

Markscheme

November 2019

Economics

Standard level

Paper 2

21 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 *quota* 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
	The idea that it is to do with a restriction on imports.	
2	<i>Accurate definition.</i>	2
	An understanding that it is a physical limit on the quantity or value of a good that can be imported into a country.	

- (ii) Define the term *sustainability* 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 deals with the long-term use of resources.	
2	<i>Accurate definition.</i>	2
	An understanding that it is development/economic growth/consumption that meets the needs of the present generation without compromising the ability of future generations to meet their needs OR an understanding that it is development/growth/consumption that does not cause excessive external costs and/or resource depletion.	

- (b) Using an AD/AS diagram, explain the impact of the trade agreement between Japan and the EU (JEEPA) on Japan’s economic growth (paragraph 1).

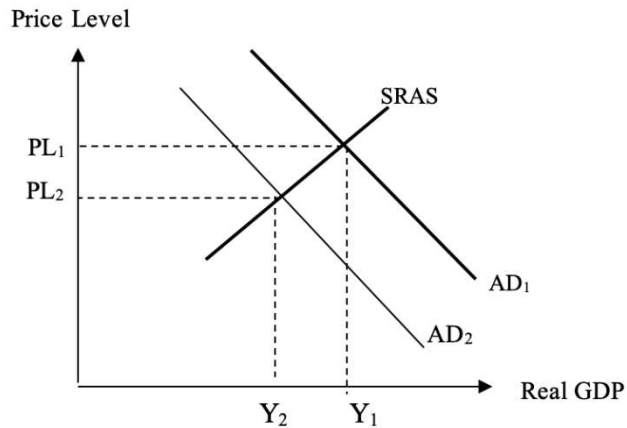
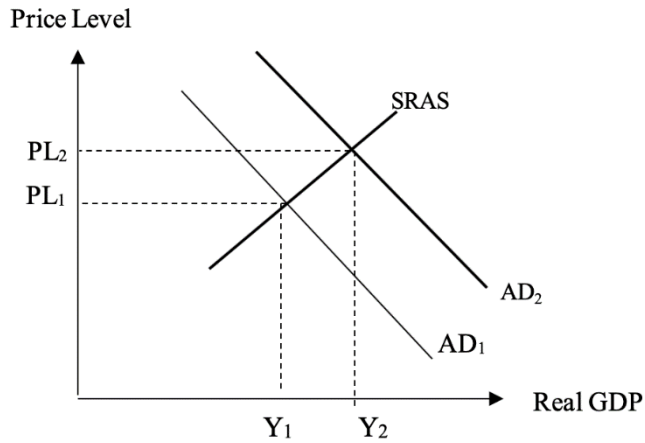
[4]

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
	<p>For drawing an accurate, labelled AD/AS diagram showing a shift of the AD curve to the right and an increase in the price level and real GDP OR for an explanation that the trade deal could raise Japan’s exports by 29%, increasing Japan’s export revenue, a component of AD. This may increase Japan’s real GDP, thus leading to economic growth.</p> <p>OR</p> <p>For drawing an accurate, labelled AD/AS diagram showing a shift of the AD curve to the left and a decrease in the price level and real GDP OR for an explanation that the trade deal could raise Japan’s exports by 29% but also increase EU imports by 34%, decreasing Japan’s net exports, a component of AD. This may decrease Japan’s real GDP, thus negatively affecting economic growth.</p>	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	<p>For drawing an accurate, labelled AD/AS diagram showing a shift of the AD curve to the right and an increase in the price level and real GDP AND for an explanation that the trade deal could raise Japan’s exports by 29%, increasing Japan’s export revenue, a component of AD. This may increase Japan’s real GDP, thus leading to economic growth.</p> <p>OR</p> <p>For drawing an accurate, labelled AD/AS diagram showing a shift of the AD curve to the left and a decrease in the price level and real GDP AND for an explanation that the trade deal could raise Japan’s exports by 29% but also increase EU imports by 34%, decreasing Japan’s net exports, a component of AD. This may decrease Japan’s real GDP, thus negatively affecting economic growth.</p>	

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.

A title is not necessary.



