

Markscheme

November 2021

Economics

Standard level

Paper 2

20 pages

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Section A

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	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.	
2	<i>Accurate definition.</i>	2
	An understanding that the imposition of a trade barrier can trigger off a series of retaliations by (a) trade partner(s).	

- (ii) List **two** functions of the World Trade Organization (WTO) (paragraph 2). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is limited understanding.</i>	1
	One function is listed.	
2	<i>There is clear understanding.</i>	2
	A clear understanding is 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 cooperate with other major international economic institutions involved in global economic management to help developing countries benefit fully from the global trading system. 	

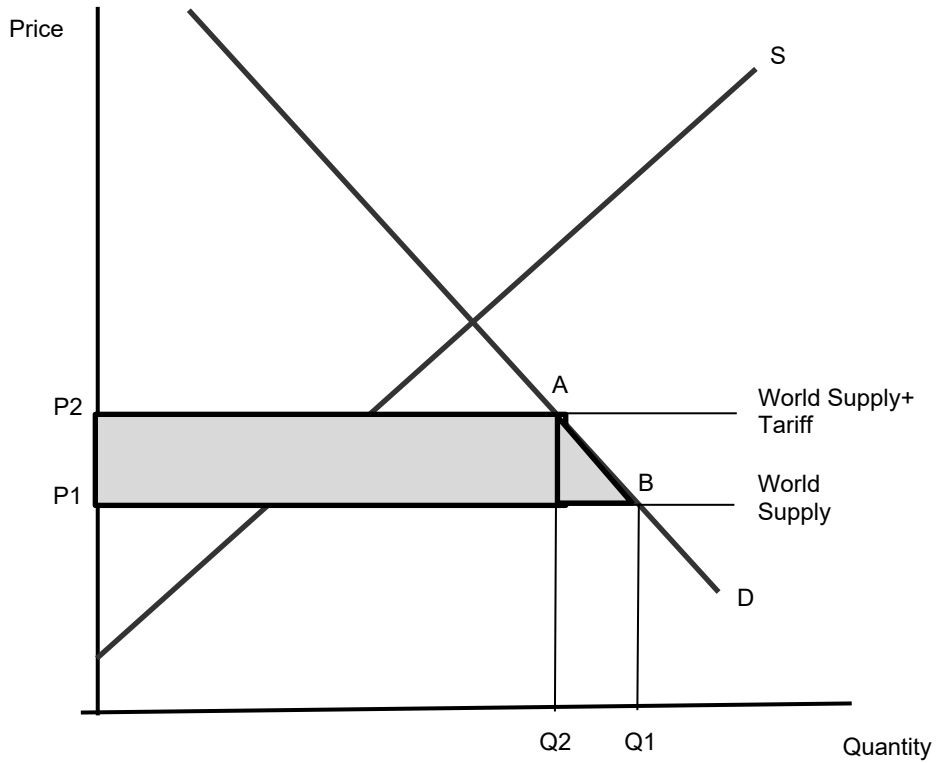
- (b) Using a tariff diagram, explain the likely effect on consumer surplus of a 25% tariff on all wooden furniture imported into the US (paragraph 5). [4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	For drawing a correctly labelled tariff diagram, with a horizontal world supply line and another higher horizontal line to show the effect of the tariff with the reduction in consumer surplus shaded or otherwise indicated OR for an explanation that because of the tariff, consumers pay a higher price and buy a smaller quantity leading to a reduction in consumer surplus.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled tariff diagram, with a horizontal world supply line and another higher horizontal line to show the effect of the tariff with the reduction in consumer surplus shaded or otherwise indicated AND for an explanation that because of the tariff, consumers pay a higher price and buy a smaller quantity leading to a reduction in consumer surplus.	

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

Candidates may indicate the change in consumer surplus with shaded areas or numbers/letters in the diagram (eg a loss of consumer surplus of P_1P_2AB in the diagram below).

The use of P and Q on the axes is sufficient for a tariff diagram. World supply must be distinguished from domestic supply. If abbreviated, the world supply curve must be labelled S_w or S_{world} . A title is not necessary.



