

Markscheme

November 2020

Economics

Standard level

Paper 2

23 pages

No part of this product may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without written permission from the IB.

Additionally, the license tied with this product prohibits commercial use of any selected files or extracts from this product. Use by third parties, including but not limited to publishers, private teachers, tutoring or study services, preparatory schools, vendors operating curriculum mapping services or teacher resource digital platforms and app developers, is not permitted and is subject to the IB's prior written consent via a license. More information on how to request a license can be obtained from <https://ibo.org/become-an-ib-school/ib-publishing/licensing/applying-for-a-license/>.

Aucune partie de ce produit ne peut être reproduite sous quelque forme ni par quelque moyen que ce soit, électronique ou mécanique, y compris des systèmes de stockage et de récupération d'informations, sans l'autorisation écrite de l'IB.

De plus, la licence associée à ce produit interdit toute utilisation commerciale de tout fichier ou extrait sélectionné dans ce produit. L'utilisation par des tiers, y compris, sans toutefois s'y limiter, des éditeurs, des professeurs particuliers, des services de tutorat ou d'aide aux études, des établissements de préparation à l'enseignement supérieur, des fournisseurs de services de planification des programmes d'études, des gestionnaires de plateformes pédagogiques en ligne, et des développeurs d'applications, n'est pas autorisée et est soumise au consentement écrit préalable de l'IB par l'intermédiaire d'une licence. Pour plus d'informations sur la procédure à suivre pour demander une licence, rendez-vous à l'adresse suivante : <https://ibo.org/become-an-ib-school/ib-publishing/licensing/applying-for-a-license/>.

No se podrá reproducir ninguna parte de este producto de ninguna forma ni por ningún medio electrónico o mecánico, incluidos los sistemas de almacenamiento y recuperación de información, sin que medie la autorización escrita del IB.

Además, la licencia vinculada a este producto prohíbe el uso con fines comerciales de todo archivo o fragmento seleccionado de este producto. El uso por parte de terceros —lo que incluye, a título enunciativo, editoriales, profesores particulares, servicios de apoyo académico o ayuda para el estudio, colegios preparatorios, desarrolladores de aplicaciones y entidades que presten servicios de planificación curricular u ofrezcan recursos para docentes mediante plataformas digitales— no está permitido y estará sujeto al otorgamiento previo de una licencia escrita por parte del IB. En este enlace encontrará más información sobre cómo solicitar una licencia: <https://ibo.org/become-an-ib-school/ib-publishing/licensing/applying-for-a-license/>.

Section A

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it is to do with government revenue or spending.	1
2	<i>Accurate definition.</i> An understanding that it is when government spending is greater than government revenues.	2

- (ii) Define the term ***gross domestic product (GDP)*** 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> The idea that it is the output produced in an economy.	1
2	<i>Accurate definition.</i> An understanding that it is the total value/output of all goods and services produced in an economy (in a given time period). NB The term “in a given time period” is not necessary for [2] .	2

- (b) Using an exchange rate diagram, explain how raising interest rates would “stop the fall in the peso’s value” (paragraph 4).

[4]