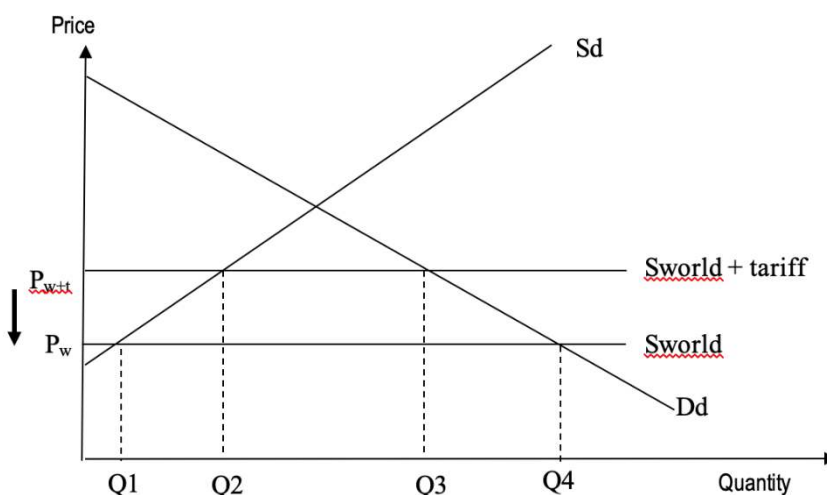
(c) Using an international trade diagram, explain the likely impact of Japan “removing the current 30% tariff” on the level of cheddar cheese imports (paragraph 4).

[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 OR an accurate written response.</i>	1–2
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4

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

The use of price and quantity for the axes is sufficient. The domestic supply curve may be labelled as $S_{domestic}$ or S_d or just S and the European supply curve may be labelled S_{Europe} , S_{EU} , or S_{world} , or S_w . A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the possible consequences of the trade agreement between Japan and the EU (JEEPA).

[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 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:

- tariffs
- quota
- trade protection
- trade agreement.

Strengths of the trade agreement:

- The trade agreement could raise the EU's exports to Japan by 34% and Japan's to the EU by 29%, increasing AD and thus creating economic growth and jobs in all economies involved (paragraph ❶) (candidates may argue that the impact on growth is indeterminate since net exports may fall with downward pressure on growth in the short run).
- The trade agreement marks a determined effort to overcome problems associated with trade protection (paragraph ❶ – combat rising trade protectionism) such as higher prices.
- Will make Japanese car producers more competitive with European and Korean producers, increasing employment in the Japanese car industry (paragraph ❷).
- Lower prices for Japanese consumers of meat, dairy products and wine (paragraph ❸).
- The loss of trade protection for producers, eg Japanese farmers, will force them to become more efficient (paragraph ❸) if they are to remain competitive.
- The deal will also resolve non-tariff barriers, such as technical requirements and regulations, which will increase trade (paragraph ❹).
- The proposed deal also addresses sustainability (paragraph ❺).
- It would be easier to sell to European/Japanese consumers, which creates a larger market, resulting in expansion of production.
- Consumers in both countries will have access to a wider variety of goods at lower prices as a result of freer trade.

Limitations of the trade agreement:

- Trade agreement still allows for some tariff barriers and some non-tariff barriers (paragraph ❷).
- JEEPA faces challenges, as it will have to be passed by the Japanese Parliament, the European Parliament and European national governments (paragraph ❻), so there is no guarantee that it will happen.
- The agreement will disadvantage some producers in all economies.
- Possible unemployment in industries where trade protection is reduced, eg the EU car industry (paragraph ❷) and farmers in Japan (paragraph ❸).
- Korean car manufacturers may lose market share in the EU market to the Japanese producers (paragraph ❷).
- US beef and pork producers might lose market share in Japan because EU producers would have better access to the Japanese market (paragraph ❹).
- Governments will have their tariff revenues reduced.
- Possible infant industries, such as the cheddar cheese industry in Japan, may not be able to compete (paragraph ❸).

Any reasonable evaluation.

2. (a) (i) Outline **two** roles of a country's central bank (paragraph 1). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague outline.</i>	1
	For stating any one of the following responsibilities: <ul style="list-style-type: none"> • regulator of commercial banks • banker to the government • managing interest rates • managing money supply • implementing monetary policies • achieving macroeconomic objectives (such as price stability, full employment, economic growth) • managing exchange rate policy • holder of foreign exchange reserves • provider and printer of notes and coins. 	
2	<i>Accurate outline.</i>	2
	For stating any two of the following responsibilities: <ul style="list-style-type: none"> • regulator of commercial banks • banker to the government • managing interest rates • managing money supply • implementing monetary policies • Achieving macroeconomic objectives (such as price stability, full employment, economic growth) • managing exchange rate policy • holder of foreign exchange reserves • provider and printer of notes and coins. 	