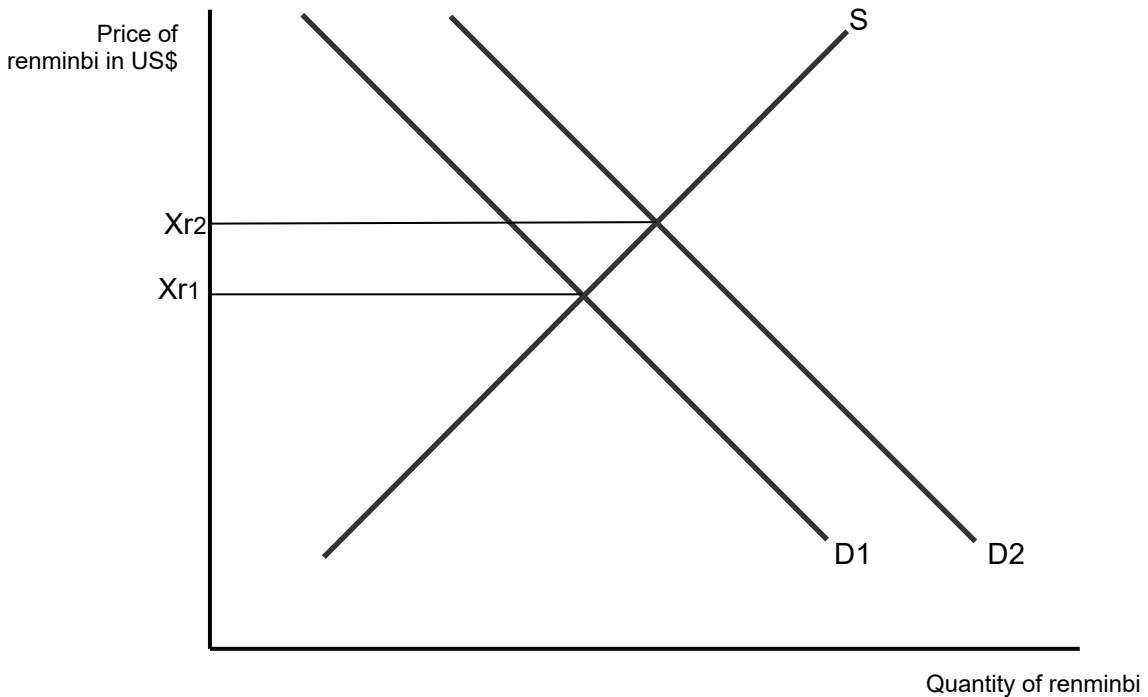
- (c) Using a foreign exchange diagram, explain the possible effect of China’s large current account surplus in 2007 on the exchange rate of China’s currency (the renminbi) (paragraph 6).

[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 correctly labelled exchange rate/foreign exchange diagram, with the demand curve shifting right (or the supply curve shifting left) and the equilibrium price of the renminbi rising OR for an explanation that the surplus could mean an extra demand for the currency due to more exports/greater inflows (or a reduced supply of the currency due to fewer imports/fewer outflows) which causes the exchange rate to rise/appreciate.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled exchange rate/foreign exchange diagram, with the demand curve shifting right (or the supply curve shifting left) and the equilibrium price of the renminbi rising AND for an explanation that the surplus could mean an extra demand for the currency due to more exports/greater inflows (or a reduced supply of the currency due to fewer imports/fewer outflows) which causes the exchange rate to rise/appreciate.	

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

For an exchange rate/foreign exchange diagram, the vertical axis may be exchange rate, price of renminbi in another currency, other currency/renminbi or other currency per renminbi. The horizontal axis should be quantity, or quantity of renminbi. A title is not necessary.



NB: *an acceptable alternative is the supply curve shifting left.*

- (d) Using information from the text/data and your knowledge of economics, evaluate China’s use of subsidies as a form of trade protection.

[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.

Answers may include:

- definitions of trade protection, subsidy
- an international trade diagram showing the effect of a subsidy on imports and/or on exports.

Advantages of subsidies may include:

- goods with external benefits such as solar panels may need to be subsidised to ensure the optimum quantity is produced (paragraph 2)
- many other countries use subsidies and therefore China needs to use them to compete (paragraph 2)
- China’s trade surplus has already been reduced and might become a deficit if subsidies for key export industries are not provided (paragraph 6)
- prices of subsidised products will be lower for consumers
- reduces inflationary pressures in the economy.

Disadvantages of subsidies may include:

- they increase the misallocation of resources in world trade (paragraph 2)
- the complexity of supply chains makes it difficult to determine which firms are getting an unfair advantage (paragraph 6)
- they give a disadvantage to firms in competition with Chinese firms (paragraphs 2 and 3)
- they may lead to excess supply and dumping (paragraph 3)
- they make the WTO less effective, because its rules with regards to subsidies at present are too limited (paragraph 3)

- subsidies are a key component of the trade war, which contributes to reduced global trade and investment flows (paragraph 1)
- China's use of subsidies limits production in other South East Asian economies, negatively impacting their growth and development (paragraph 5)
- the cost to governments of providing subsidies is high
- the welfare loss due to subsidies
- subsidies will reduce incentives for innovation/efficiency in domestic industry and long run competitiveness may deteriorate.

Any reasonable evaluation.