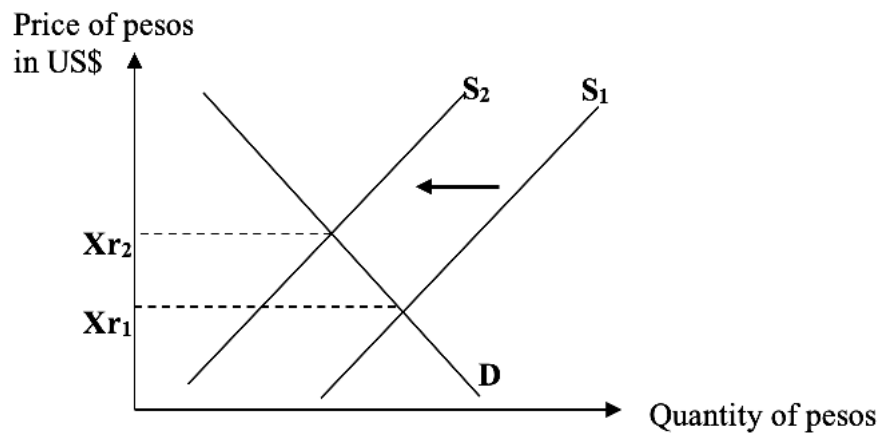
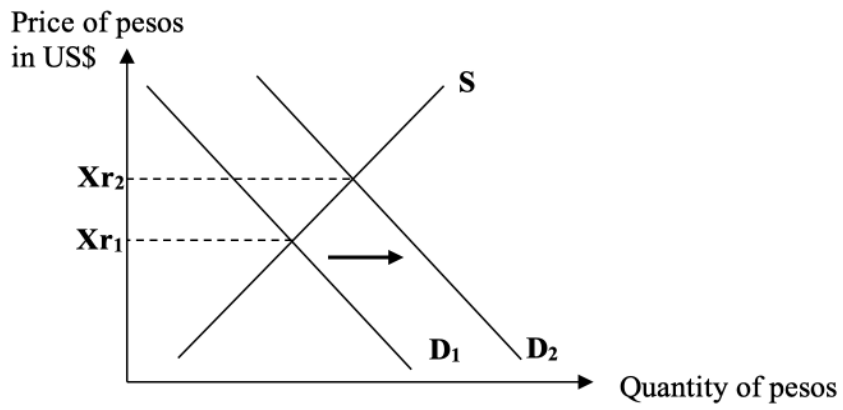
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	<p>An exchange rate diagram showing a shift of the demand curve of the peso to the right and an increase in the exchange rate OR for an explanation that an increase in the interest rate could attract foreign financial investors to buy Argentinian bonds or save in Argentinian banks, which would increase the demand for pesos, stopping the fall in the peso’s value.</p> <p>OR</p> <p>An exchange rate diagram showing a shift of the supply curve of the peso to the left and an increase in the exchange rate OR for an explanation that an increase in the interest rate would discourage investors from selling Argentinian financial assets, which would decrease the supply of pesos, stopping the fall in the peso’s value.</p>	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	<p>An exchange rate diagram showing a shift of the demand curve of the peso to the right and an increase in the exchange rate AND for an explanation that an increase in the interest rate could attract foreign financial investors to buy Argentinian bonds or save in Argentinian banks, which would increase the demand for pesos, stopping the fall in the peso’s value.</p> <p>OR</p> <p>An exchange rate diagram showing a shift of the supply curve of the peso to the left and an increase in the exchange rate AND for an explanation that an increase in the interest rate would discourage investors from selling Argentinian financial assets, which would decrease the supply of pesos, stopping the fall in the peso’s value.</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 pesos in USD, USD/peso, USD per peso. The horizontal axis should be quantity, or quantity of pesos. A title is not necessary.

A title is not necessary.

A diagram may show demand initially shifting left (and/or supply shifting right) causing the exchange rate to fall and then demand shifting right (or supply shifting left) to restore the value of the peso to its original level. If correctly drawn and explained, this can achieve full marks.



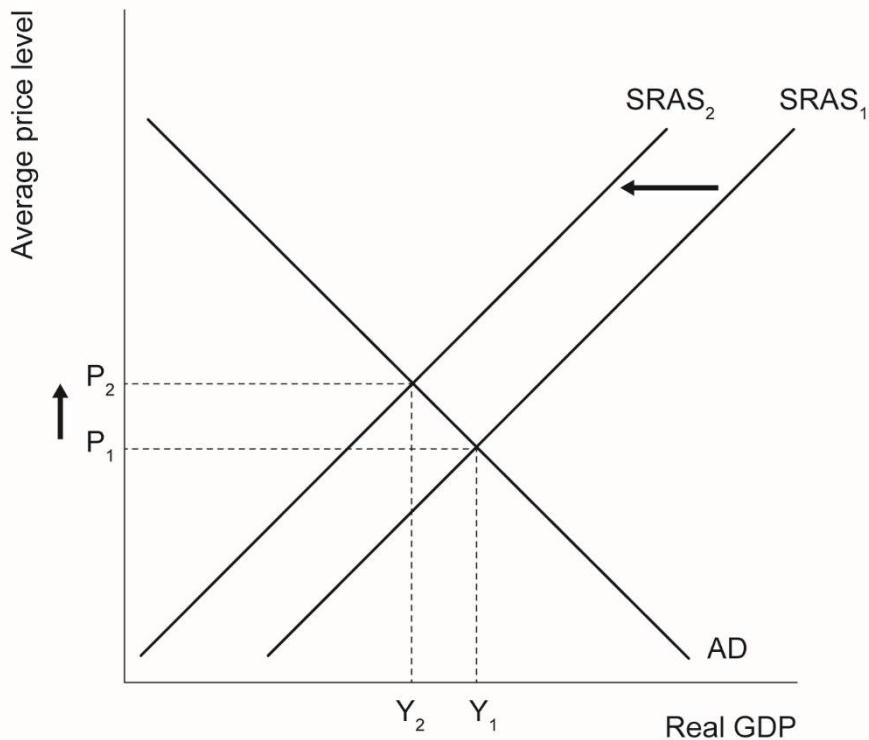
(c) Using an AD/AS diagram, explain how the peso's weakness is "raising inflation" (paragraph 6).

