

# Markscheme

November 2019

Economics

Higher level

Paper 2

22 pages

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

### Section A

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

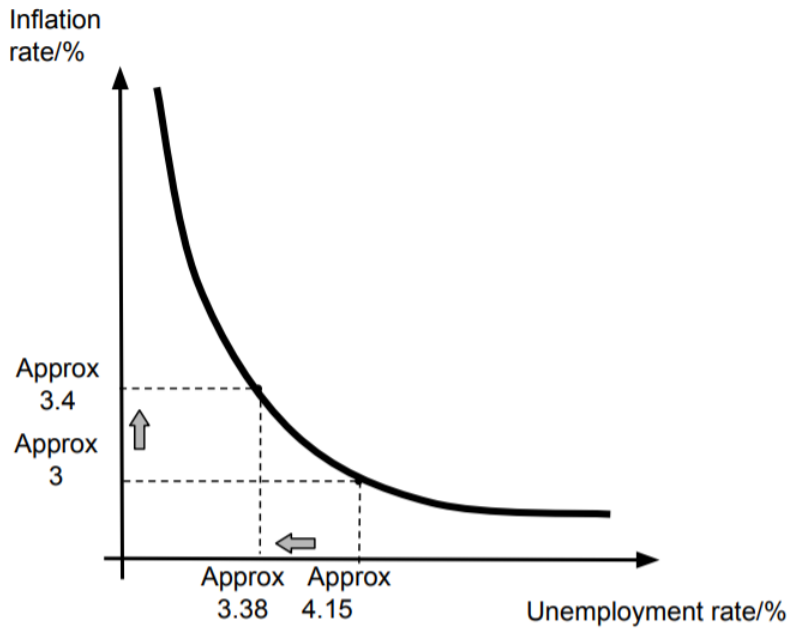
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it is to do with the price of a currency.	1
2	<i>Accurate definition.</i> The value of one currency expressed in terms of another currency.	2

- (ii) Define the term *trade war* indicated in bold in the text (paragraph 1). [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 trade war using trade protection.	1
2	<i>Accurate definition.</i> The imposition of a trade barrier by one country results in retaliation by another country in the form of trade protection.	2

- (b) Using data from **Figure 1** and **Figure 2** to create a Phillips curve diagram, explain the relationship between the unemployment rate and the inflation rate between September and December 2016. [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> For drawing a correctly labelled SR Phillips curve diagram showing that the inflation rate increased from approximately 3% to 3.4% while there was a decrease in the unemployment rate from approximately 4.15% to 3.38% <b>OR</b> for an explanation that an increase in the inflation rate was accompanied by a fall in the unemployment rate.	1–2
2	<i>There is a correct diagram AND an accurate written response.</i> For drawing a correctly labelled SR Phillips curve diagram showing that the inflation rate increased from approximately 3% to 3.4% while there was a decrease in the unemployment rate from approximately 4.15% to 3.38% <b>AND</b> for an explanation that an increase in the inflation rate was accompanied by a fall in the unemployment rate.	3–4



Candidates must use the data in figures 1 and 2 (approximate values) in the diagram.

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

For a Phillips curve diagram, the vertical axis may be inflation rate or inflation % (but not just inflation).

The horizontal axis may be unemployment rate (Ue %). A title is not necessary.

- (c) Given that Mexico has a current account deficit, explain why "a rapid rise in foreign direct investment (FDI) reduced Mexico's reliance on portfolio investment, which has been diminishing" (paragraph 3).

[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
	An explanation that foreign direct investment and portfolio investment are part of the financial account on the balance of payments <b>OR</b> that if portfolio investment is falling there could be an increase in FDI to finance the deficit on Mexico's current account.	
2	The written response is accurate.	3–4
	An explanation that foreign direct investment and portfolio investment are part of the financial account on the balance of payments <b>AND</b> that if portfolio investment is falling there could be an increase in FDI to finance the deficit on Mexico's current account.	

- (d) Using information from the text/data and your knowledge of economics, discuss the possible consequences on the Mexican economy of an undervalued Mexican peso. [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 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.

**Economic analysis may include:**

- AD/AS
- Marshall Lerner
- J-curve
- Elasticities.