2. (a) (i) Define the term *foreign direct investment* 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 investment between countries.	1
2	<i>Accurate definition.</i> An understanding that it is any two of the following: <ul style="list-style-type: none"> • long-term investment in another country • investment by a multinational corporation (MNC) • investment in another country representing at least 10% ownership • investment in productive facilities. 	2

- (ii) List **two** responsibilities of a central bank (paragraph 4).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Limited understanding.</i> One responsibility is listed.	1
2	<i>Clear understanding</i> Two of the following responsibilities are listed: <ul style="list-style-type: none"> • regulator of commercial banks • banker to the government • control of interest rates • control of money supply • implement monetary policy • maintenance of price stability • control of exchange rate policy • provider and printer of notes and coins. 	2

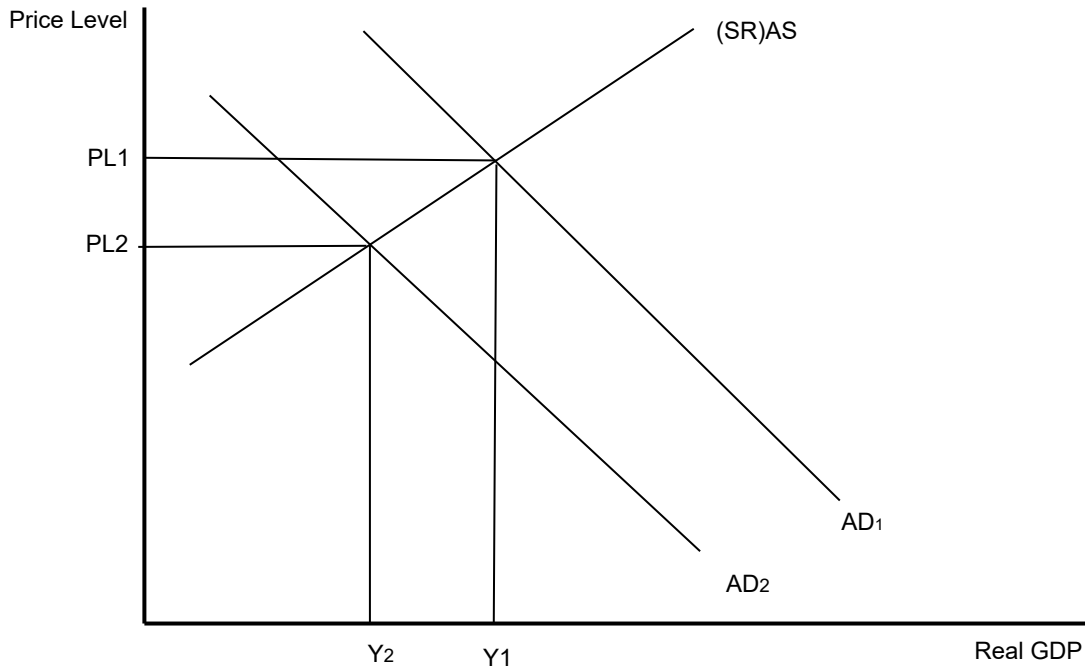
- (b) Using an AD/AS diagram, explain how the change in the balance of trade in goods and services from 2018 to 2019 could have affected South Korea's economy (**Table 1** and paragraph 1).

[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 a correctly labelled AD/AS diagram, with the AD curve shifting left (downwards) and the equilibrium output and price level falling OR for an explanation that the lowering of the surplus on the trade balance (X-M) will lower AD, leading to a fall in real GDP/growth and/or a lower price level/rate of inflation.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled AD/AS diagram, with the AD curve shifting left (downwards) and the equilibrium output and price level falling AND for an explanation that the lowering of the surplus on the trade balance (X-M) will lower AD, leading to a fall in real GDP/growth and/or a lower price level/rate of inflation.	