[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
	An AD/AS diagram showing a shift of the AS/SRAS curve to the left and an increase in price level. OR An explanation that a weak peso makes imports more expensive (imported oil prices go up), which increases the costs of production, shifting SRAS to the left/up, further raising inflation.	
2	There is a correct diagram AND an accurate written response.	3-4
	An AD/AS diagram showing a shift of the AS/SRAS curve to the left and an increase in price level. AND An explanation that a weak peso makes imports more expensive (imported oil prices go up), which increases the costs of production, shifting SRAS to the left/up, further raising inflation.	

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

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



- (d) Using information from the text/data and your knowledge of economics, discuss the view that Argentina should keep its floating exchange rate system.

[8]

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	<i>Relevant concepts are recognized and developed in 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:

- Definition of floating exchange rate.

Arguments for floating exchange rates may include:

- The peso is less likely to be overvalued, and therefore exports will be more price-competitive (paragraph 3).
- Allows current account to be self-correcting, which seems to be happening as the current account deficit is slowly narrowing (paragraph 3) now that the peso has significantly depreciated.
- More freedom to set interest rates and domestic monetary policy (paragraph 2), which has been necessary given the high inflation rate and need to finance the government deficit.
- The central bank needs not use foreign reserves to maintain a fixed exchange rate, which could otherwise be depleted (paragraph 4).
- Argentina needs to keep its floating exchange rate system to qualify for the US\$50 billion loan from the IMF (paragraphs 4 and 5). The loan is necessary to meet Argentina’s debt requirements until 2020.

Arguments against floating exchange rates may include:

- Speculative activity can greatly influence the exchange rate, *eg* speculators selling pesos to buy US dollars (paragraph 1), further depreciating the peso.
- The rise in interest rates (to stop the peso falling) is reducing investment (paragraphs 4 and 6).
- Servicing foreign debt is difficult/costs more in terms of pesos when the value of the currency continues to fall in value (paragraph 4).
- Instability and lack of predictability for firms, consumers, importers and exporters – imported costs, including oil, have increased (paragraph 6).
- Governments not required to keep exchange rate fixed, hence there is less incentive for governments to keep inflation in check (paragraph 6).
- If the peso continues to fall, the IMF may need to continue to support the Argentinian economy. This could make Argentina over-reliant on (conditional) loans from the IMF.
- If demand for exports and/or imports is very inelastic, a depreciation will widen the trade deficit, causing further downward pressure on the peso.
- Further depreciation might lead to stagflation and/or a recession (paragraph 6).

Any reasonable discussion.

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

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

(ii) Define the term **trade war** 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> The idea that it is trade that is seen as unfair by one country, leading to protectionism OR the idea that it is rising protectionism.	1
2	<i>Accurate definition.</i> An understanding that the imposition of a trade barrier by one country can trigger off a series of retaliations by (a) trade partner(s).	2