(ii) Define the term *current account deficit* 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
	The idea that it is when the flow of money from trade in goods and services is negative OR that imports are greater than exports	
2	<i>Accurate definition.</i>	2
	An understanding that it is when the balance on the current account, which measures the net value of trade of goods and services, net income flows and net transfers, is negative.	

- (b) Using an AD/AS diagram, explain the likely impact on the Canadian economy of the increase in the official interest rate (paragraph 1).

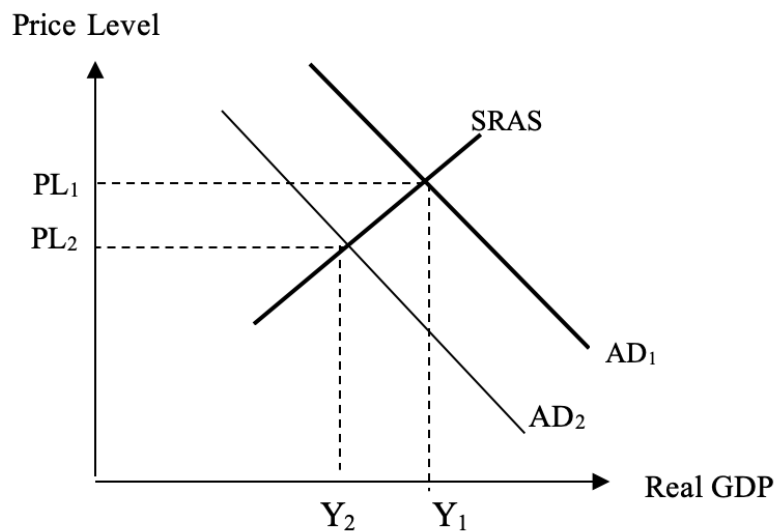
[4]

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 an accurate, labelled AD/AS diagram showing a decrease in AD and a decrease in the average price level and a fall in real GDP OR an explanation that an increase in the official interest rate is likely to lead to a fall in consumption and/or investment due to higher borrowing costs or more incentive to save resulting in a fall in AD and a fall in the average price level and real GDP.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing an accurate, labelled AD/AS diagram showing a decrease in AD and a decrease in the average price level and a fall in real GDP AND an explanation that an increase in the official interest rate is likely to lead to a fall in consumption and/or investment due to higher borrowing costs or more incentive to save resulting in a fall in AD and a fall in the average price level and real GDP.	

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.

A title is not necessary.



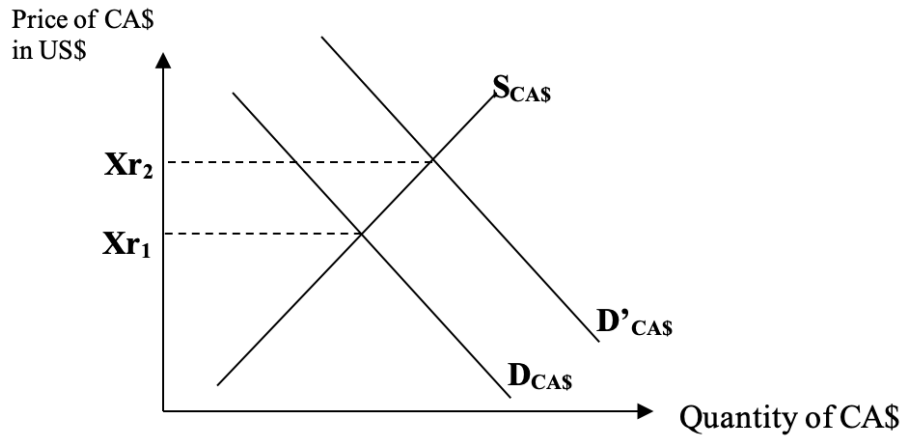
(c) Using an exchange rate diagram, explain **one** reason for the appreciation of the Canadian dollar (paragraph ⑤).