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

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

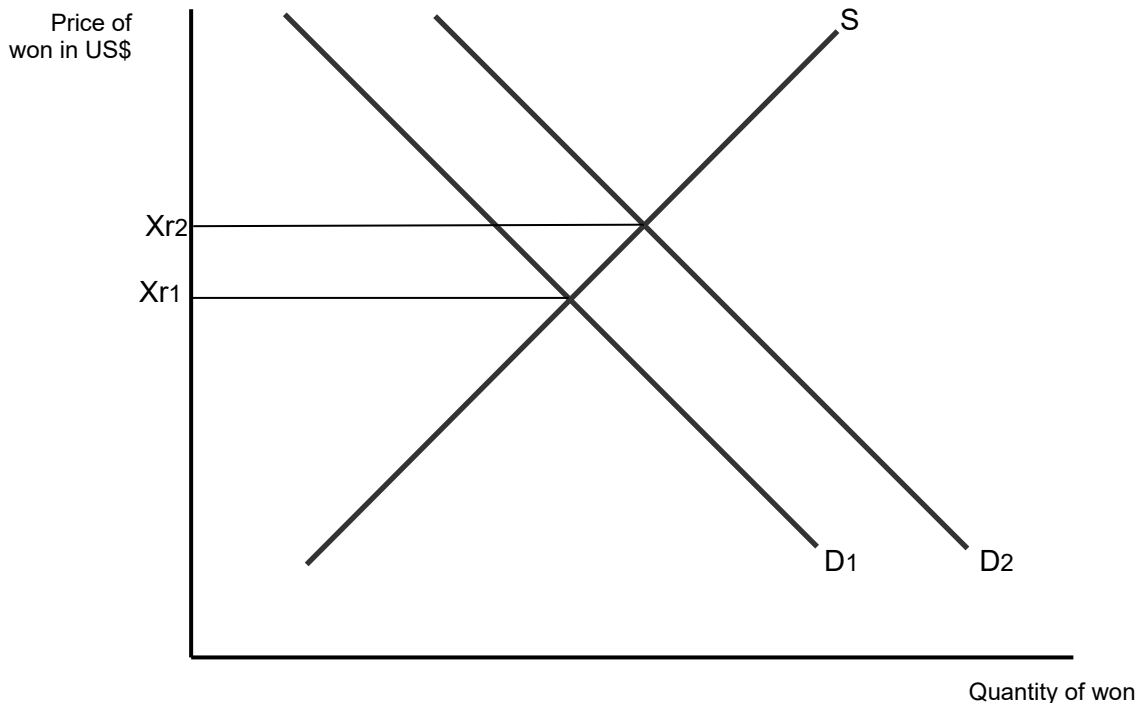


- (c) Using an exchange rate diagram, explain the effect on the South Korean won's exchange rate of South Korea's central bank selling US dollars (paragraph 6).

[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
	For drawing a correctly labelled exchange rate diagram for the South Korean won, with the demand curve shifting right and the equilibrium price of the South Korean won rising OR for an explanation that when the central bank sells US dollars, it will buy won, causing an increase in its demand and an increase in the value/appreciation/revaluation of the won.	
2	There is a correct diagram AND an accurate written response.	3–4
	For drawing a correctly labelled exchange rate diagram for the South Korean won, with the demand curve shifting right and the equilibrium price of the South Korean won rising AND for an explanation that when the central bank sells US dollars, it will buy won, causing an increase in its demand and an increase in the value/appreciation/revaluation of the won.	

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 won in another currency, other currency/won or other currency per won. The horizontal axis should be quantity, or quantity of won. A title is not necessary.



NB: an answer may alternatively draw an exchange rate diagram for the US dollar and show the supply curve shifting right with the US dollar depreciating, which is equivalent to the won appreciating. If the explanation is correct, this can be fully rewarded.

NB: the diagram may show the won initially depreciating due to declining demand and/or rising supply, with the demand curve then shifting right to reverse the depreciation. If the explanation is correct, this can be fully rewarded.

- (d) Using information from the text/data and your knowledge of economics, evaluate the South Korean central bank’s decision to intervene in order to prevent the South Korean won from depreciating again.

[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.

Answers may include:

- definition of depreciation
- definition of exchange rate
- definition of a managed exchange rate.

Arguments for intervening to prevent depreciation may include:

- possibly the won is already undervalued due to the downward trend from mid-2017 to mid-2019. It will become more undervalued if it depreciates again (paragraph 1 and **Figure 1**)
- it needs to consider that demand for exports now seems to be price inelastic, therefore a depreciation would reduce export revenues, despite the fall in price (paragraph 2)
- it needs to take action because exchange rate movements are affected by speculative financial flows as well as trade flows (paragraph 3)
- it needs to take action because the financial account has a large deficit while the current account has a huge surplus (paragraph 3)
- it needs to stabilize the foreign exchange market (paragraph 6 and **Figure 1**)
- if the exchange rate depreciates again, South Korea risks being accused by the US of unfair currency manipulation (paragraph 5).
- it needs to take action so that import prices do not rise / there is less inflationary pressure.

Arguments for not intervening to prevent depreciation may include:

- may be able to offset the decline in net exports by letting the exchange rate depreciate further (paragraph 1 and **Table 1**)
- macroeconomic indicators imply that a depreciation would benefit the economy and employment by promoting growth through cheaper exports (paragraph 4)
- although a depreciation might cause demand-pull (through a rise in $(X-M)$) and cost-push inflation (through a rise in import prices), present inflation rates are very low (paragraph 4)
- use of interest rates to stop outflows of portfolio investment affects both the financial account and domestic monetary policy (paragraph 4)
- market forces (rise in demand for semi-conductors, *etc*) may naturally cause appreciation (paragraph 6).
- may run out of reserves, if tries to prevent depreciation by selling its reserves (paragraph 6).

Any reasonable evaluation.