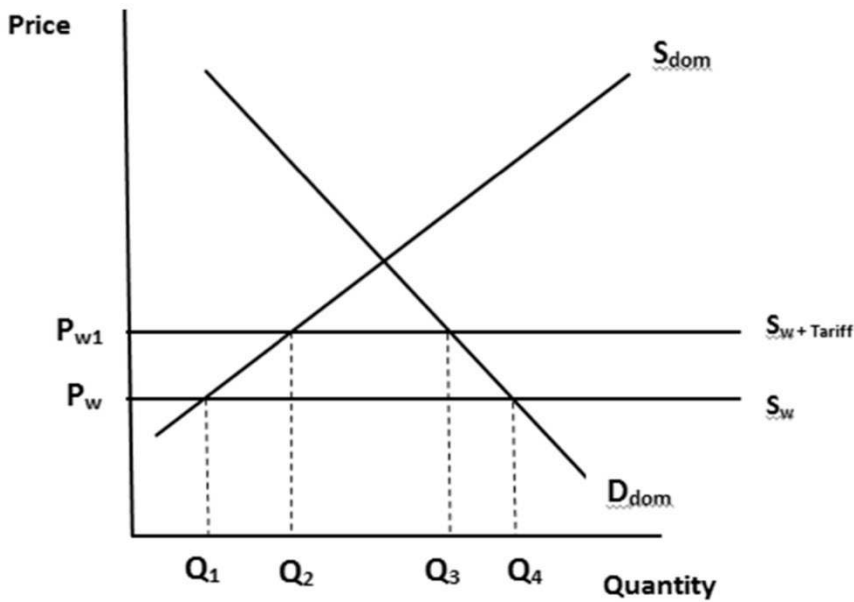
- (b) Using an international trade diagram, explain the outcome on US producers of the introduction of a tariff on imports from China (paragraph 2).

[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
	A tariff diagram showing a shift upwards of the world supply curve OR for providing an explanation that the tariff causes the price to rise (world supply curve shifts upwards), and therefore the US producers will produce more (receive a higher revenue).	
2	There is a correct diagram AND an accurate written response.	3–4
	A tariff diagram showing a shift upwards of the world supply curve AND for providing an explanation that the tariff causes the price to rise (world supply curve shifts upwards), and therefore the US producers will produce more (receive a higher revenue).	

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

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

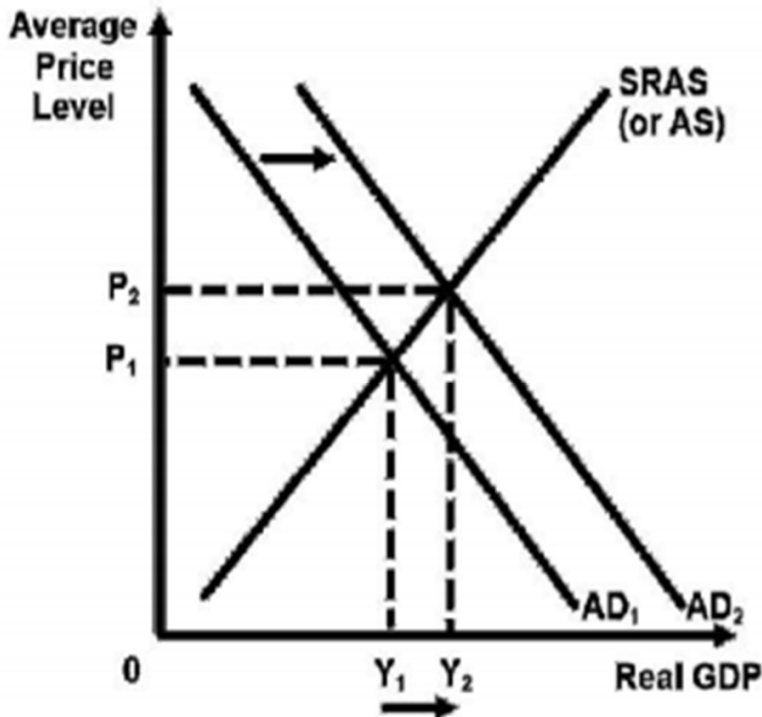


- (c) Using an AD/AS diagram, explain the desired impact of China’s “eased monetary policy” on its economic growth (paragraph 5). [4]

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
	An AD/AS diagram, showing a shift of the AD curve to the right with an increase in real GDP OR for an explanation that China’s “eased monetary policy” (decreasing interest rates and/or increase in the money supply) should increase C and/or I and hence AD, creating economic growth.	
2	There is a correct diagram AND an accurate written response.	3–4
	An AD/AS diagram, showing a shift of the AD curve to the right with an increase in real GDP AND for an explanation that China’s “eased monetary policy” (decreasing interest rates and/or increase in the money supply) should increase C and/or I and hence AD, creating economic growth.	

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

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



- (d) Using information from the text/data and your knowledge of economics, discuss the arguments for and against the trade protection measures imposed by the US on China. **[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 and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Answers may include:

- Definition of trade protection, tariff, subsidies.

