

# Markscheme

November 2020

Economics

Higher level

Paper 2

23 pages

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### Section A

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

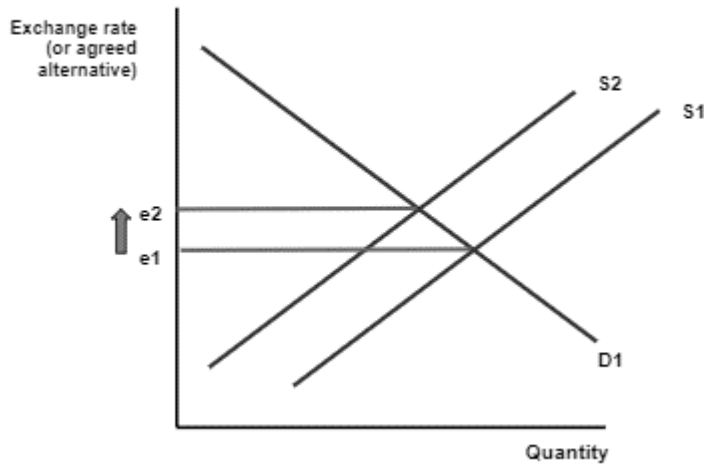
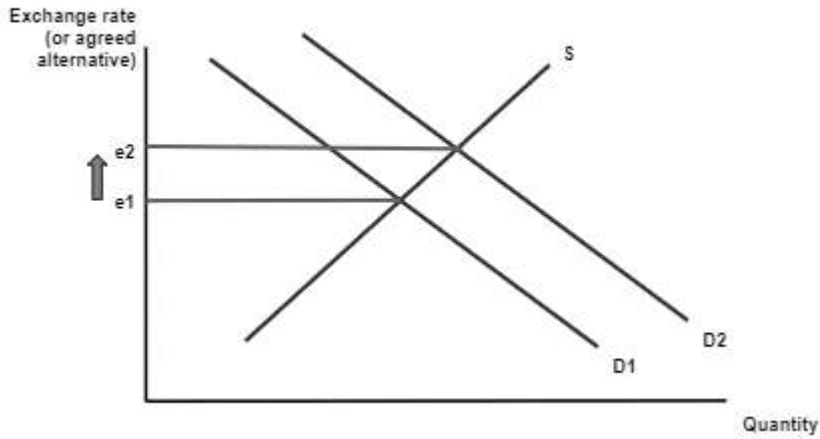
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is a payment to (or from) the bank or the price of money.	
2	<i>Accurate definition.</i>	2
	An understanding that it is <b>one</b> of the following: <ul style="list-style-type: none"> <li>• the price or cost of borrowed money (credit)</li> <li>• the reward for saving</li> <li>• the percentage paid on borrowed (or saved) money.</li> </ul>	

- (ii) List **two** components of the financial account (paragraph 4). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague response.</i>	1
	<b>One</b> component: <ul style="list-style-type: none"> <li>• direct investment</li> <li>• portfolio investment</li> <li>• reserve assets.</li> </ul>	
2	<i>Accurate response.</i>	2
	<b>Two</b> components: <ul style="list-style-type: none"> <li>• direct investment</li> <li>• portfolio investment</li> <li>• reserve assets.</li> </ul>	

- (b) Using an exchange rate diagram, explain how South Korea’s current account surplus could have “helped increase the South Korean won’s value” (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 <b>OR</b> an accurate written response.</i>	1–2
	<p>A foreign exchange diagram showing a shift of demand to the right, with an increase in price of the won.</p> <p><b>OR</b></p> <p>an explanation that as South Korean exports/inflows are greater than imports, foreigners are demanding won to pay for the South Korean products, which increases the price/value of the won/resulting in an appreciation.</p> <p><b>Alternative:</b></p> <p>A foreign exchange diagram showing a shift of supply to the left, with an increase in price of the won.</p> <p><b>OR</b></p> <p>an explanation that as South Korean exports/inflows are greater than imports, South Koreans are importing less so supplying less won, which increases the price/value of the won/resulting in an appreciation.</p>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	<p>A foreign exchange diagram showing a shift of demand to the right, with an increase in price of the won.</p> <p><b>AND</b></p> <p>an explanation that as South Korean exports/inflows are greater than imports, foreigners are demanding won to pay for the South Korean products, which increases the price/value of the won/resulting in an appreciation.</p> <p><b>Alternative:</b></p> <p>A foreign exchange diagram showing a shift of supply to the left, with an increase in price of the won.</p> <p><b>AND</b></p> <p>an explanation that as South Korean exports/inflows are greater than imports, South Koreans are importing less so supplying less won, which increases the price/value of the won/resulting in an appreciation.</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 Korean won in another currency, another currency/Korean won or other currency per Korean won. The horizontal axis should be quantity, or quantity of Korean won. A title is not necessary.