Section B

3. (a) (i) List **two** functions of the World Bank (paragraph 3). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is limited understanding.</i>	1
	One function is listed.	
2	<i>There is clear understanding.</i>	2
	A clear understanding is demonstrated by listing two of the following functions of the World Bank: <ul style="list-style-type: none"> • gives loans to developing countries • aims to promote development/restructuring • aims to reduce poverty • helps countries achieve the Millennium/Sustainable Development Goals • provides technical assistance and advice • supports foreign direct investment (FDI) • collects data/does research. 	

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

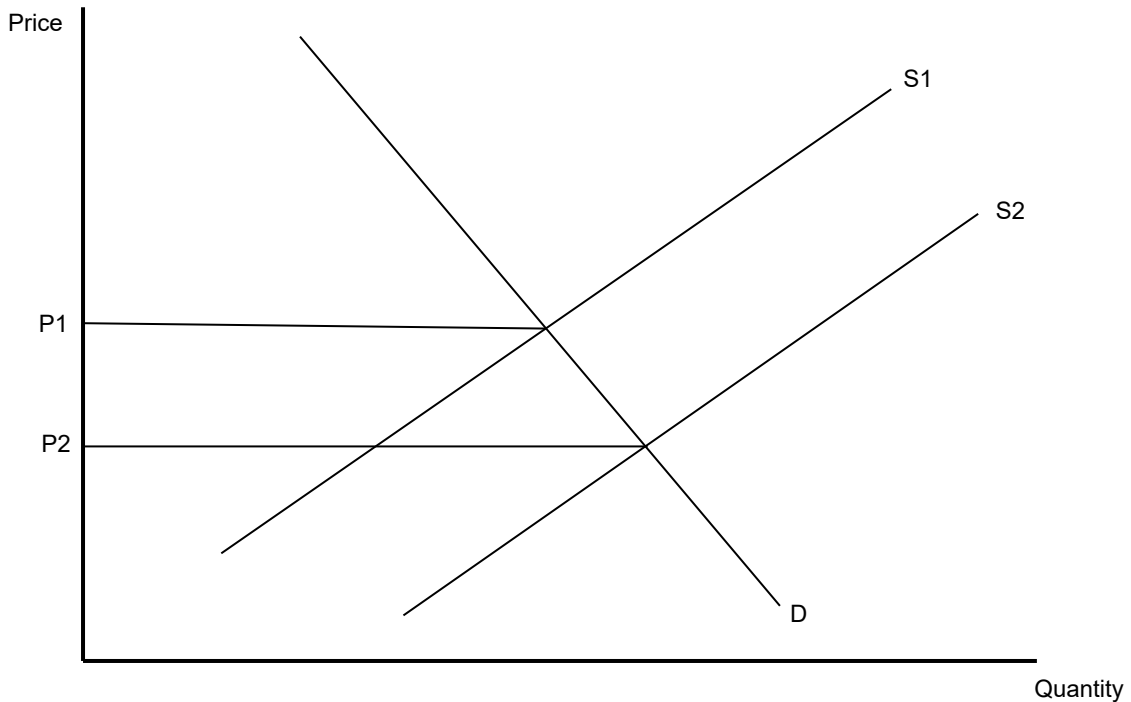
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is to do with people not having jobs.	
2	<i>Accurate definition.</i>	2
	An understanding that it is when people do not have jobs and are actively looking for work.	

- (b) Using a demand and supply diagram, explain why the global price of coffee beans dropped when “countries such as Vietnam, Indonesia and Ethiopia increased their exports” (paragraph 2). [4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	For drawing a correctly labelled demand and supply diagram, with equilibrium price falling due to an increase in supply OR for an explanation that the supply has increased (leading to a fall in the equilibrium price).	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled demand and supply diagram, with equilibrium price falling due to an increase in supply AND for an explanation that the supply has increased (leading to a fall the equilibrium price).	

