

# Markscheme

**May 2022**

**Economics**

**Higher level**

**Paper 2**

21 pages

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**Notes for examiners:**

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

**2. Whenever relevant, carry over marks must be awarded. If a candidate makes an error in calculation, but then uses the incorrect figure appropriately and accurately in later question parts, then the candidate may be fully rewarded. This is the “own-figure rule” and you should put OFR on the script where you are rewarding this.**

**3. A candidate may be penalized for not rounding correctly, failing to give answers correct to 2 dp or, in some cases, for not including the appropriate units. However, a candidate may only be penalized ONCE for each type of error across all subparts of (b) questions.**

1. (a) (i) Define the term *debt servicing* indicated in bold in **Table 1**. [2]

| Level |  | Marks |
|-------|--|-------|
| 0     | <i>The work does not meet a standard described by the descriptors below.</i>   | 0     |
| 1     | <i>Vague definition.</i><br>The idea that it is paying back a loan.  | 1     |
| 2     | <i>Accurate definition.</i><br>An understanding that it is <b>one</b> of the following:<br>- the repayment of principal/initial amount borrowed<br>- the repayment of interest on the debt/borrowing/loans<br><br>(of a person /a firm / a country / government) | 2     |

(ii) Define the term *Gini coefficient* indicated in bold in **Table 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><br>The idea that it is a measure of income / wealth inequality.   | 1     |
| 2     | <i>Accurate definition.</i><br>An understanding that it is a measure of income / wealth inequality<br><br><b>Plus one</b> of the following:<br>• The closer to zero, the more equal the income / wealth distribution<br>• The closer to one, the more unequal the income / wealth distribution<br>• the ratio of the area between the Lorenz curve and the diagonal over the area of the half-square<br>• Labelled Lorenz curve diagram with the formula:<br>Area A / Areas A+B. | 2     |

- (b) (i) Sketch a demand and supply diagram to show the effect on revenue earned by Vietnamese farmers with improved access to the Japanese market (**Text B**, paragraph 1).

[3]

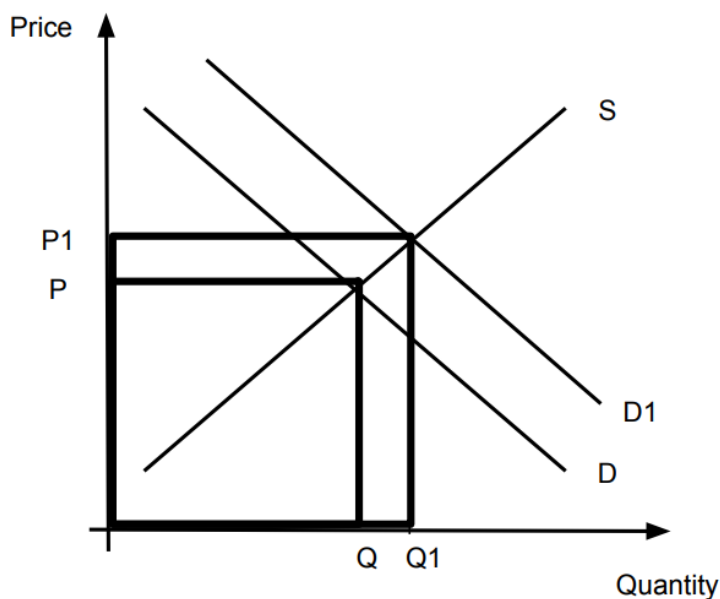
The diagram has three requirements:

- correctly labelled demand and supply diagram
- a shift of the demand curve to the right
- effect on revenue correctly indicated on diagram.

| Level |   | Marks |
|-------|---|-------|
| 0     | The work does not meet a standard described by the descriptors below. | 0     |
| 1     | The diagram meets only <b>one</b> requirement.                        | 1     |
| 2     | The diagram meets only <b>two</b> requirements.                       | 2     |
| 3     | The diagram meets <b>all three</b> requirements.                      | 3     |

Candidates who incorrectly label diagrams can be awarded a maximum of [2].

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.



The increase in revenue could alternatively be indicated by labelling the corners of the revenue boxes or by referring in writing an increase in revenue from  $P \times Q$  to  $P_1 \times Q_1$ .