- (c) Using an AD/AS diagram, explain how the use of fiscal policy could lower “the high rates of youth unemployment” in South Korea (paragraph 5). [4]

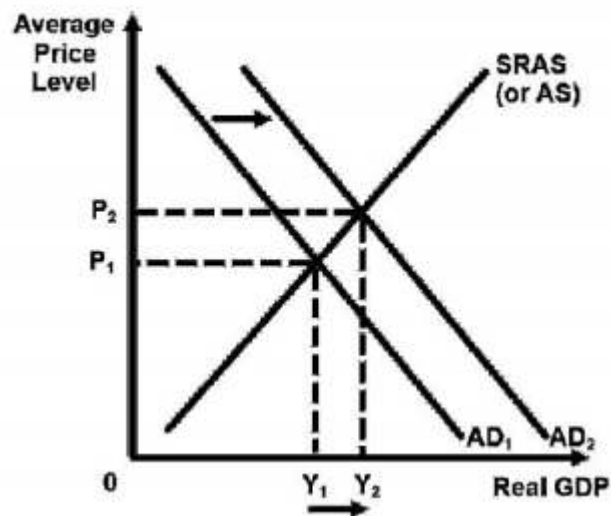
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	An AD/AS diagram showing a shift of the AD curve to the right with an increase in real output/GDP. <b>OR</b> an explanation that expansionary fiscal policy shifts AD to the right, resulting in an increase in real output/GDP, which would require more workers; therefore, youth unemployment may decrease.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	An AD/AS diagram showing a shift of the AD curve to the right with an increase in real output/GDP. <b>AND</b> an explanation that expansionary fiscal policy shifts AD to the right, resulting in an increase in real output/GDP, which would require more workers, therefore youth unemployment may decrease.	

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

Candidates who do not refer to the impact on youth unemployment in the explanation can be awarded a maximum of [3]

**NB** Full marks can be awarded if a student correctly applies a fiscal policy tool that has a supply side impact, such as subsidies for apprenticeships or education and training.

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.



- (d) Using information from the text/data and your knowledge of economics, discuss the possible implications on South Korea’s economy of a current account surplus. **[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 surplus.

*Economic analysis may include:*

- AD/AS theory
- exchange rate market
- balance of payments
- economic growth.

*To discuss:*

- Slowing domestic consumption (paragraph 5, slowest growth in 4 years), impact on AD, economic growth and employment opportunities, making it more difficult for unemployment issues (paragraph 5).
- Koreans investing overseas rather than domestically (paragraph 4), but this may lead to inflow in the current account through primary income in the long run.
- Insufficient domestic investment in key areas (paragraph 5), limiting economic growth.
- Encourages appreciation of the won (paragraph 2), leading to imports cheaper, leading to lower imported inflation, exports more expensive/less competitive, may impact economic growth – important considering it is not growing as expected (paragraph 5).
- Appreciation of the won from current account surplus, in theory (paragraph 2) should be self-correcting, but this does not apply to this case due to large working-age population contributing to the surplus (paragraph 1).

- Suggests that the current account surplus may have long-term consequences on the economy – until 2042 (paragraph 1).
- Domestic firms competing from cheaper imports suffer – due to the current account surplus encouraging an appreciation (paragraph 1).
- Persistent imbalances with trade partners may encourage protectionist measures from trade partners (paragraph 3). This may lead to problems with exports, growth.
- Current account surplus is influencing decisions made by government regarding policy which may conflict with other macro objectives.
- Contractionary monetary policy (paragraph 6) to avoid a depreciation will negatively impact on economic growth, but important to avoid issues of a current account surplus.