Arguments for trade protection may include:

- To reduce a trade deficit with China (paragraph 1), as the imposition of tariffs should reduce import spending.
- To allow US firms to compete against “unfair trade practices” (paragraph 1) from China. If China uses unfair trade practices and their goods/services are relatively cheaper, then American goods will not be able to compete and unemployment may rise.
- Import-substitution might take place due to the tariffs if consumers are able to substitute the previously imported goods with domestically-produced goods (paragraph 4) at an affordable price, leading to increased revenue for domestic firms and economic growth for the US.
- Trade protection may have been used for political reasons, rather than economic ones.
- The US government will gain revenue from the tariffs.

Arguments against trade protection may include:

- The tariffs have been harming Chinese producers and workers in some provinces have already become unemployed (paragraph 2).
- The reduction in Chinese incomes/growth will mean that less is imported from the US, harming US exporters (paragraph 2).
- US farmers are suffering from the retaliatory ban on soybeans (paragraph 2), showing that the original intention of protecting its steel industry is backfiring on the farmers.
- The trade war is negatively impacting global trade; as Chinese incomes fall they are importing less: export revenue for producers in the EU and Australia (paragraph 3) is falling.
- Germany's economy may hit a recession if the tariffs on cars and car parts are imposed (paragraph 3).
- With or without import substitution, consumers are paying higher prices for domestic and imported goods.
- Prices of inputs might rise; leading to cost-push inflation.
- Profits of large US companies (such as Apple Inc. and Caterpillar Inc.) have been hurt (paragraph 4), this is not good for the companies, its shareholders and possibly the workers if they become unemployed. (Since Apple Inc. has production firms in China, it will hurt the US and China alike.)
- Small and medium-sized firms in China are most hurt (paragraph 5), which may result in more unemployment if the trade war continues.
- With trade protection, welfare losses exist, which means that resources are allocated to less efficient producers.

Any reasonable discussion.

Section B

3. (a) (i) State **two** functions of the International Monetary Fund (IMF) (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
	Any one of the following: <ul style="list-style-type: none"> • oversee/monitor the stability of the international monetary system • promote international monetary cooperation • lend money to help members in balance of payments/financial difficulties • give advice to member countries on economic policies • promote economic stability. 	
2	<i>Accurate definition.</i>	2
	Any two of the following: <ul style="list-style-type: none"> • oversee/monitor the stability of the international monetary system • promote international monetary cooperation • lend money to help members in balance of payments/financial difficulties • give advice to member countries on economic policies • promote economic stability. 	

(ii) Define the term *human capital* indicated in bold in the text (paragraph 5). [2]

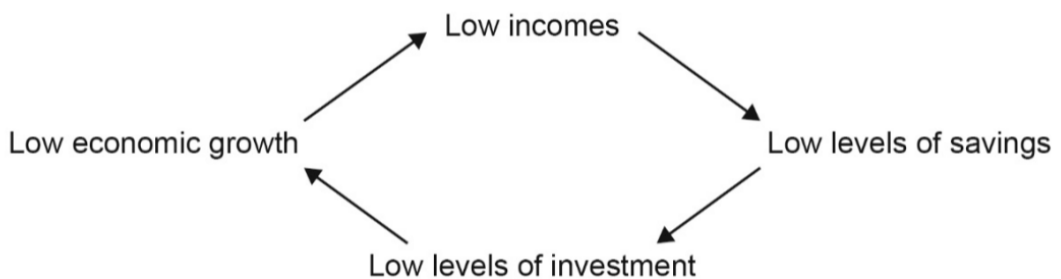
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is the quality of labour or that it is a factor of production (labour).	
2	<i>Accurate definition.</i>	2
	Any two of the following: <ul style="list-style-type: none"> • factor of production (labour) • skills • abilities • knowledge/qualifications • level of health (that make a labour force productive). 	

(b) Using a poverty cycle diagram, explain how the government of Pakistan could intervene to “break out of the poverty cycle” (paragraph 3). **[4]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	A poverty cycle diagram OR an explanation of one of: <ul style="list-style-type: none"> • government may (collect more tax and) spend on investment projects such as education/infrastructure to increase level of human and physical capital and therefore break the cycle • government may attract FDI which may supplement low savings as it could increase incomes and therefore break the cycle • any valid government policy which would attract FDI and/or encourage economic growth. 	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	A poverty cycle diagram AND an explanation of one of: <ul style="list-style-type: none"> • government may (collect more tax and) spend on investment projects such as education/infrastructure to increase level of human and physical capital and therefore break the cycle • government may attract FDI which may supplement low savings as it could increase incomes and therefore break the cycle • any valid government policy which would attract FDI and/or encourage economic growth. 	

