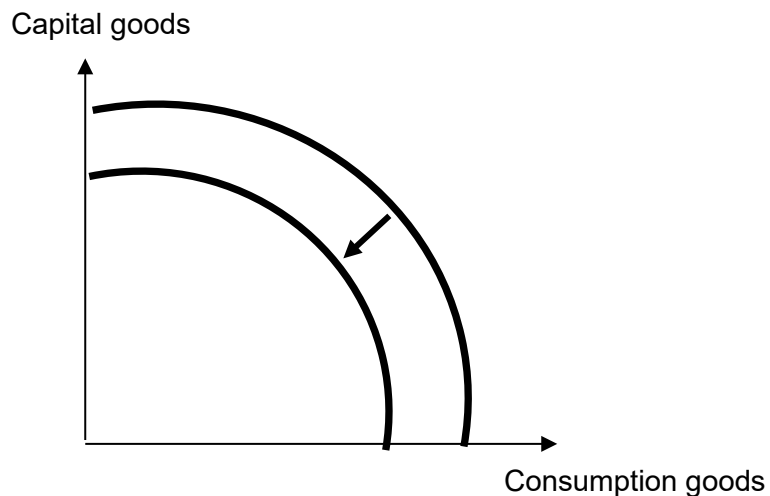
- (b) Using a production possibilities curve (PPC) diagram, explain the effect on economic growth of the “destruction of much of the country’s physical, social and human capital” (paragraph ❶).

[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
	A PPC diagram showing an inward shift of the PPC or an explanation that the destruction of capital represents a fall in the quantity of factors of production (resources); and that this will then lead to a fall in production possibilities (potential output).	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	A PPC diagram showing an inward shift of the PPC and an explanation that the destruction of capital represents a fall in the quantity of factors of production (resources); and that this will then lead to a fall in production possibilities (potential output).	

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 and Good B or Schools and Motor Cars; or two groups of products, eg Consumer Goods and Producer Goods.



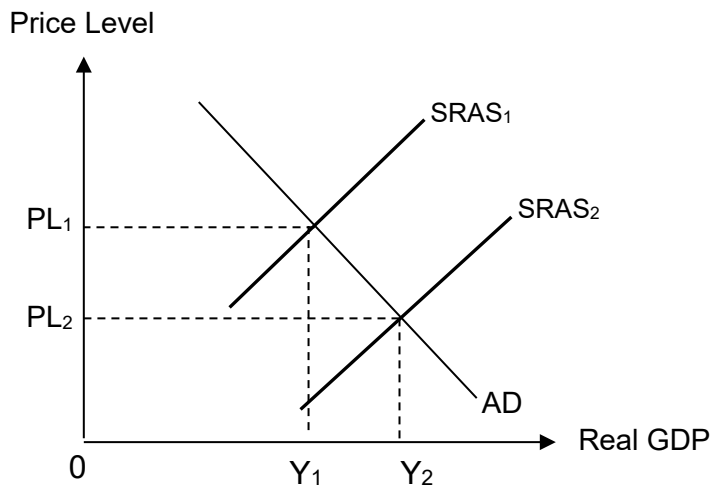
- (c) Using an AD/AS diagram, explain why the “decrease in the prices of imports, especially oil” might reduce inflationary pressure (paragraph 9).

[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
	<p>An AD/AS diagram showing a shift of the SRAS curve to the right and a fall in the average price level or an explanation that a fall in the price of imported factors of production will reduce costs for firms, reducing inflationary pressure in the economy.</p> <p>Candidates may also approach this question in this way:</p> <p>An AD/AS diagram showing a shift of the AD curve to the left and a fall in the average price level or an explanation that a fall in the price of imports would increase spending on imports, a component of AD and hence reduce inflationary pressure in the economy</p>	
2	<i>There is a correct diagram and an accurate written response.</i>	3–4
	<p>An AD/AS diagram showing a shift of the SRAS curve to the right and a fall in the average price level and an explanation that a fall in the price of imported factors of production will reduce costs for firms, reducing inflationary pressure in the economy.</p> <p>Candidates may also approach this question in this way:</p> <p>An AD/AS diagram showing a shift of the AD curve to the left and a fall in the average price level and an explanation that a fall in the price of imports would increase spending on imports, a component of AD and hence reduce inflationary pressure in the economy</p>	

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

For AD/AS, the vertical axis may be “average (general) price level”, “APL” or “price level”. For the horizontal axis, “real output”, “real national output”, “real income”, “real national income”, “real GDP” or “real Y”. Any abbreviations are acceptable. A title is not necessary. “AS” is a valid label for the SRAS curve.



- (d) Using information from the text/data and your knowledge of economics, evaluate the challenges to economic growth and economic development faced by Burundi. [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 economic development.

Discussion of factors affecting growth and/or development

- Landlocked country (paragraph ❶) making access to markets difficult, and difficult to access resources.
- High population density (paragraph ❶), affecting the quality of life.
- Dependence on subsistence agriculture (paragraph ❶) leads to low incomes.
- Scarcity of cultivatable land (paragraph ❶) limiting production of agricultural goods.
- Destruction of capital (paragraph ❶) during conflict, expensive to rebuild from (limited) public funding.
- Widespread poverty (paragraph ❷) and existence of the poverty trap.
- Per capita gross national income is still very low (paragraph ❷), despite doubling over eight years.
- Low tax receipts (paragraph ❸) limit the ability of the government to finance development objectives.
- Over-specialization (paragraph ❹) on a narrow range of (agricultural) exports makes Burundi vulnerable to international price changes.
- Low agricultural export revenue (paragraph ❹) with low income elasticities and high levels of global competition implies lower prospects for growth.
- Possibility of debt (increasing) due to public spending and a narrow tax base (paragraph ❺).
- It is likely that inequality is high, because poverty is widespread, which makes development more difficult to achieve (paragraph ❷).

- However better prospects for growth because of lower import prices and use of government monetary and other policies (paragraphs ④ and ⑤).

Any reasonable discussion.