- (ii) Using information from **Table 1**, calculate the change in the surplus on Vietnam’s balance of trade in goods with Japan between 2015 and 2019. [2]

|       |                   |      |
|-------|-------------------|------|
| 2015: | (15 141 – 12 531) | 2610 |
| 2019: | (22 475 – 16 484) | 5991 |

*any valid working should be rewarded with [1]*

(Change in surplus) **(US)\$ 3381 million**

*An answer of 3 381, without workings or without units, is sufficient for [1].*

*Own figure rule applies.*

- (c) Explain **two** economies of scale which may **not** be available to smaller farms (**Text A**, paragraph 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   |
|       | <p><b>Two</b> economies of scale <b>stated</b>:</p> <ul style="list-style-type: none"> <li>• large machinery/technical economies</li> <li>• specialization/ division of labour/management economies</li> <li>• economies of increased dimensions</li> <li>• bulk buying</li> <li>• marketing economies</li> <li>• transport / logistical economies</li> <li>• financial economies.</li> </ul> <p><i>Any other valid response.</i></p>  |       |
| 2     | <i>The written response is accurate</i>  | 3–4   |
|       | <p><b>Two</b> valid explanations of how / why the economies of scale decrease (long run) average costs.</p> <p>For example, small farms:</p> <ul style="list-style-type: none"> <li>• are unable to use (apply) division of labour or employ specialist managers, which could increase efficiency</li> <li>• are less likely to use large machines/capital equipment which can increase capacity / efficiency</li> <li>• are less likely to buy in bulk and therefore pay higher prices for inputs</li> <li>• cannot spread costs over large quantity of output for transport or marketing</li> <li>• have to pay higher interest rates on loans.</li> </ul> <p><i>Any other valid and explained response.</i></p> |       |

**NB** *Alternatively, if a student answers in terms of the economies of scale that large farms can get, the answer may be fully rewarded.*

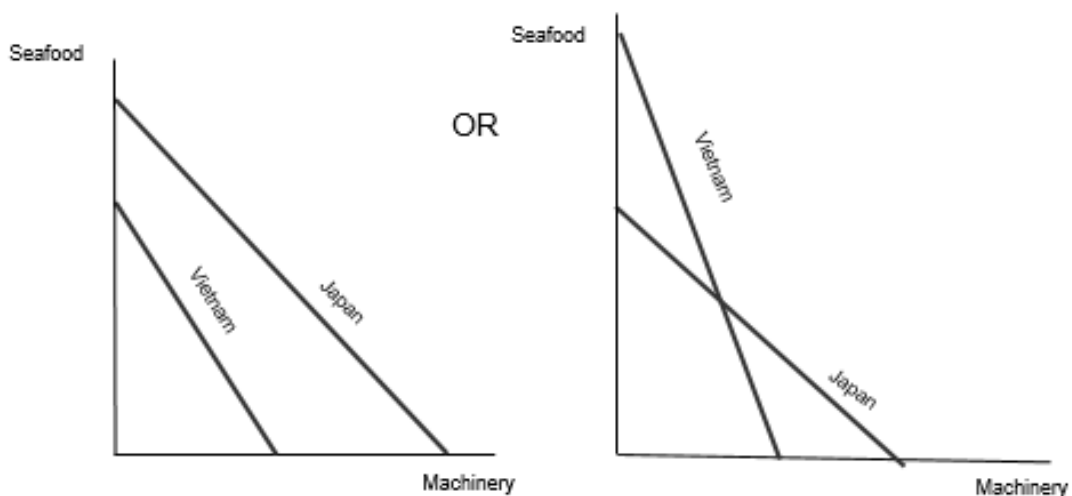
- (d) Using a production possibilities curve (PPC) diagram to show comparative advantage, explain why Vietnam would export seafood to Japan while Japan would export machinery to Vietnam (**Text B**, paragraph 1).