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

Example of poverty cycle (any cycle, including investment and starting and ending with an indicator of poverty, is acceptable).



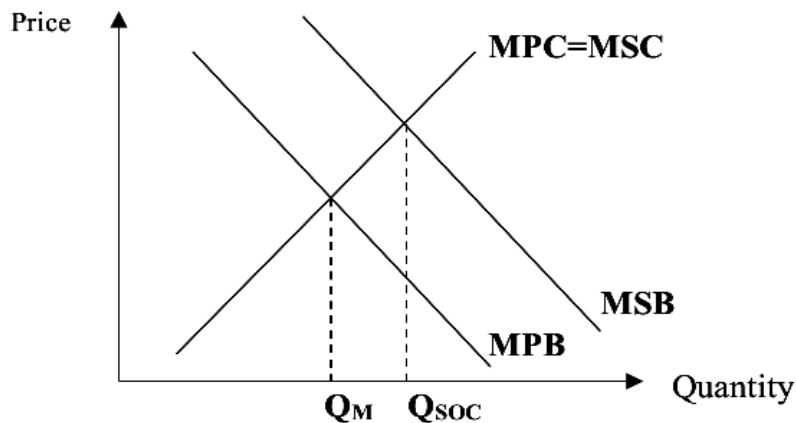
- (c) Using an externalities diagram, explain how “greater access to education” for girls in Pakistan could reduce market failure (paragraph 5).

[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
	An externalities diagram showing MSB higher than MPB and indicating under-consumption of education and/or welfare loss (potential welfare gain) OR for an explanation that greater access to education for girls could reduce the under-consumption in the market (reduce the welfare loss) and therefore reduce market failure. NB diagrams may differ based on the explanation. Candidates may state that the greater access to education is represented through an increase in demand (MPB) or increase in supply (MPC).	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	An externalities diagram showing MSB higher than MPB and indicating under-consumption of education and/or welfare loss (potential welfare gain) AND for an explanation that greater access to education for girls could reduce the under-consumption in the market (reduce the welfare loss) and therefore reduce market failure. NB diagrams may differ based on the explanation. Candidates may state that the greater access to education is represented through an increase in demand (MPB) or increase in supply (MPC).	

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

The vertical axis may be price, but could be costs or benefits. The horizontal axis is quantity. P and Q is sufficient. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the potential impact of the IMF and the World Bank on economic development in Pakistan. **[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

“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:

- Functions of IMF, World Bank.
- Definition of economic development.
- The difference between the IMF and the World Bank.

May promote/achieve economic development because:

- IMF loans provide help with balance of payments deficit and external debt obligations (paragraph 1), allows government revenue to be used for improving quality of life through expenditure on merit goods.
- The IMF may learn from previous agreements and provide the monitoring/support needed for successful implementation of realistic conditions to reduce the burden of debt payments (paragraph 4).
- Other potential lenders may be persuaded or given the confidence to provide finance to help with economic development projects (paragraph 3).
- The World Bank’s education projects directly influence education and female enrollment rates which promote gender equality, employment possibilities, increasing incomes and access to basic needs (paragraph 5).
- Providing key infrastructure such as hydroelectric dams allows access to electricity and provides basic needs and infrastructure for business development (paragraph 6).
- Loans help build capacity and attract FDI to facilitate economic growth needed to break out of the poverty cycle (paragraph 3), may provide employment opportunities and increased tax revenue.
- IMF suggestions/conditions such as improved tax collection and access to credit can help support economic development (paragraph 2).

Above points should link to how these impacts will reduce poverty, increase living standards, reduce income inequalities and/or increase employment opportunities, improve health and education indicators, *ie* achieve economic development.

However, may not promote economic development because:

- Loan conditions (paragraph 2) may limit the government's ability to achieve its development objectives, particularly the improvement in human capital (paragraph 5).
- Development spending might be decreased due to contractionary fiscal policy.
- Balance of payments issue has not been dealt with in the past (paragraph 4).
- World Bank infrastructure project – may lack sustainability (paragraph 6).
- The lending conditions may reduce economic growth, increase unemployment and hamper economic development.
- While FDI may lead to increased employment and economic growth, attracting FDI may require offering concessions (tax, regulatory, *etc*) which may limit its development impact.
- More loans and extending loans (paragraph 3) may not be dealing with other fundamental issues of managing the loans, such as servicing costs (paragraph 4).
- Environmental issues may be overlooked, threatening sustainability (paragraph 6).