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

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



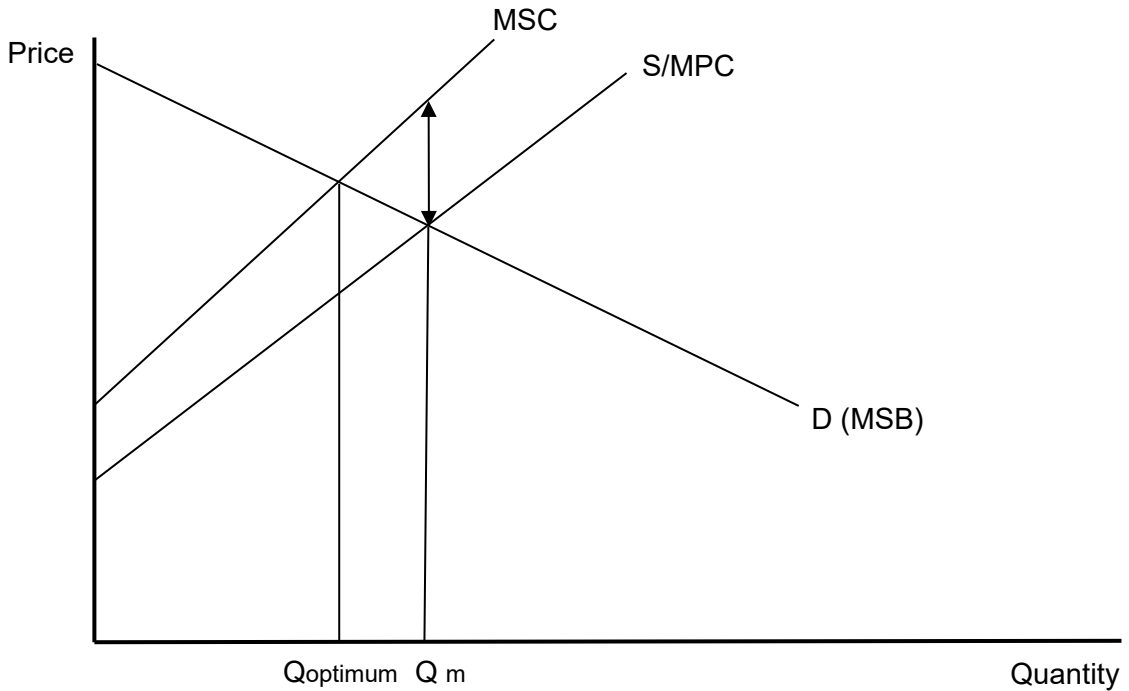
(c) Using an externalities diagram, explain how coal-fired power plants in the US might be causing market failure (paragraphs 3 and 4).

[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
	For drawing a correctly labelled externalities diagram, with an MSC curve above the MPC (supply) curve and the optimum (efficient) output below the equilibrium (market) output OR for an explanation that the production of electricity by coal-fired power plants has negative externalities/external costs because the emissions (global warming) resulting in any one of the following: <ul style="list-style-type: none"> • a misallocation of resources • a situation where the market is operating at a level that is not socially efficient (MSB≠MSC) • a situation where there is a welfare loss to society. 	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled externalities diagram, with an MSC curve above the MPC (supply) curve and the optimum (efficient) output below the equilibrium (market) output AND for an explanation that the production of electricity by coal-fired power plants has negative externalities/external costs because the emissions (global warming) resulting in any one of the following: <ul style="list-style-type: none"> • a misallocation of resources • a situation where the market is operating at a level that is not socially efficient (MSB≠MSC) • a situation where there is a welfare loss to society. 	

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 is labelled quantity. P and Q are sufficient. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, discuss the extent to which foreign aid from the US may assist economic development in Honduras.

[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.	1–2
	There is basic knowledge/understanding.	
2	Relevant concepts are recognized and developed in reasonable depth.	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	Relevant concepts are recognized and developed in depth.	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, ODA (official development assistance), development.

Benefits of aid may include:

- needed for development because the government is not providing enough support (paragraph 2)
- EMDCs should provide aid because the impact of climate change (for which they are mainly responsible) falls more heavily on ELDCs and hampers their development (paragraph 3 or 4)
- can provide help in adapting to climate change (paragraph 5)
- project aid can increase employment/incomes and reduce the number of migrants (paragraph 6)
- humanitarian aid helps to prevent malnutrition which lowers productivity (paragraph 4 or 5)
- joint projects with NGOs and/or private sector firms can be effective (paragraph 5 or 7)
- funds from aid can break the poverty cycle
- loans are usually concessional and therefore repayments are less which means that there is more government expenditure available for development projects.

Limitations of aid may include:

- aid flows can be volatile and unreliable (**Figure 2**)
- aid is influenced by political considerations (paragraph 5)
- aid (tied) is sometimes directed towards military and policing projects rather than to reducing poverty (paragraph 5)
- remittances from migrants are much larger and can be of more direct use to families (**Table 2**, paragraph 1)
- assistance from NGOs may be more effective and reliable (paragraph 7)
- the coffee processors and retailers such as Starbucks may provide more useful assistance (paragraph 7)
- aid funds may be misused if there is not good governance (paragraph 2).

Any reasonable discussion.