**To explore the impact on:**

**Inflation rate:**

- The peso has been undervalued, making imported factors of production more expensive, which results in a fall in SRAS and increases cost-push inflationary pressure.
- The undervalued currency makes exports more competitive and may result in an increase in AD, which results in an increase in demand-pull inflationary pressure.
- The inflation rate has been above 4% since January (2017; Figure 2), which is higher than its 3% target (paragraph 5).
- Due to inflation concerns (Figure 2), interest rates rose from 3% in December 2015 to 7% in June 2017 (Figure 3) – this may strengthen the currency and make it less undervalued, possibly reducing the inflationary pressure.
- The central bank’s governor is optimistic that the inflation rate will fall towards the 3% target (paragraph 5), but if the currency remains weak then this is unlikely to happen.

**Economic growth:**

- The Mexican economy is slowing down. Its annual GDP growth slowed to 2.3% in 2016, down from 2.6% in 2015 (paragraph ②) and the undervalued peso might lead to an increase in net exports, thus increasing AD and reviving growth.

**Employment:**

- The undervalued currency makes exports more competitive, therefore possibly raising employment in export industries.
- Imports become more expensive due to the undervalued currency, which may increase employment in industries that compete with imports.
- The unemployment rate fell, in comparison to figures from last year (Figure 1).

**Balance of payments:**

- Increased international competitiveness from currency depreciation has not yet led to an effective expansion of exports (paragraph ③) and has not (yet) had a positive impact on the trade balance, suggesting that demand for exports is price inelastic.
- The undervalued currency increases the value of workers' remittances, which helps the current account (paragraph ③).
- The effect on net exports depends on the price elasticity of demand for both exports and imports.

*Any reasonable discussion.*

2. (a) (i) State **two** functions of the International Monetary Fund (IMF) (paragraph ❶). [2]

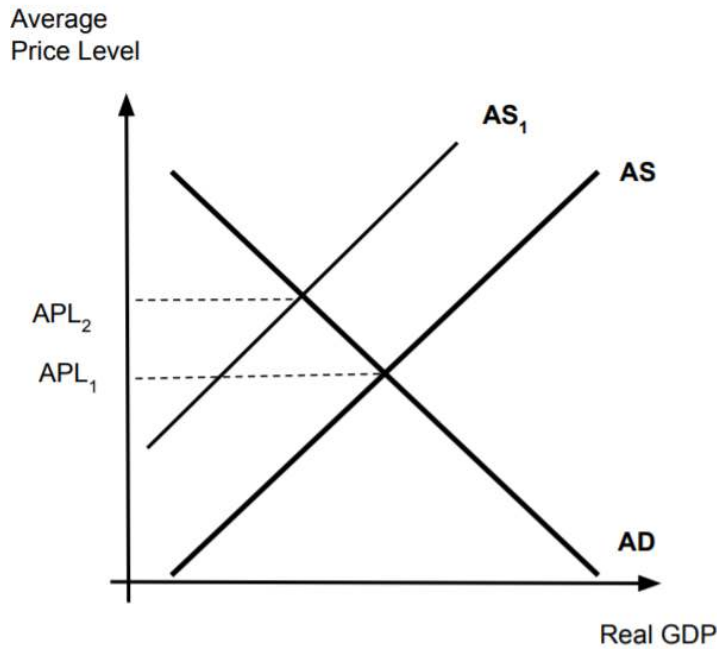
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	Any <b>one</b> relevant function, such as; <ul style="list-style-type: none"> <li>• ensure the stability of the international monetary system</li> <li>• promote international monetary cooperation</li> <li>• lend money to help members in balance of payments difficulties</li> <li>• overseeing the economies of (member) countries (surveillance)</li> <li>• providing technical assistance / practical help (to countries) to manage their economies.</li> </ul>	
2	<i>Accurate definition.</i>	2
	Any <b>two</b> relevant functions, such as; <ul style="list-style-type: none"> <li>• ensure the stability of the international monetary system</li> <li>• promote international monetary cooperation</li> <li>• lend money to help members in balance of payments difficulties</li> <li>• overseeing the economies of (member) countries (surveillance)</li> <li>• providing technical assistance / practical help (to countries) to manage their economies.</li> </ul>	

(ii) Define the term *depreciation* indicated in bold in the text (paragraph ❷). [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 the exchange rate falls.	
2	<i>Accurate definition.</i>	2
	An explanation that it is a decrease in the value (price) of one currency plus <b>one</b> of the following: <ul style="list-style-type: none"> <li>• due to changes in market forces</li> <li>• in a floating exchange rate system.</li> </ul>	