[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
	<p>For drawing an accurate, labelled demand and supply diagram for the Canadian dollar, showing an increase in demand for the Canadian dollar and an increase in the exchange rate OR an explanation that:</p> <ul style="list-style-type: none"> positive growth figures and/or the confidence expressed by the central bank means that international investors will have a greater willingness to invest in Canada <p>OR</p> <ul style="list-style-type: none"> a higher interest rate will provide more incentive for international savers (foreign investors) to save in Canadian banks. <p>OR</p> <ul style="list-style-type: none"> anticipation of future appreciation (speculation). <p>To carry out either of these transactions, there will be an increase in demand for the Canadian dollar and therefore an appreciation of the dollar.</p>	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	<p>For drawing an accurate, labelled demand and supply diagram for the Canadian dollar showing an increase in demand for the Canadian dollar and an increase in the exchange rate AND an explanation that:</p> <ul style="list-style-type: none"> positive growth figures and/or the confidence expressed by the central bank means that international investors will have a greater willingness to invest in Canada <p>OR</p> <ul style="list-style-type: none"> a higher interest rate will provide more incentive for international savers (foreign investors) to save in Canadian banks. <p>OR</p> <ul style="list-style-type: none"> anticipation of future appreciation (speculation). <p>To carry out either of these transactions, there will be an increase in demand for the Canadian dollar and therefore an appreciation of the dollar.</p>	

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 CA\$ in US\$, or US\$ per CA\$, or US\$/CA\$ (US\$ may be replaced by “other currencies”). The horizontal axis may be quantity or quantity of CA\$.



- (d) Using information from the text/data and your knowledge of economics, discuss the possible effects on the Canadian economy of the strengthening of the Canadian dollar against the US 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>	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.

To discuss the effects on the economy, candidates might consider the advantages and disadvantages related to macroeconomic goals.

Responses may include:

A definition/explanation of a “stronger currency”.

Economic growth:

- The strong Canadian dollar may cause a decrease in demand for exports and an increase in demand for imports, resulting in a fall in net exports and a decrease in AD. This may hinder economic growth, which has been increasing (paragraph ②).

Low unemployment:

- The stronger Canadian dollar may result in a decrease in demand for exports and an increase in demand for imports, thus raising unemployment in export industries and industries that compete with imports.
- The need to cut costs may result in structural unemployment.
- If demand for exports is relatively inelastic, as in the case for commodities (with reference to Table 1), there may be little effect on unemployment.
- If demand for exports is relatively elastic, as in the case for manufactured goods (with reference to Table 1), there could be an increase in unemployment in this sector.
- A stronger Canadian dollar makes it more attractive for Canadians to travel to the US, rather than travel in Canada, which may damage the Canadian tourism sector (paragraph ⑤) and may lead to unemployment.

Low and stable inflation:

- The stronger Canadian dollar will make imported factors of production less expensive, resulting in an increase in SRAS and a fall in possible inflationary pressure
- The stronger Canadian dollar may also present a risk of increased deflationary pressure from lower priced imports and reduction in net exports (paragraph ②).
- The strong Canadian dollar may cause a decrease in demand for exports and an increase in demand for imports, resulting in a fall in net exports and a decrease in AD, thus a reduction in demand-pull inflationary pressure (paragraph ①).
- The effects depend on the PED for exports and imports.

Current account:

- The current account deficit is a concern at 3.6% of GDP (paragraph ④), and a stronger Canadian dollar could lead to an increase in the deficit on the current account balance.
- The effect depends on the PED for exports and imports.
- The vast majority of Canada's exports go to the US (Table 2), so the effect of the appreciation of the Canadian dollar against the US dollar is likely to be significant.

Standard of living

- Consumers will gain from lower prices of imports, including effectively cheaper holidays in the US (paragraph ⑤).

To reach Level 3, candidates must refer to the particular situation in the Canadian economy, not just present the advantages and disadvantages of a stronger currency in general.

Any reasonable discussion.