4. (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 **human capital** indicated in bold in the text (paragraph 7). [2]

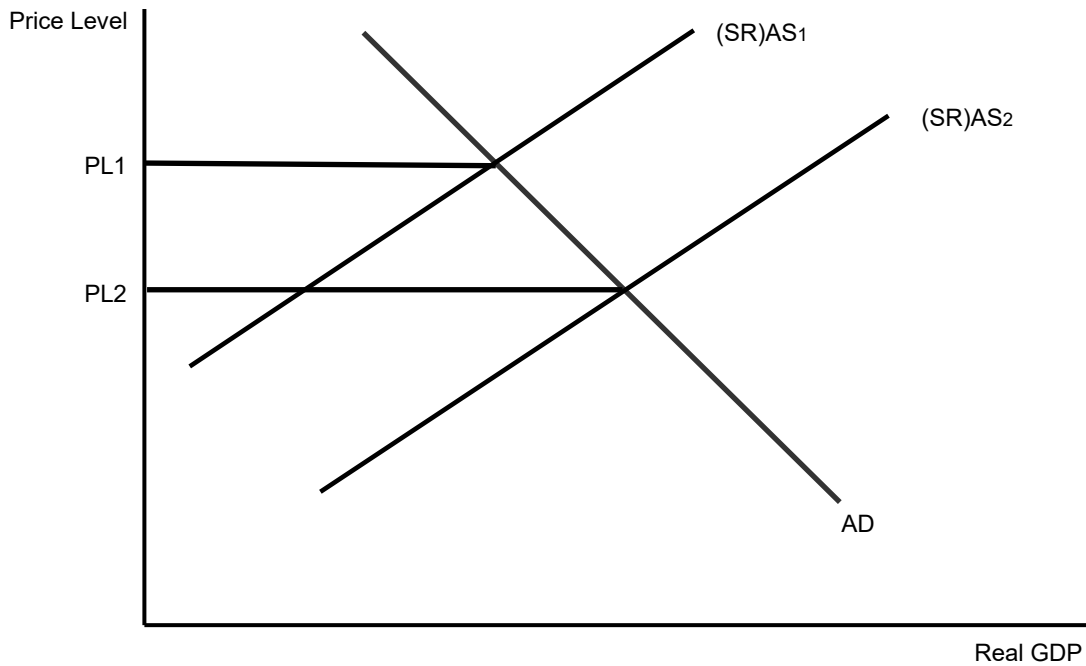
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it is the quality of labour OR that it is a factor of production (labour).	1
2	<i>Accurate definition.</i> The idea that it is labour/workers and any of two of the following: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

- (b) Using an AD/AS diagram, explain how “lower prices for food and raw materials” might put downward pressure on inflation (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> For drawing a correctly labelled AD/AS diagram, with the (SR)AS shifting right (downwards) and the equilibrium price level falling OR for an explanation that the lower prices for food and raw materials will reduce costs, leading to an increase in (SR)AS and downward pressure on the price level/inflation.	1–2
2	<i>There is a correct diagram AND an accurate written response.</i> For drawing a correctly labelled AD/AS diagram, with the (SR)AS shifting right (downwards) and the equilibrium price level falling AND for an explanation that the lower prices for food and raw materials will reduce costs, leading to an increase in (SR)AS and downward pressure on the price level/inflation.	3–4

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

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



NB Candidates may alternatively draw a Keynesian AS curve shifting to the right.

- (c) Using a Lorenz curve diagram, explain what is meant by an “increase in income inequality from 2015 to 2019” (paragraph 6).

[4]