- (b) Using an AD/AS diagram, explain how Turkey’s reliance on energy imports is putting “further pressure on inflation” (paragraph 4). [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 <b>OR</b> an accurate written response.</i>	1–2
	For drawing an accurate, labelled AD/AS diagram showing a decrease in AS and an increase in the average price level <b>OR</b> an explanation that higher import costs for energy result in an increase in the costs of production for Turkish firms, causing a decrease in AS and an increase in the average price level.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For drawing an accurate, labelled AD/AS diagram showing a decrease in AS and an increase in the average price level <b>AND</b> an explanation that higher import costs for energy result in an increase in the costs of production for Turkish firms, causing a decrease in AS and an increase in the average price level.	



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

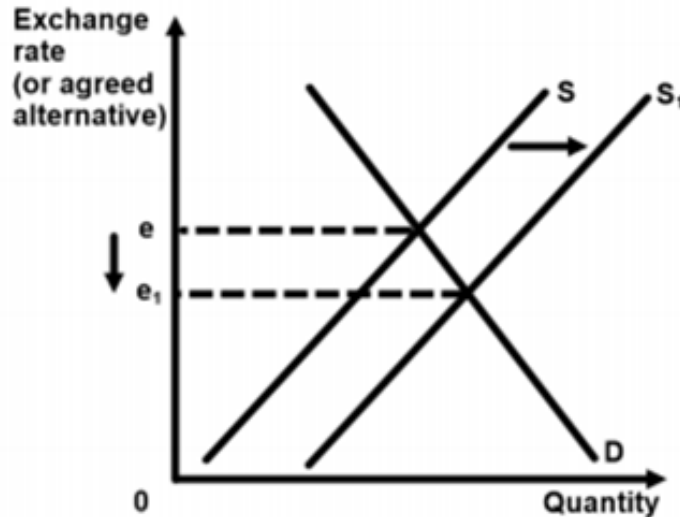
For AD/AS, the vertical axis may be “price level” or any similar terms such as “average (general) price level”. For the horizontal axis, “real (national) output/income” or “real GDP”. Any relevant abbreviations are acceptable.



- (c) Using an exchange rate diagram, explain what is likely to have happened to the Turkish lira when Turkish citizens “bought US\$1 billion worth of foreign 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 <b>OR</b> an accurate written response.</i>	1–2
	For drawing an accurate, labelled exchange rate diagram for the Turkish lira, showing an increase in supply for the Turkish lira and a decrease in the exchange rate. <b>OR</b> an explanation that in order to buy US dollars, Turkish citizens would have had to exchange their Turkish lira, resulting in an increase in the supply of the Turkish lira and a depreciation of the Turkish lira.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For drawing an accurate, labelled exchange rate diagram for the Turkish lira, showing an increase in supply for the Turkish lira and a decrease in the exchange rate <b>AND</b> an explanation that in order to buy US dollars, Turkish citizens would have had to exchange their Turkish lira, resulting in an increase in the supply of the Turkish lira and a depreciation of the Turkish lira.	



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 (Turkish) lira in US\$, lira in US\$, or US\$ per TRY, or US\$/TRY The horizontal axis may be quantity, Q, or quantity of (Turkish) lira.

- (d) Using information from the text/data and your knowledge of economics, discuss the implications of Turkey’s persistent current account deficit.

[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 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 current account deficit.

**Economic analysis may include:**

- AD/AS theory.
- Exchange rate market.
- Elasticities.

**To explore the impact on:**

- Current account is expected to grow to 5.6% of GDP and is seen to be Turkey’s biggest economic problem (paragraph ❶).
- Could become even worse if the current security and political problems continue and the tourism industry continues to suffer, affecting net exports negatively.
- Causing a depreciation of the lira (paragraph ❷), which could worsen cost-push inflationary pressures (Figure 1).
- The deficit has to be financed on the financial account of the balance of payments (paragraph ❸).
- If the current account deficit is financed through FDI, it means greater foreign ownership of Turkish assets, which may be a threat to sovereignty.
- Turkey is vulnerable to outflows of investment (paragraph ❹).
- Turkey may need to increase interest rates to attract foreign savings (paragraph ❺) but this may further damage the economy through a possible fall in AD.