Any reasonable discussion.



2. (a) (i) Define the term *free trade area* 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>	1
	The idea that it is a type of trading bloc.	
2	<i>Accurate definition.</i>	2
	A type of trading bloc where the member countries agree to eliminate trade barriers among them, but each country retains the right to have its own trade policies/barriers/protection with non-members.	

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is to do with a restriction on imports.	
2	<i>Accurate definition.</i>	2
	An explanation that it is a (physical) limit on the number or (total) value of a good that can be imported into a country.	

(b) Using price elasticity of demand (PED) data from the text and the J-curve effect, explain the most likely impact of “the falling value of the Australian dollar” on Australia’s current account (paragraph 4). [4]

Answers **may** include:

- explaining that in the SR  $PED_{x+m} < 1$
- due to time lags/contracts/relatively unresponsive to price changes, therefore, the depreciation will worsen the CA in the SR / improve in the LR
- however, in the LR the  $PED_{x+m} > 1$  resulting in an improvement in the CA
- SR  $PED = 0.6$  and LR  $PED = 2.4$

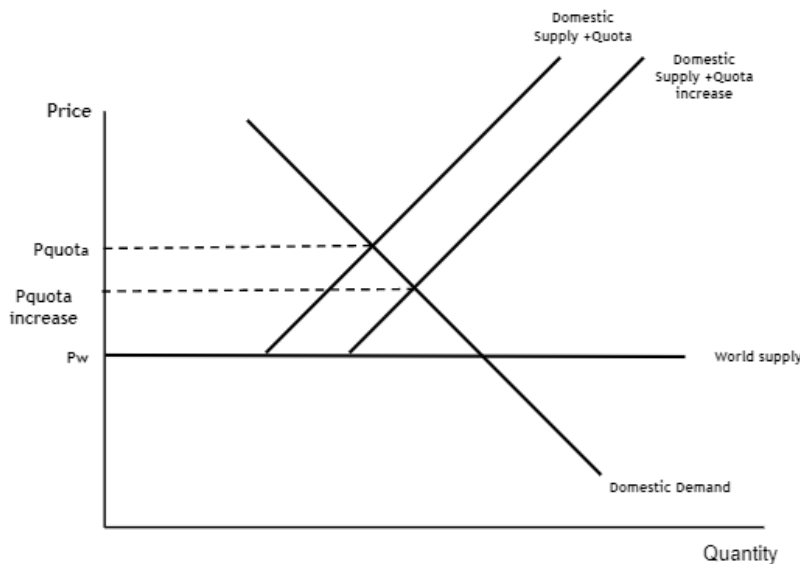
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1–2
	Award <b>[1]</b> for <b>one</b> of the points above. Award <b>[2]</b> for <b>two</b> of the points above.	
2	<i>The written response is accurate.</i>	3–4
	Award <b>[3]</b> for <b>three</b> of the points above. Award <b>[4]</b> for all of the <b>four</b> points above.	

- (c) Using an international trade diagram, explain how “increased quotas for the export of rice to Japan” will affect the price of rice in Japan (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 <b>OR</b> an accurate written response.</i>	1–2
	An international trade diagram showing an increased quota and the resulting decrease in price of rice in Japan. <b>OR</b> Explaining that an increase in the quota will mean an increase in imports, shifting (domestic+quota) supply to the right/increasing (domestic+quota) supply, leading to a decrease in the price of rice in Japan.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	An international trade diagram showing an increased quota and the resulting decrease in price of rice in Japan. <b>AND</b> Explaining that an increase in the quota will mean an increase in imports, shifting (domestic+quota) supply to the right/increasing (domestic+quota) supply, leading to a decrease in the price of rice in Japan.	

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. The world supply curve must be labelled  $S_w$ , or  $S_{world}$ . A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the view that free trade is beneficial to Japan’s economy. [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 current account surplus.

*Economic analysis may include:*

- economic integration theory
- economies of scale
- balance of payments
- protectionism
- externalities
- AD/AS
- economic growth
- employment
- inflation
- comparative advantage.