Section B

3. (a) (i) Define the term *micro-credit* 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 a small loan.	1
2	<i>Accurate definition.</i> An understanding that it is one of the following: <ul style="list-style-type: none"> • micro-credit allows poor people to set up a small-scale business through access to credit • micro-credit is loaned to individuals who do not have security/collateral • micro-credit allows women to set up small-scale businesses or finance their education/training through access to credit. 	2

(ii) Define the term *gross national income (GNI)* indicated in bold in **Table 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> The idea that it is a measure of total output.	1
2	<i>Accurate definition.</i> An understanding that it is the total value of incomes (or output or expenditure) earned by a nation's factors of production regardless of where the assets are located (plus net property income from abroad). NB An alternative definition of gross domestic product + net (property) income from abroad is acceptable for full marks.	2

- (b) Using a demand and supply diagram, explain how the decrease in the minimum price of cocoa would affect the welfare loss associated with the minimum price (paragraph 1).

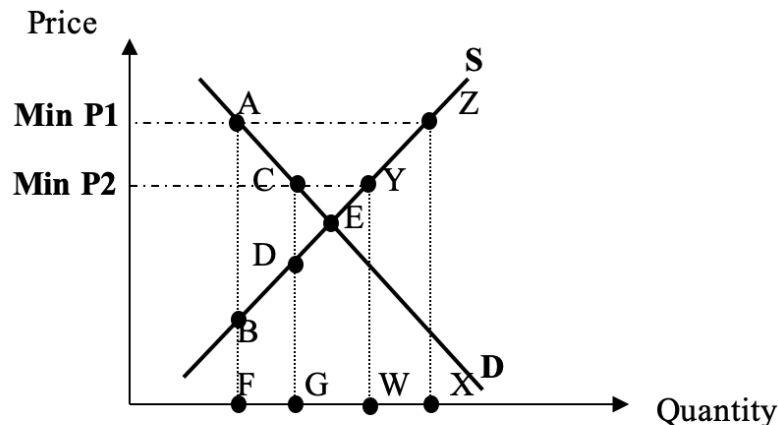
[4]

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 an accurate, labelled demand and supply diagram showing a reduction in the minimum price above the equilibrium price and a decrease in the welfare loss OR for providing an explanation that lowering the minimum price in the market would result in a decrease in welfare loss, due to: <ul style="list-style-type: none"> • a decrease in excess supply (or surplus) and/or • the market being closer to the equilibrium • a more efficient allocation of resources. 	
2	There is a correct diagram AND an accurate written response.	3–4
	For drawing an accurate, labelled demand and supply diagram showing a reduction in the minimum price above the equilibrium price and a decrease in the welfare loss AND for providing an explanation that lowering the minimum price in the market would result in a decrease in welfare loss, due to: <ul style="list-style-type: none"> • a decrease in excess supply (or surplus) and/or • the market being closer to the equilibrium • a more efficient allocation of resources. 	

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

Candidates may indicate the (change in) welfare loss with shaded areas or numbers/letters in the diagram (eg from AEB to CDE or FAEZX to GCEYW in the sample diagram)

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 a demand and supply diagram, explain why the government’s decision to “cut the minimum price” it pays cocoa farmers is likely to decrease farmers’ incomes (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 an accurate, labelled demand and supply diagram showing a decrease in producer revenues, with a fall in the minimum price and a fall in the quantity supplied OR for providing an explanation that since the government has decreased the minimum price, the cocoa producers will supply a lower quantity at a lower price, both of which would lead to a decrease in farmers’ revenues.	
2	There is a correct diagram AND an accurate written response.	3–4
	For drawing an accurate, labelled demand and supply diagram showing a decrease in producer revenues, with a fall in the minimum price and a fall in the quantity supplied AND for providing an explanation that since the government has decreased the minimum price, the cocoa producers will supply a lower quantity at a lower price, both of which would lead to a decrease in farmers’ revenues.	

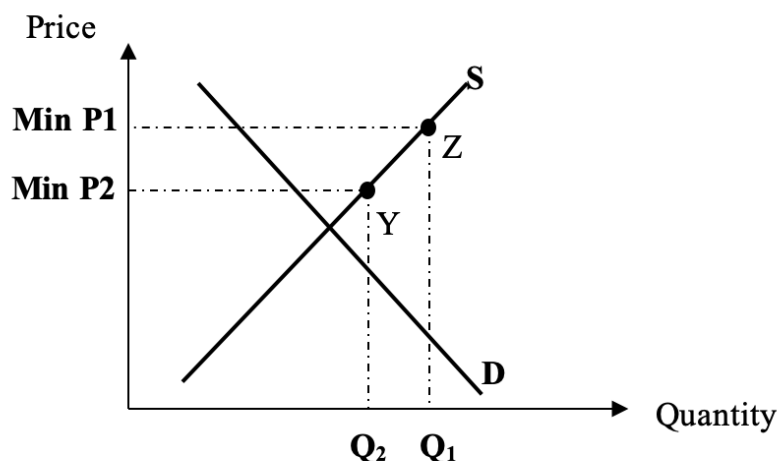
Candidates **should** illustrate the change in revenue with shaded areas or letters/numbers.