- Turkey may need to borrow money to finance the current account deficit, leading to increased indebtedness.
- The current account deficit may have contributed to the worsening in the credit rating (paragraph ❶), which will make it more difficult for Turkey to attract investment, and make it more costly to borrow.
- Falling currency due to current account deficit will make it more expensive to repay debts.

*Any reasonable discussion.*

**Section B**

3. (a) (i) State the reason for the difference between Ghana’s GNI per capita and its GDP per capita (**Table 1**).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague reason.</i>	1
	The difference between the two values is “net income (from abroad)” <b>OR</b> GNI = GDP + net income.	
2	<i>Accurate reason.</i>	2
	(Since Ghana’s GDP is greater than its GNI), the net income from abroad must be negative.	

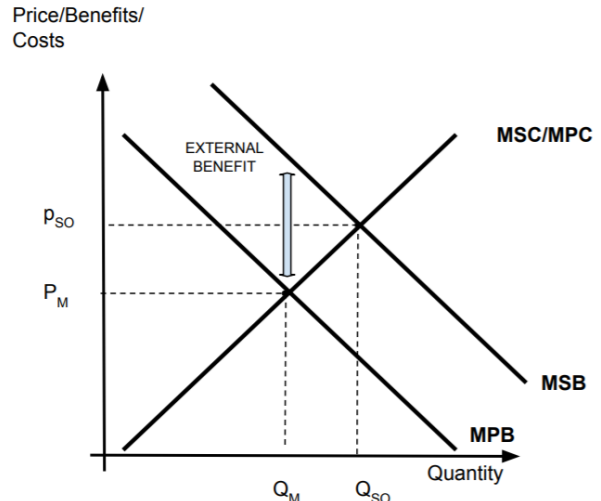
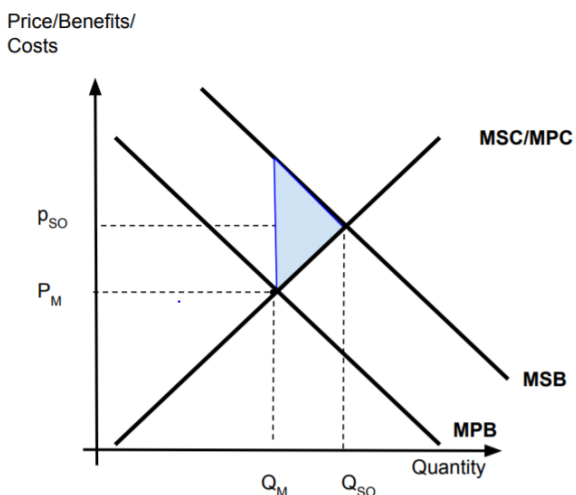
- (ii) Define the term *Gini coefficient* indicated in bold in **Table 1**.

[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 related to income inequality.	
2	<i>Accurate definition.</i>	2
	An explanation that it is a measure of income inequality <b>AND one</b> of the following points: <ul style="list-style-type: none"> <li>• it is a number between 0 and 1</li> <li>• the higher the number, the more unequal the income distribution</li> <li>• the lower the number, the less unequal the income distribution</li> <li>• a ratio of the area between a Lorenz curve and the line of equality to the total area below the line of equality</li> <li>• <math>a/a+b</math> on a Lorenz curve diagram.</li> </ul>	

- (b) Using an externalities diagram, explain why the percentage of infants receiving measles vaccinations in Nigeria indicates the existence of a market failure (**Table 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 <b>OR</b> an accurate written response.</i>	1–2
	<p>For drawing an accurate positive externalities of consumption diagram showing:</p> <ul style="list-style-type: none"> <li>• MSB &gt; MPB and identifying both the socially optimal quantity of output and the quantity of output determined by the market forces</li> <li>• The vertical distance between MSB and MPB labelled externality/external benefit or the shaded welfare loss/potential welfare gain.</li> </ul> <p><b>OR</b></p> <p>an explanation that the consumption of measles vaccinations brings external benefits, but a large percentage of infants are not vaccinated because the market under-allocates resources to the consumption of measles vaccines/market operating below socially optimal level of output, indicating market failure or welfare loss.</p>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	<p>For drawing an accurate positive externalities of consumption diagram showing:</p> <ul style="list-style-type: none"> <li>• MSB &gt; MPB and identifying both the socially optimal quantity of output and the quantity of output determined by the market forces</li> <li>• The vertical distance between MSB and MPB labelled externality/external benefit or the shaded welfare loss/potential welfare gain.</li> </ul> <p><b>AND</b></p> <p>an explanation that the consumption of measles vaccinations brings external benefits, but a large percentage of infants are not vaccinated because the market under-allocates resources to the consumption of measles vaccines/market operating below socially optimal level of output, indicating market failure or welfare loss.</p>	