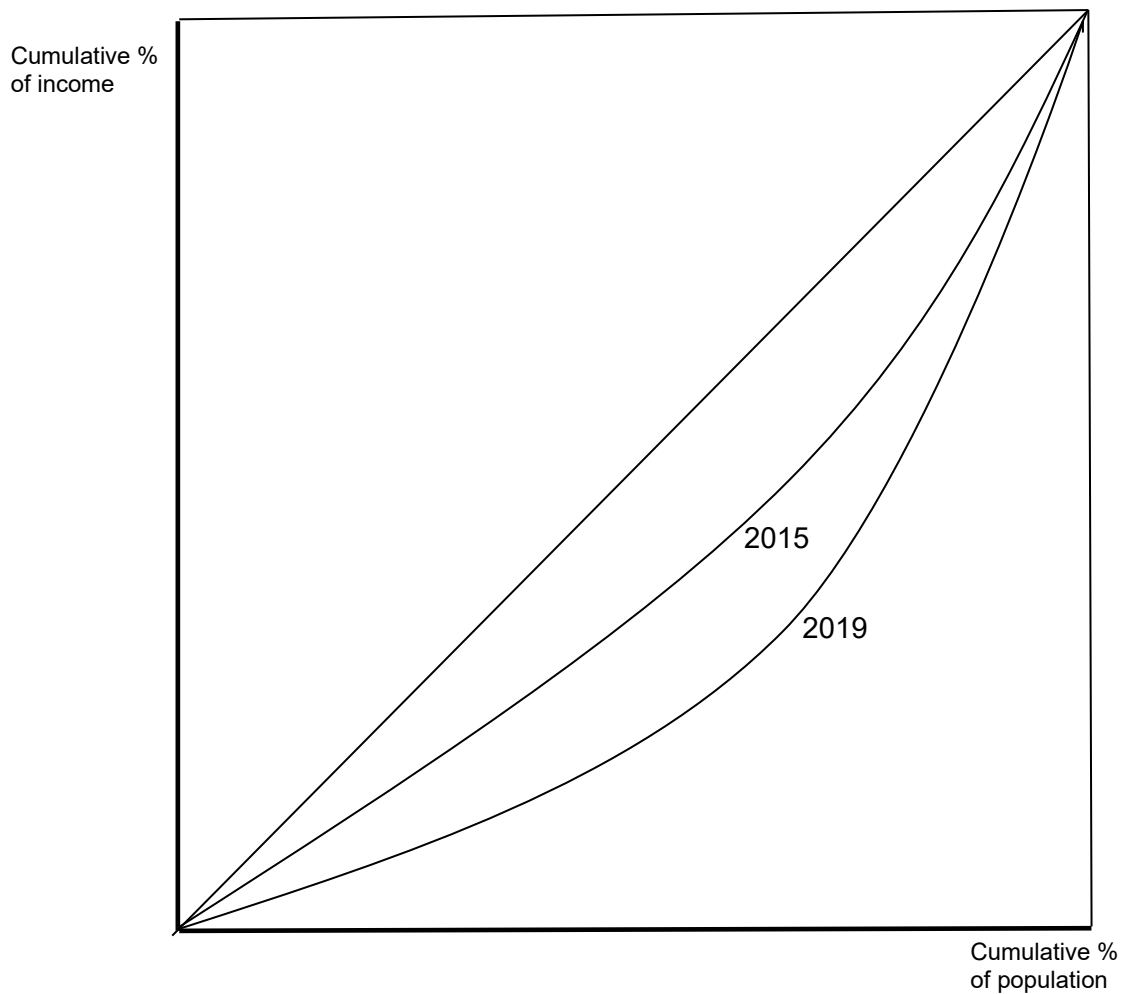
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	For drawing a correctly labelled Lorenz curve diagram, with the 2019 curve further from the diagonal line than the 2015 curve OR for an explanation that an increase in income inequality means (that the area between the curve and the diagonal line has increased, which shows) that the lower income people are getting a lower share of the total income (or that the higher income people are getting a higher share of the total income).	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled Lorenz curve diagram, with the 2019 curve further from the diagonal line than the 2015 curve AND for an explanation that an increase in income inequality means (that the area between the curve and the diagonal line has increased, which shows) that the lower income people are getting a lower share of the total income (or that the higher income people are getting a higher share of the total income).	

Alternatively, the explanation may refer to an increase in the Gini coefficient/index. If explained correctly, this may be fully rewarded.

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

The two curves may be shown on one graph or may be shown on two graphs. If using two graphs, it must be clear that the curve for 2015 is closer to the line of equality than for 2019.

The vertical axis should be labelled cumulative % of income, or % of income and the horizontal axis should be cumulative % of population/households or % of population/households. There must be a diagonal line, but it is not a requirement that it is labelled. There should be labels to indicate the difference between the two Lorenz curves. A title is not necessary.



- (d) Using information from the text/data and your knowledge of economics, evaluate the impact on economic development of the Tanzanian government’s policy of spending on infrastructure projects.

[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
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	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.

Answers *may* include:

- definitions of infrastructure, development.

Strengths of the policy *may* include:

- it increases actual/real output (or real GDP) by shifting the AD curve rightwards
- it increases potential output by shifting the LRAS curve rightwards/PPC curve outwards
- it facilitates economic activity/the business environment and thus growth of GDP (paragraphs 2 and 3)
- it will attract FDI, which has been declining (paragraph 1)
- it is important for the growth of the manufacturing and service sectors (paragraph 6)
- all the above will increase employment and incomes, which assist development
- it will have positive externalities (eg railway lines), which assist development (paragraph 3)
- the government considers that the resulting increased growth will enable the debt to be serviced through increased tax revenue, which will then allow for more government expenditure on development projects/welfare (paragraph 4).

Limitations of the policy may include:

- it widens the budget deficit because it requires government expenditure (paragraph 2)
- it has an opportunity cost, particularly affecting development, because the government is spending relatively less on other areas such as education and health (paragraphs 1, 4 and 7)
- it leads to an increase in national and international debt due to need for loans, many of which are non-concessional (paragraph 3)
- it increases the costs of debt servicing and outflows on the current account to pay interest (paragraphs 3 and 5), which reduce government expenditure on other items promoting development objectives
- it increases imports and therefore the deficits on the trade balance and current account, which will lower growth, harming employment and incomes (paragraphs 1 and 5)
- some projects may have negative externalities (eg dams and airports), harming development (paragraph 3)
- it has the effect of widening the income distribution, because growth and increased employment is concentrated in urban areas/manufacturing and service sectors (paragraph 6).

Any reasonable evaluation.