Some candidates may draw a vertical supply curve, implying that farmers have produced a fixed quantity of cocoa and would sell all of it regardless of the price. This is not required for full marks but is a valid approach and can be fully rewarded.

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

Candidates may make reference to the diagram drawn in part (b).

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, discuss how the empowerment of women could help Côte d'Ivoire to achieve 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> 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 depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

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

Responses may include:

- A definition of economic development.
- The World Bank has identified gender inequality as a major barrier to economic growth and economic development (paragraph ❸), so reducing inequality should contribute to improving both economic growth and economic development.
- Women’s empowerment could lead to an increase of an estimated US\$6 billion to US\$10 billion in its economy in the long term (paragraph ❸).
- Côte D’Ivoire has significant gender inequalities in education (paragraphs ❸ and ❹ and Table 3).
- If girls receive an education, they have the opportunity to find a (better) paid job, contributing to their family’s income and improving the standard of living.
- Educated girls are more likely to have economic freedom and choice, allowing them to be financially independent.
- Education will allow girls/women to make informed decisions about family planning, leading to healthier families.
- Côte D’Ivoire has inequalities in access to health care (paragraph ❸).
- If the present inequalities in access to health care (paragraph ❸) were reduced, women would have better access, becoming more productive and thus more stable and higher incomes.
- If discrimination against women in the labour force were reduced, some women would move into more productive roles or would be more incentivised (paragraph ❸).
- Women are under-represented in the cocoa industry, which is significant to the economy, so if women become more empowered, they may have more opportunities in this industry (paragraph ❸).

- If women are more empowered, they may gain access to the modern inputs and equipment that they currently lack (paragraph ④), which would improve productivity and raise incomes, particularly in agriculture.
- If women are more empowered, they may gain better access to credit, which could encourage more entrepreneurship amongst women, leading to increased incomes and standard of living.
- Some women in Côte d'Ivoire have been able to borrow money through micro-credit (paragraph ⑤) and seem to have benefitted from this, as their decision-making power improved, which contributed to their economic independence, in comparison to non-borrowers.
- In the long run, increased wages for women will increase tax revenues (paragraph ④) allowing for more government expenditure on development initiatives.
- If government provides more education for girls, in the short run, this may increase the budget deficit adding to the public debt (paragraph ②) and restricting future government expenditure on development initiatives due to debt servicing costs.

Any reasonable discussion.

4. (a) (i) Define the term *official development assistance (ODA)* 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> For the idea that it is aid given from a government.	1
2	<i>Accurate definition.</i> For an understanding that it is loans or grants or technical assistance given by a government to an ELDC (or a multilateral agency).	2

- (ii) Define the term *infrastructure* 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> An understanding that it (any one of the following is sufficient): <ul style="list-style-type: none"> • consists of large-scale public systems (services and facilities) is necessary for (or facilitates) economic activity • adds to the capital stock of a nation • is usually supplied (or funded) by the government. 	1
2	<i>Accurate definition.</i> An understanding that it (any two of the following is sufficient): <ul style="list-style-type: none"> • consists of large-scale public systems (services and facilities) • is necessary for (or facilitates) economic activity • adds to the capital stock of a nation • is usually supplied by the government. 	2