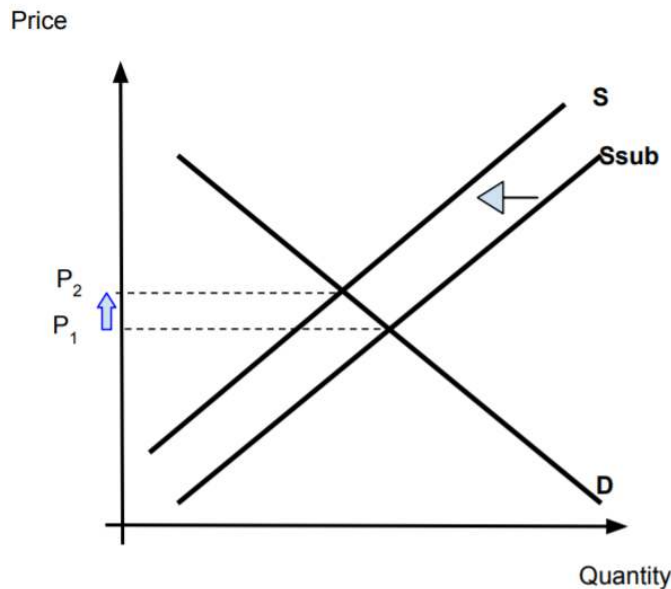


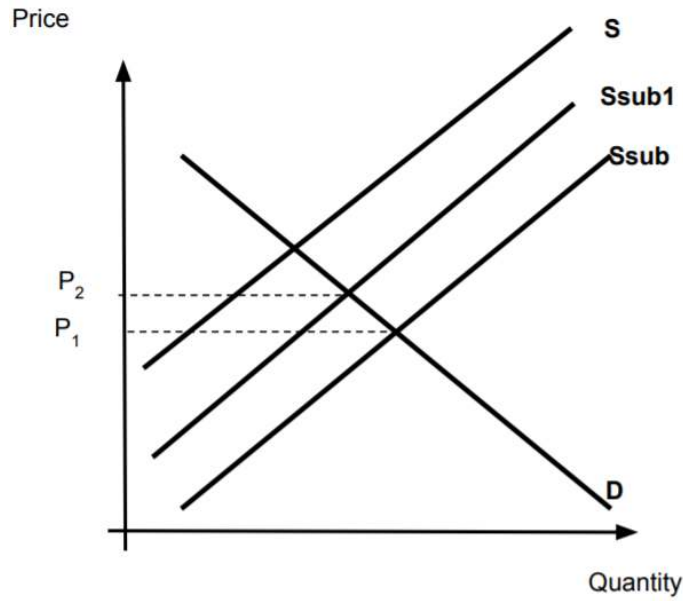
Candidates who incorrectly label diagrams can be awarded a maximum of [3].

For an externalities diagram, the vertical axis may be price,  $p$ , or costs/benefits. The horizontal axis may be quantity or  $q$ . A title is not necessary.

- (c) Using a demand and supply diagram, explain how the cut in fuel subsidies may have had "severe consequences for low-income households" (paragraph 7) [4]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram <b>OR</b> an accurate written response.	1–2
	For drawing an accurate demand and supply diagram showing a fall in supply and an increase in price <b>OR</b> an explanation that the cut in fuel subsidies increases the cost of production of fuel producers resulting in a fall in supply and an increase in price (1 mark), thus harming low-income households through higher cost of necessities / regressive nature of removing the subsidy (1 mark).	
2	There is a correct diagram <b>AND</b> an accurate written response.	3–4
	For drawing an accurate demand and supply diagram showing a fall in supply and an increase in price <b>AND</b> an explanation that the cut in fuel subsidies increases the cost of production of fuel producers resulting in a fall in supply and an increase in price (1 mark), thus harming low-income households through higher cost of necessities / regressive nature of removing the subsidy (1 mark).	