*For free trade:*

- Third largest free trade area in the world (paragraph 1) larger market leading to possible economies of scale.
- Encourages good political relations and inclusive growth (paragraph 1).
- Worth in excess of US\$70 billion to Japan’s economy (paragraph 2) – exports increasing, may lead to economic growth.
- Lower prices of imported products, such as Australian cheese and beef for restaurant owners (costs of production), reducing the impact of higher wage costs in Japan. (paragraph 2).
- Lower prices of rice for Japanese consumers.

- Farmers may access an opportunity to diversify into other crops (paragraph 3).
- Japanese may have job opportunities in Australia (paragraph 6)
- May help with trade imbalances between Japan and other countries like Australia.

*Against free trade:*

- Concerns of food self-sufficiency/food security (paragraph 3), over 60% already imported. This may have long-term implications if there is an over-reliance on food imports.
- Subsidies for Japanese farmers are needed to help diversification (paragraph 3), results in opportunity costs and production inefficiencies.
- Removing some forms of trade barrier may only be replaced by others – subsidies (paragraph 3) and the benefits may be mitigated.
- Some industries negatively affected (paragraph 2), may lead to structural unemployment issues.

Any reasonable evaluation.

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is living on a very low income (cannot afford essentials) for a particular country (must not relate to absolute poverty where people cannot meet basic/survival needs). Being poor or very low level of income within a country.	
2	<i>Accurate definition.</i>	2
	An explanation that it is a (comparative) measure of those who live below a certain income level/standard of a country. Normally measured as a percentage (often 50%/60%) of country's median/average income.	

(ii) Define the term *economies of scale* 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
	Average costs/costs per unit decrease as output increase.	
2	<i>Accurate definition.</i>	2
	Long run average costs/cost per unit decrease as output increases. <b>OR</b> Average costs/cost per unit decrease as output increases when <b>all inputs are changed.</b>	

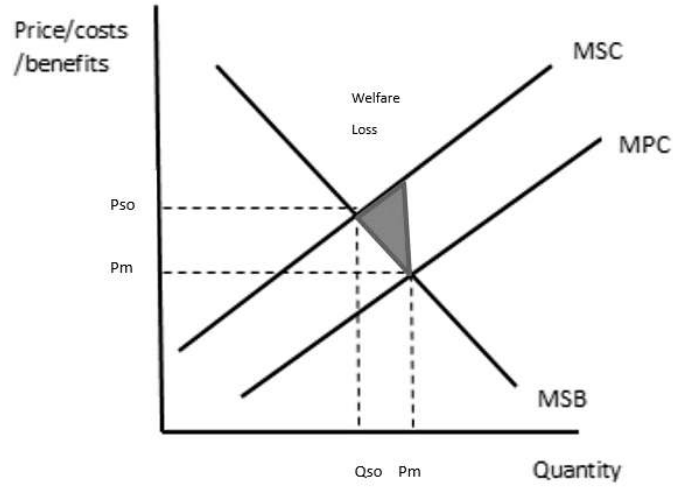
(b) **Question and answer removed for copyright reasons**

- (c) Using an externalities diagram, explain why “business pollution” is leading to market failure in STP (paragraph 5). **[4]**

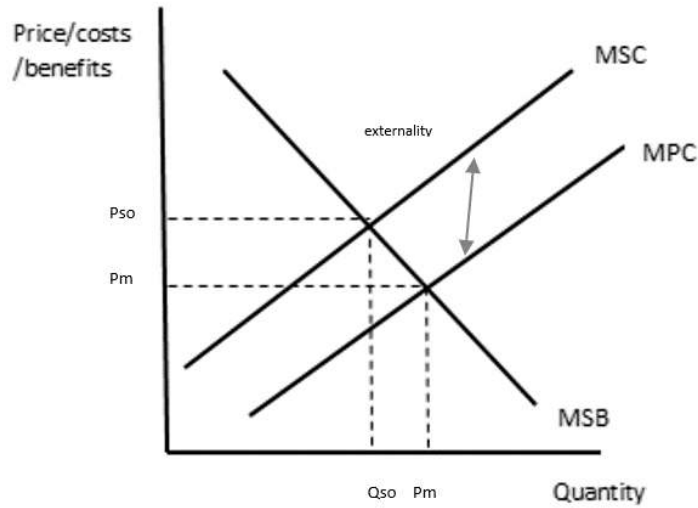
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	<p>An externality of production diagram showing MSC above MPC, and market equilibrium quantity indicated above the social optimum level of output with either the welfare loss/externality identified.</p> <p><b>OR</b></p> <p>Explaining market failure exists because the businesses are polluting water/increasing scarcity of water, creating a negative impact on a 3<sup>rd</sup> party.</p> <p>Leading to <math>MSC &gt; MPC</math>, (<math>MSC \neq MSB</math>)/welfare loss/external cost/Socially optimum quantity is lower than the market quantity.</p>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	<p>An externality of production diagram showing MSC above MPC, and market equilibrium quantity indicated above the social optimum level of output with either the welfare loss/externality identified.</p> <p><b>AND</b></p> <p>Explaining market failure exists because the businesses are polluting water/increasing scarcity of water, creating a negative impact on a 3<sup>rd</sup> party.</p> <p>Leading to <math>MSC &gt; MPC</math>, (<math>MSC \neq MSB</math>)/welfare loss/external cost/Socially optimum quantity is lower than the market quantity.</p>	