Any reasonable evaluation.

4. (a) (i) State **two** functions of the *World Trade Organization (WTO)* (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
	One function is stated OR two functions are partially stated.	
2	<i>Accurate definition.</i>	2
	A clear understanding demonstrated by listing two of the following functions of the WTO for its member countries: <ul style="list-style-type: none"> • to set and enforce rules for international trade • to provide a forum for negotiating trade liberalization • to monitor further trade liberalization • to resolve trade disputes • to increase the transparency of decision-making processes • to help developing countries benefit fully from the global trading system. 	

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

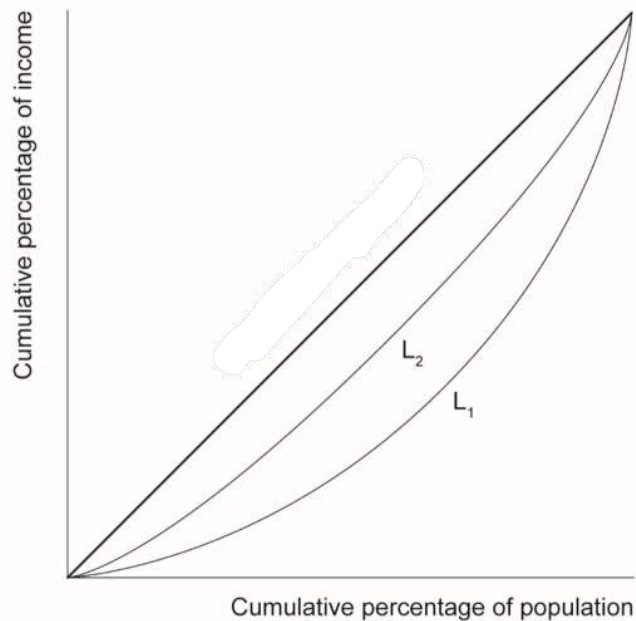
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is an increase in prices.	
2	<i>Accurate definition.</i>	2
	An understanding that it is a sustained increase in the (average/general) price level.	

- (b) Using a Lorenz curve diagram, explain the possible impact on the distribution of income in the Philippines when “the income tax for the highest income earners has been raised from 30% to 35%” (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
	A Lorenz curve diagram with 2 curves showing a shift closer to the line of perfect income equality OR an explanation that an increase of the tax rate in the highest income tax bracket makes it more progressive/reduces the disposable income of highest income earners/shifts the curve closer to the diagonal, thereby achieving greater income equality/resulting in greater equity in the distribution of income (decreasing inequality).	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	A Lorenz curve diagram with 2 curves showing a shift closer to the line of perfect income equality AND an explanation that an increase of the tax rate in the highest income tax bracket makes it more progressive/reduces the disposable income of highest income earners/shifts the curve closer to the diagonal, thereby achieving greater income equality/resulting in greater equity in the distribution of income (decreasing inequality).	

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

For the vertical axis, the label may be cumulative percentage of (national) income or percentage of (national) income (GDP and GNI are valid alternatives to income but wealth is not acceptable). For the horizontal axis, the label may be cumulative percentage of population/people/households or percentage of population/people/households. A title is not necessary.