*An alternate approach would be to draw a subsidy diagram that shows what happens to price as the subsidy is reduced.*

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

*For a demand and supply diagram, the vertical axis may be price, or  $p$ .  
The horizontal axis may be quantity or  $q$ . A title is not necessary.*

- (d) Using information from the text/data and your knowledge of economics, compare and contrast the level of economic development in Ghana and Nigeria. [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 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 the candidate to give an account of similarities and differences of two situations, referring to both of them throughout.

**Responses may include:**

- definition of economic development.
- references to the Sustainable Development Goals (or MDGs) as a way of measuring achievements towards development goals.

**Economic analysis, focusing on economic development, may include:**

- Lorenz curve
- poverty cycle
- long run / short run
- elasticities relating to commodities.

**To explore the impact on:**

**Similarities between Ghana and Nigeria:**

- Both are dependent on commodities, which makes them vulnerable, and may impact on economic development through unstable government revenues.
- Both are low-income countries, which implies a low level of development.
- In both countries, the GNI per capita is lower than their GDP per capita (Table 1), which means that there is a net outward flow of income, possibly reducing economic growth and development opportunities.
- There is some indication of some good governance in both Ghana (paragraph ②) and Nigeria (paragraph ③). Good governance/accountable governments are more likely to pursue pro-poor development strategies.



- Both countries are similar in terms of income distribution (Table 1), though this figure is quite high. A more equitable distribution of income is a development objective, so both are doing rather poorly.
- Both countries have cut fuel subsidies (paragraph ⑦), which had negative impacts for low-income households, who may now not be able to afford other necessities.

**Differences between Ghana and Nigeria:**

- Although both are dependent on commodities, Ghana seems more diversified (paragraph ④), and so may be less vulnerable than Nigeria to swings in oil prices.
- Paragraphs ② and ③ suggest several factors leading to good governance and security in Ghana. There is incomplete information to judge governance in both countries.
- Although Nigeria's GNI per capita is higher than Ghana's (Table 1), its HDI is lower than Ghana's, suggesting that the benefits of Nigeria's higher level of economic activity are not being used to achieve development objectives.
- A higher proportion of people are living in poverty in Nigeria, as measured by people earning less than PPP US\$1.90 per day (Table 1), although this figure does not necessarily indicate the number of people living near to this poverty line.
- The health indicators for Ghana are all more favourable in terms of economic development, showing that people are healthier and living longer lives (Table 1).
- The education indicators are all more favourable for Ghana, indicating that more people have access to an education, and that this has favourable implications for future development (Table 1).
- The data given provide a small picture of development in Nigeria and Ghana and more information would be useful. However, it appears that Ghana is more economically developed than Nigeria, despite its lower average national income.

*Any reasonable evaluation.*

4. (a) (i) Define the term **economic growth** indicated in bold in the text (paragraph ❷). [2]

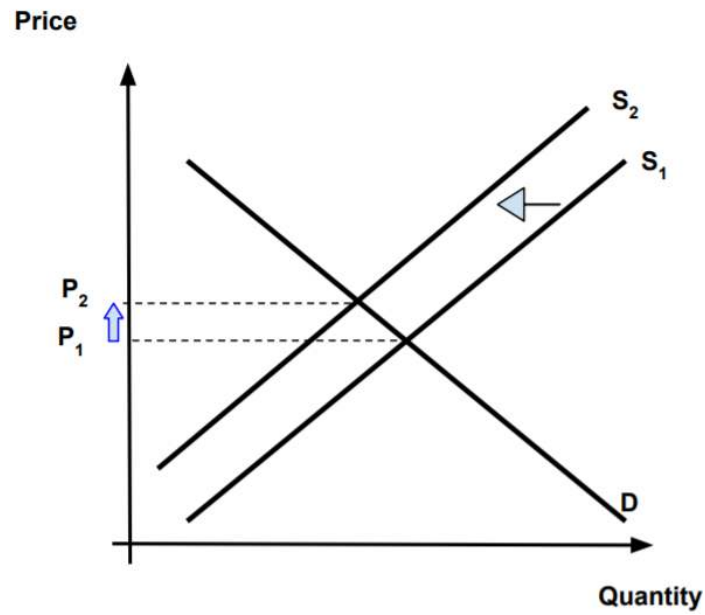
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it is an increase in output / GDP.	1
2	<i>Accurate definition.</i> An explanation that it is an increase in the real GDP of an economy / increase in the potential output (capacity) of an economy.	2