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

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



OR



- (d) Using information from the text/data and your knowledge of economics, discuss the role of aid in achieving economic development in STP. [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.

*Answers may include:*

- Definitions of aid, economic development.

*Economic analysis may include:*

- poverty cycle
- AD/AS diagram
- PPC curve
- Lorenz curve.

*To discuss:*

Role of aid in achieving economic development:

- Taiwanese aid before 2016 would have contributed to economic development through public health (paragraph 4)
  - increases human capital – leads to greater opportunity for breaking out of the poverty cycle
  - citizens can access higher income, more employment due to increased productivity, leads to increase living standards
  - businesses may benefit from healthier workforce. Encouraging economic growth which may lead to further economic development, if widespread.



- Chinese aid (paragraph 4)
  - targets economic development challenges (paragraph 1); insufficient infrastructure, limited range of export products and markets could be overcome through deep-sea port and airport improvements (paragraph 4)
  - deep-sea port and airport spending may help overcome STP's remoteness and high transport costs (paragraph 3), this supports expanding export markets (paragraph 3), which may offer employment and growth opportunities leading to higher incomes and increased standard of living
  - economic growth rate is insufficient to have an impact on poverty rate (paragraph 2), targeted aid spending on areas to support increasing exports may encourage higher economic growth, so it is sufficient to start translating into economic development and having an impact on the poverty rate
  - airport work supports exploiting the high value-added and comparative advantage of tourism (paragraph 4). More employment opportunities and economic growth.

Aid in general has been very important in supporting the economy:

- 57 % of GDP and 93 % of public investments – needed for health and education spending.
- Limited access to credit (paragraph 1), has meant that aid could be used to bridge the savings gap to help break poverty cycle.
- Nutritional needs of the people are a concern and aid could help improve this (paragraph 5). Significant aspect to support improving human capital.
- Aid could help with setting up institutional support/good governance/transparency (paragraph 1 and paragraph 3), to help develop trade and management of revenue from oil at the onset (paragraph 3). This may help with the income equality as it avoids mismanagement or misappropriation of funds/revenues.
- Decrease reliance on cocoa (paragraph 3) needs new industry, which can be supported by aid in short term (infant industry support – new export products/tourism), to help support long term diversification. Significant argument considering 80 % of exports are from cocoa (paragraph 3).
- Aid can be used to help deal with climate change issues (paragraph 1 and paragraph 5). Important area as it is an island and has limited resources to solve these issues.
- Cannot develop without the finance from economic growth to spend on infrastructure (paragraph 1), human capital (paragraph 1), health/nutrition/water issues (paragraph 5).

Aid might not support economic development:

- Intentions – China may be promoting own export routes to Africa with deep-sea port.
- Corruption/misallocation due to poor governance (paragraph 1), may mean that areas in need have not received the funds needed to decrease poverty.
- Changing donors may change projects and focus – Nutrition is an issue (paragraph 5), and was being helped with Taiwan, but may not have that focus with China (paragraph 4).
- High level of dependence with poor governance (paragraph 1) may mean that it could be difficult to break the level of dependency or seek other methods to support economic development.
- Aid is often tied to specific projects or to spending on machines or goods from the donor country – China on deep sea port/airport (paragraph 4).
- Aid (concessional loans) from the IMF has come with conditions – decreasing government spending (paragraph 4), this may mean some areas involving economic development may suffer, AD decrease and lower economic growth will not help meet the 6 % needed to elevate the poverty rate (paragraph 2).