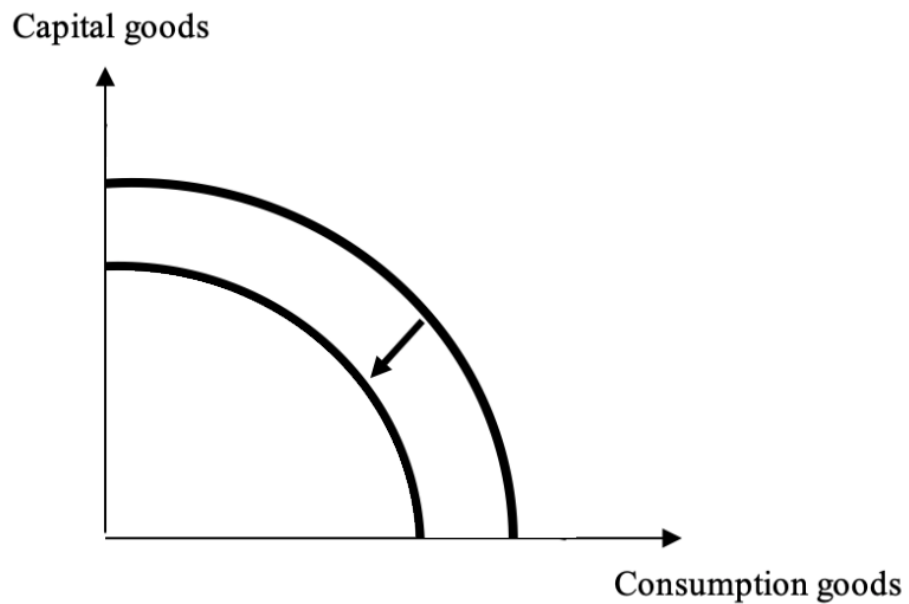
- (b) Using a production possibilities curve (PPC) diagram, explain how damage to bridges, roads and other infrastructure would have affected Nepal's production possibilities (paragraph 2).

[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
	For drawing an accurate, labelled production possibilities curve (PPC) diagram showing an inward shift of the PPC OR for an explanation that damage to bridges, roads and other infrastructure would have reduced the quantity and/or quality of Nepal's factors of production (or capital) and therefore reduced its production possibilities.	
2	There is a correct diagram AND an accurate written response.	3-4
	For drawing an accurate, labelled production possibilities curve (PPC) diagram showing an inward shift of the PPC AND for an explanation that damage to bridges, roads and other infrastructure would have reduced the quantity and/or quality of Nepal's factors of production (or capital) and therefore reduced its production possibilities.	

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

For a PPC, the axes may be any two competing types of output. A title is not necessary.



- (c) Using a circular flow of income diagram (in an open economy), explain the impact that increased export revenues could have on Nepal's national income (paragraph 7). [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 circular flow of income diagram showing the flow of income between households and firms, with export revenues indicated as an injection OR for an explanation that export revenues are an injection into the circular flow of income that will raise national income for Nepal.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a circular flow of income diagram showing the flow of income between households and firms, with export revenues indicated as an injection AND for an explanation that export revenues are an injection into the circular flow of income that will raise national income for Nepal.	

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

- (d) Using information from the text/data and your knowledge of economics, evaluate the view that Nepal should encourage foreign direct investment (FDI) in order to achieve 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 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 FDI
- definition of economic development.

Strengths of FDI:

- Tax revenues from Multinational Corporations (MNCs) may be used by Nepal to achieve development objectives.
- Increased exports by MNCs in agriculture, manufacturing and services will generate export earnings (paragraphs 5, 7 and 8).
- Creation of employment will create higher incomes and improved standards of living.
- Reduced dependence on aid (paragraph 1).
- Fills a savings gap (paragraph 9).
- Fewer people leaving the country if they can have job opportunities in Nepal (paragraph 8).
- Technology transfer.
- FDI is a component of AD, so increased AD through increased investment (paragraph 8) means an increase in real GDP.
- Firms may encourage building of more infrastructure, which is needed in Nepal (paragraph 8).
- Possible training and education of workers to raise human capital.
- MNCs tend to pay higher wages than domestic firms and/or offer an alternative to low-paying agricultural jobs, leading to higher incomes for locals.

Limitations of FDI:

- The need for greater labour market flexibility may result in poorer working conditions (paragraph 8).
- If regulations are relaxed, companies may expatriate more profits, so the benefits will not be enjoyed by Nepal (paragraph 6).
- If laws are relaxed so that firms can hire more foreign workers, then the jobs might not go to Nepalese people (paragraph 6).
- Local businesses might be damaged if trade barriers are reduced (paragraph 7).
- If environmental regulations are relaxed, this may result in negative externalities of production and may threaten sustainability (paragraph 8).
- Income inequality may increase as those who obtain employment in MNCs will benefit more.
- If tax incentives are given to attract FDI, the Nepalese government will not enjoy the benefits of increased tax revenue.

Any reasonable evaluation.