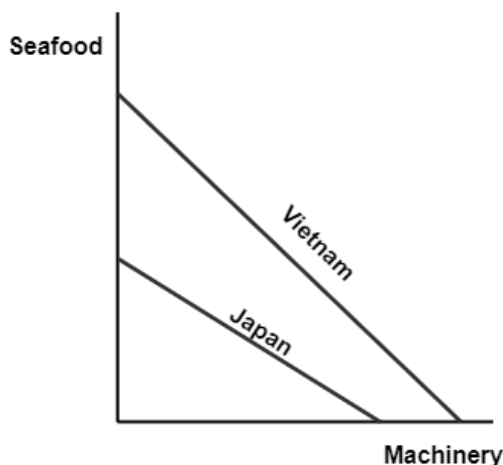
[4]

| Level |   | Marks |
|-------|---|-------|
| 0     | The work does not meet a standard described by the descriptors below.   | 0     |
| 1     | There is a correct diagram <b>OR</b> an accurate written response.  | 1–2   |
|       | For a diagram with two PPCs showing that Japan has a comparative advantage in machinery while Vietnam has a comparative advantage in seafood <b>OR</b> stating that Japan has a lower opportunity cost in machinery [1], therefore Japan has comparative advantage or lower opportunity cost than Vietnam [1]<br>(or explained in terms of Vietnam).  |       |
| 2     | There is a correct diagram <b>AND</b> an accurate written response.   | 3–4   |
|       | For a diagram with two PPCs showing that Japan has a comparative advantage in machinery while Vietnam has a comparative advantage in seafood <b>AND</b> stating that Japan has a lower opportunity cost in machinery [1], therefore Japan has comparative advantage or lower opportunity cost than Vietnam [1]<br>(or explained in terms of Vietnam). |       |

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

For a diagram showing comparative advantage, the PPC lines could be linear or curved and they could intersect or be non-intersecting. They should show that Japan has a comparative advantage in machinery production while Vietnam has a comparative advantage in seafood production. However, the labelling could be reversed from the examples below. Either one of the examples below is satisfactory **or** two diagrams can be drawn, with one for Vietnam and one for Japan, but the PPCs should have different slopes that correctly convey the comparative advantages. A title is not necessary.





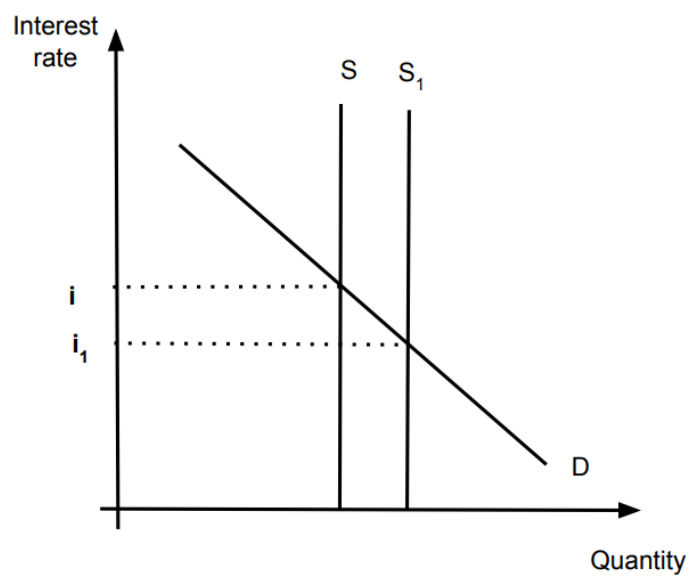
- (e) Using a demand and supply of money diagram, explain the likely effect on interest rates of a reduction in the minimum reserve requirement for banks (Text C, paragraph 1).

[4]

| Level |   | Marks |
|-------|---|-------|
| 0     | The work does not meet a standard described by the descriptors below.   | 0     |
| 1     | There is a correct diagram <b>OR</b> an accurate written response.  | 1–2   |
|       | For a money demand and supply diagram, with a vertical money supply line shifting to the right to show the reduction in the interest rate <b>OR</b> for an explanation that a reduction in the minimum reserve requirement will allow banks to lend more [1] which will increase the money supply and thus reduce interest rates [1].           |       |
| 2     | There is a correct diagram <b>AND</b> an accurate written response.   | 3–4   |
|       | For a money demand and supply diagram, with a vertical money supply line shifting to the right [1] leading to a reduction in the interest rate [1] <b>AND</b> for an explanation that a reduction in the minimum reserve requirement will allow banks to lend more [1] which will increase the money supply and thus reduce interest rates [1]. |       |

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

For a money demand and supply diagram, the vertical axis should be labelled interest rate, *i*, *ir* or *r*. The horizontal axis may be labelled Quantity (*Q*) or *Q* of Money. A title is not necessary.