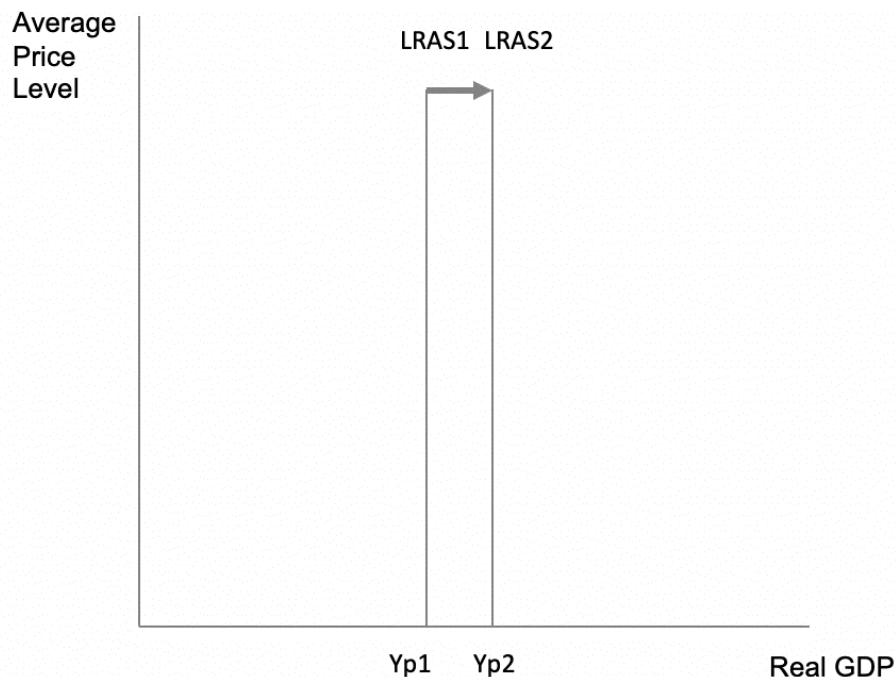


(c) Using an AD/AS diagram, explain the impact on the potential output of the Philippines of the government increasing its “spending on new airports, roads and bridges” (paragraph 4). [4]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram OR an accurate written response.	1–2
	An AD/AS diagram showing an increase in LRAS OR for explaining that increasing spending on infrastructure means that it <ul style="list-style-type: none"> • increases (the quantity and quality of) factors of production OR • increases efficiency/productivity shifting LRAS to the right, thereby increasing potential output.	
2	There is a correct diagram AND an accurate written response.	3–4
	An AD/AS diagram showing an increase in LRAS AND for explaining that increasing spending on infrastructure means that it <ul style="list-style-type: none"> • increases (the quantity and quality of) factors of production OR • increases efficiency/productivity shifting LRAS to the right, thereby increasing potential output.	

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

For AD/AS the vertical axis may be average (general) price level, or price level. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. Any abbreviations are acceptable. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the use of export promotion as a means of achieving economic development in the Philippines.

[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.

Answers may include:

- Definitions of economic development, export promotion.
- The link between export-led growth and economic development.

Advantages of export promotion may include:

- The PEDP 2017–2022 wants to boost the export of services, which could bring in more export revenue due to its higher value, increasing incomes of workers in numerous services, allowing for a better standard of living and higher tax revenue for the government (paragraph 3).
- Increased exports of processed foods rather than unprocessed foods will increase farm incomes (paragraph 2).
- If boosting exports and increasing export competitiveness (such as the standards, testing and certification) is successful, then more export revenue should come in (paragraph 3), providing the government with more tax revenue which could be spent on development objectives.
- Removing regulations should make it easier for exporters to run their business and to export their products (paragraph 3).
- Investment in the production processes and supply chains (paragraph 3) should reduce the costs of production over time and make the goods more export competitive.
- Exploiting existing and new opportunities from trade agreements (paragraph 3) should increase export revenues in sectors that are competitive.

- If more is exported, then more can be imported and the tariffs on rice can be lowered, benefitting low-income families (paragraph 1).

Disadvantages/limitations of export promotion may include:

- Export promotion could favour economic activities in urban areas which could lead to higher prices and wages in these areas, especially in Manila (paragraph 2); higher domestic prices and inflation, affecting all families negatively as real incomes and purchasing power falls, and therefore lower income families are most negatively affected, lowering standards of living, and possibly increasing inequality and poverty.
- Export promotion will be difficult to achieve when investment in much-needed irrigation systems that would improve productivity in farming as well as infrastructure to help farmers connect to export markets, is discouraged (paragraph 2).
- There is a lack of access to export markets due to the lack of infrastructure, which would also hamper export promotion.
- The Philippines lacks the infrastructure needed to attract export-oriented manufacturing (paragraph 4) from overseas.
- Other countries may resist increased exports from the Philippines.
- Reliance on a narrow range of exports (such as processed food) may be risky.
- More will be spent on infrastructure by the government. Although the budget may have more income from an increase in income tax, poorer households may suffer due to a higher indirect tax on a range of goods (paragraph 4).

Any reasonable evaluation.

Candidates may argue that export promotion may lead to economic growth. As long as they have established a clear link between economic growth and economic development, such arguments should be fully rewarded.