Any reasonable discussion.

To reach level 3, students must show awareness of the ways in which aid will **impact upon economic development** (not simply discuss the advantages and disadvantages of aid and trade in general). This means to link the evaluation to how it will reduce poverty, increase living standards, reduce income inequalities and increase employment opportunities, improve health and education indicators.

4. (a) (i) Define the term *absolute advantage* 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 countries can produce more goods than another country.	
2	<i>Accurate definition.</i>	2
	An explanation that it is the ability of one country to produce a good using fewer resources than another country.	

- (ii) Define the term *asymmetric information* indicated in bold in the text (paragraph 6). [2]

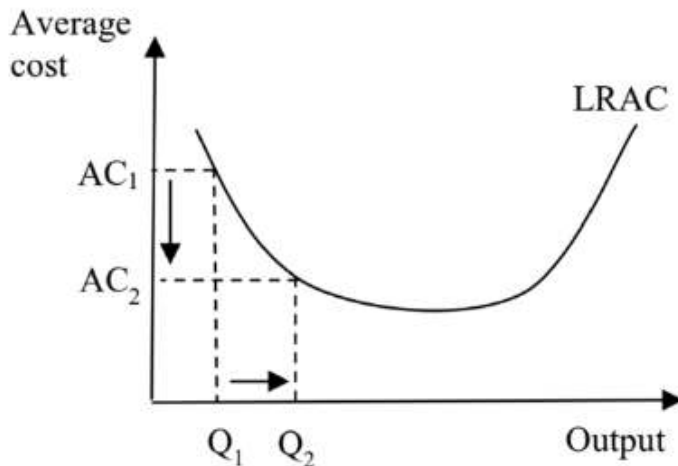
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that information is not equally shared.	
2	<i>Accurate definition.</i>	2
	An explanation that one party in an economic transaction has more information than the other party.	

- (b) Using a cost diagram, explain how the expansion of the coconut industry could lead to economies of scale (paragraph 4). [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
	A costs diagram showing LRAC with two points indicating a fall in average costs at a higher level of output. <b>OR</b> Explaining that as output increases, LRAC/AC/costs per unit can decrease due to; specialization/marketing/managerial/technical/financial (or any explained example of these) economies.	
2	There is a correct diagram <b>AND</b> an accurate written response.	3–4
	A costs diagram showing LRAC with two points indicating a fall in average costs at a higher level of output. <b>AND</b> Explaining that as output increases, LRAC/AC/costs per unit can decrease due to; specialization/marketing/managerial/technical/financial (or any explained example of these) economies.	

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

For a cost diagram, the vertical axis may be labelled Cost (C) or Average cost (AC) or Long run average cost (LRAC). The horizontal axis may be labelled Quantity (Q) or Output. A title is not necessary.



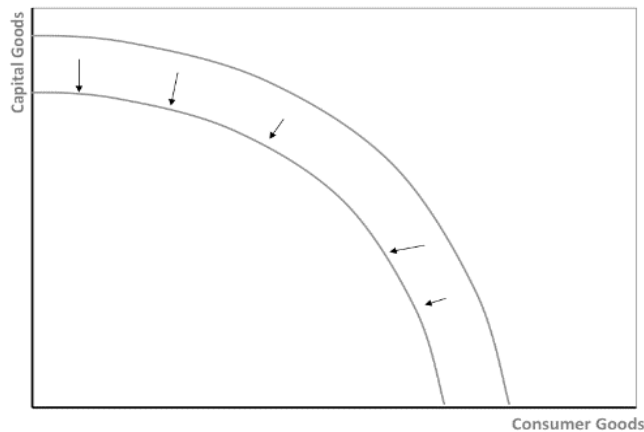
- (c) Using a production possibility curve (PPC) diagram, explain how damage to Fiji's infrastructure has affected its production possibilities (paragraph 1).