- (ii) Define the term **diversification** indicated in bold in the text (paragraph ❸). [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 involves an increase in the variety of goods and services.	1
2	<i>Accurate definition.</i> An explanation that it is a process resulting in the production of a greater variety of goods and services that a country produces. <b>OR</b> An explanation that it is a strategy to increase the variety of goods and services produced in order to avoid (the risks associated with) overspecialization.	2

- (b) Using a demand and supply diagram, explain why the increase in the minimum wage might affect Cambodia's garment manufacturing competitiveness against other countries in the region (paragraph ❹). [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 <b>OR</b> an accurate written response.</i> For drawing an accurate, labelled demand and supply diagram showing a fall in supply and an increase in the price of garments <b>OR</b> an explanation that the increase in the minimum wage increases the cost of production for garment producers, resulting in a fall in supply and an increase in the price of Cambodian garments, thus making them less competitive against other countries in the region.	1–2
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i> For drawing an accurate, labelled demand and supply diagram showing a fall in supply and an increase in the price of garments <b>AND</b> an explanation that the increase in the minimum wage increases the cost of production for garment producers, resulting in a fall in supply and an increase in the price of Cambodian garments, thus making them less competitive against other countries in the region.	3–4



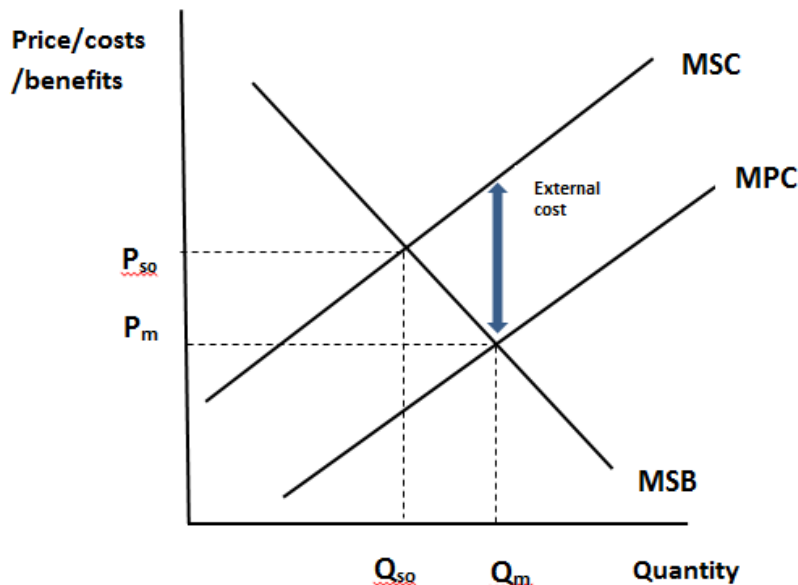
Candidates who incorrectly label diagrams can be awarded a maximum of **[3]**.

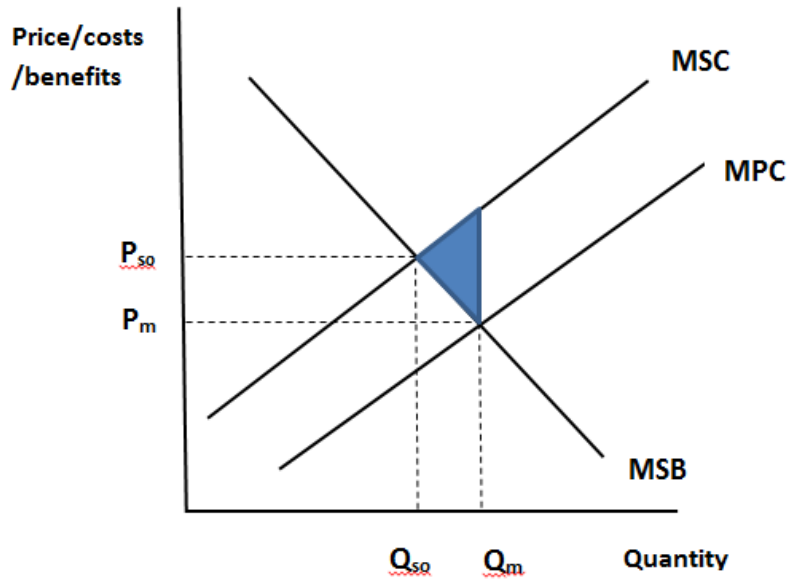
For a demand and supply diagram, the vertical axis may be price, or  $p$ . The horizontal axis may be quantity or  $q$ . A title is not necessary.