[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 <b>OR</b> an accurate written response.</i>	1–2
	A PPC diagram showing a decrease in production possibilities (inward shift of the PPC). <b>OR</b> For an explanation that a loss of lives and infrastructure will decrease the quality and/or quantity and/or efficiency / productivity of capital/resources, leading to a decrease in the production possibilities (potential output) of the economy.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	A PPC diagram showing a decrease in production possibilities (inward shift of the PPC). <b>AND</b> For an explanation that a loss of lives and infrastructure will decrease the quality and/or quantity and/or efficiency / productivity of capital/resources, leading to a decrease in the production possibilities (potential output) of the economy.	

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



- (d) Using information from the text/data and your knowledge of economics, discuss the view that government intervention is the best way to achieve economic development in Fiji. **[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.

*Answers **may** include:*

- Definition of economic development.

*Economic analysis **may** include*

- Poverty cycle
- Lorenz curve
- AD/AS diagram
- Externality diagram
- PPC.

*Discussion that government intervention is the best way to achieve economic development **may** include:*

- Financial support for sugar cane producers needed for diversification (paragraph 2) needed for access to credit and to encourage investment.
- The diversification supported through government intervention may lead to more value-added products (paragraph 4). May result in more jobs, increasing household income, raised standard of living as able to access basic necessities.
- Education for women is highlighted as an area for development (paragraph 2), leads to improved human capital, productivity, increased incomes, access to health and basic necessities – raising living standards.
- Government strategies are targeting equality for all, including gender equality (paragraph 2)
- Support in coconut production vital for food security (paragraph 4).

- The investment (paragraph 2) leads to AD increase and increase in economic growth, may lead to economic development if incomes and access to health and education are improved.
- The government provides subsidies on pesticides to support/increase sugar production (paragraph 3); this may or may not result in more jobs, which could increase household incomes and thereby standards of living.
- Ginger and coconut production are economically and environmentally sustainable (paragraph 4) which implies that they are efficient industries, but also environmentally friendly, leading to sustainable growth and development.
- Ginger and coconut production provide “worthwhile income” for an increasing number of Fijians (paragraph 4), leading to an increased standard of living and breaking out of the poverty cycle.
- Social safety net is limited; therefore, government intervention is needed (paragraph 1).
- Infrastructure spending vital to support the tourism industry as a major export (paragraph 1), if exports decrease, economic growth decrease, leads to lower employment opportunities.
- “Green finance” (paragraph 5) would allow sustainable ginger and coconut farmers to have access to credit and invest in their farms to make them more productive and earn more income.
- To improve information flows by reducing asymmetric information, would improve information between farmers and middlemen (paragraph 6). When farmers have more information, they can make better economic decisions that benefit their families in terms of income.

*Discussion that government intervention may not be best way to achieve economic development **may** include:*

- Intervention may not reach the very poor/those with limited resources. The subsidy for pest control (paragraph 3) requires excessive paperwork, so not all may benefit from the support.
- To be effective government intervention needs to be targeted to areas of need. Farmers’ financial literacy needs to be improved (paragraph 5). So, access to credit will only be effective if government can also provide education.
- The government must develop major infrastructure (paragraph 6), which will be costly and take a long time to develop and will have opportunity costs.
- Potential for corruption means government subsidies may not reach those who need it (paragraph 3).
- Subsidies for pesticides may create a negative externality (paragraph 3)
- Brazil has absolute advantage in sugar and is Fiji’s competitor, so the subsidies may be better directed alternative development areas (paragraph 3).

*Students **may** offer alternative strategies to achieve economic development:*

- Trade liberalization and development might be better by creating market access through greater economic integration (paragraph 6), the export revenue earned from this could be used to improve or build new infrastructure in the future, leading to economic development for many in society.
- Grants and concessional loans from Australia (paragraph 6)
- Export promotion – new markets opportunities emerging as products such as coconut water is becoming popular throughout the world (paragraph 4)
- Green finance through Asian Development Bank (paragraph 5).

Any reasonable discussion.

*To reach level 3, students must show awareness of the ways in which government intervention **impacts upon economic development** (not simply discuss the advantages and disadvantages of government intervention in general). This means to link the evaluation to how it will reduce poverty, increase living standards, reduce income inequalities and increase employment opportunities, improve health and education indicators.*

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