(c) Using an externalities diagram, explain why the garment industry is a source of market failure (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 <b>OR</b> an accurate written response.</i>	1–2
	<p>For drawing an accurate, labelled negative externalities of production diagram for the garment market showing:</p> <ul style="list-style-type: none"> <li>MSC &gt; MPC and identifying both the socially optimal quantity of output and the quantity of output determined by the market forces</li> <li>the vertical distance between MSC and MPC labelled externality/external costs or the shaded welfare loss due to the negative externality of production.</li> </ul> <p><b>OR</b></p> <p>an explanation that the production of garments creates external costs such as air and water pollution and as a result garments are over-produced/over allocation of resources/greater than social optimal level output and therefore there is a market failure (or there is welfare loss).</p>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	<p>For drawing an accurate, labelled negative externalities of production diagram for the garment market showing:</p> <ul style="list-style-type: none"> <li>MSC &gt; MPC and identifying both the socially optimal quantity of output and the quantity of output determined by the market forces</li> <li>the vertical distance between MSC and MPC labelled externality/external costs or the shaded welfare loss due to the negative externality of production.</li> </ul> <p><b>AND</b></p> <p>an explanation that the production of garments creates external costs such as air and water pollution and as a result garments are over-produced/over allocation of resources/is greater than social optimal level of output. and therefore there is a market failure (or there is welfare loss).</p>	





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

For an externalities diagram, the vertical axis may be price,  $p$ , or costs/benefits. The horizontal axis may be quantity or  $q$ . A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate export promotion as a strategy for achieving economic development in Cambodia. [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	The work does not meet a standard described by the descriptors below.	0
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	1–2
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	Relevant concepts are recognized and developed in depth. 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 the candidate to make an appraisal by weighing up the strengths and limitations.

*Responses may include:*

- definition of export promotion
- definition of economic development.

*Economic analysis, focusing on economic development, may include:*

- AD/AS theory
- poverty cycle
- comparative advantage
- FDI role.

*To explore the impact on:*

**Strengths of export promotion:**

- Export promotion has helped Cambodia's economy to grow (paragraph ②) by producing manufactured products using its low-cost workers.
- Cambodia has a comparative advantage in the production of garments and footwear because it has a large supply of low-skilled, inexpensive labour (paragraph ②); this has allowed it to specialize.
- There has been an increase of 10.2% exports of garments and footwear (paragraph ②).
- It has attracted much foreign direct investment (paragraph ②).
- Manufacturing jobs have lifted millions of people out of poverty in Asia; Cambodia hopes to benefit in the same way (paragraph ③).
- Creation of employment leads to higher incomes and can lead to higher standards of living.
- 30 000 young Cambodians enter the labour force each year and could find jobs in the export industries.
- Net exports is a component of AD; if exports increase then this will result in an increase in RGDP, which may be used for development objectives.
- Transfer of technology as a result of FDI.
- Foreign firms in the export industries may provide training for the workers, helping them to become more productive.
- As a way to encourage exports, Cambodia is supporting diversification with supply-side policies (paragraph ⑤) that could enhance the opportunities for small and medium-sized enterprises, which could bring about economic development.

**Limitations of export promotion:**

- Over-specialization is a risk for Cambodia, making it vulnerable to forces outside of its control.
- If minimum wages in Cambodia continue to increase, foreign investors may move to cheaper places (paragraph ④).
- Export centres are likely to locate in urban areas, worsening rural–urban inequality, which is already high (paragraph ⑥).
- Women may be more likely to be workers in the garment industry and may be trapped in low-wage jobs, worsening gender inequality (paragraph ⑥).
- The garment and footwear industries create air and water pollution, threatening sustainability (paragraph ⑧)

*Any reasonable evaluation.*