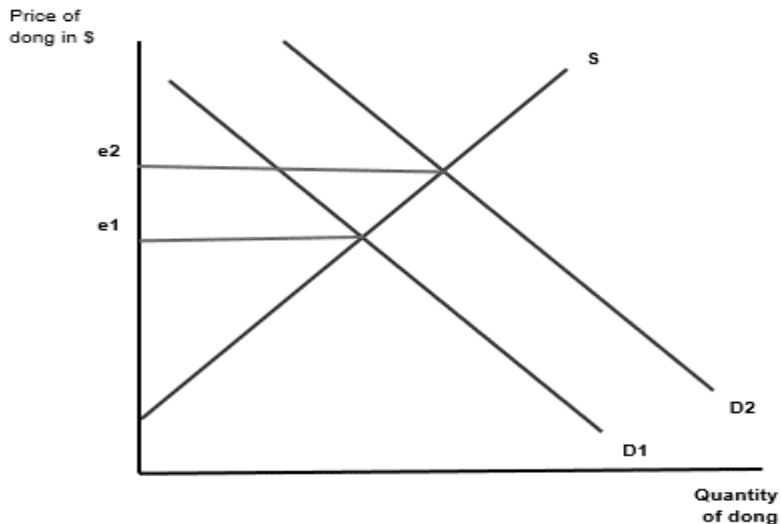
- (f) Using an exchange rate diagram, explain how the central bank in Vietnam could prevent the dong from depreciating by using its reserve assets (Text C, paragraph 2).

[4]

| Level |   | Marks |
|-------|---|-------|
| 0     | The work does not meet a standard described by the descriptors below.   | 0     |
| 1     | There is a correct diagram <b>OR</b> an accurate written response.  | 1–2   |
|       | For an exchange rate diagram, with the demand curve shifting right and the equilibrium price of the dong rising<br><b>OR</b><br>for an explanation that the central bank would buy the dong with its reserve assets / foreign reserves [1], increasing the demand for the dong (resulting in the exchange rate to rise / prevent the dong depreciating) [1].  |       |
| 2     | There is a correct diagram <b>AND</b> an accurate written response.   | 3–4   |
|       | For an exchange rate diagram, with the demand curve shifting right and the equilibrium price of the dong rising<br><b>AND</b><br>for an explanation that the central bank would buy the dong with its reserve assets / foreign reserves [1], increasing the demand for the dong (resulting in the exchange rate to rise / prevent the dong depreciating) [1]. |       |

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



Alternatively, a candidate may draw a diagram showing the dong depreciating (due to S shifting right or D shifting left) and the D curve then shifting right to restore the exchange rate to its initial level. If explained properly, this can be fully rewarded.

- (g) Using information from the texts/data and your knowledge of economics, discuss the view that trade with Japan is more beneficial for Vietnam’s economic development than foreign direct investment (FDI) from Japan.

[15]

| Level |  | Marks |
|-------|--|-------|
| 0     | <ul style="list-style-type: none"> <li>The work does not meet a standard described by the descriptors below.</li> </ul>  | 0     |
| 1     | <ul style="list-style-type: none"> <li>The response indicates little understanding of the specific demands of the question.</li> <li>Economic theory is stated but it is not relevant.</li> <li>Economic terms are stated but they are not relevant.</li> <li>The response contains no evidence of synthesis or evaluation.</li> <li>The response contains no use of text/data.</li> </ul>   | 1–3   |
| 2     | <ul style="list-style-type: none"> <li>The response indicates some understanding of the specific demands of the question.</li> <li>Relevant economic theory is described.</li> <li>Some relevant economic terms are included.</li> <li>The response contains evidence of superficial synthesis or evaluation.</li> <li>The response contains limited use of text/data.</li> </ul>  | 4–6   |
| 3     | <ul style="list-style-type: none"> <li>The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>Relevant economic theory is partly explained.</li> <li>Some relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included.</li> <li>The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>The response includes some relevant information from the text/data.</li> </ul>  | 7–9   |
| 4     | <ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is explained.</li> <li>Relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included and explained.</li> <li>The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>The use of information from the text/data is generally appropriate, relevant, and applied correctly.</li> </ul>  | 10–12 |
| 5     | <ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is fully explained.</li> <li>Relevant economic terms are used appropriately throughout the response.</li> <li>Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.</li> </ul> | 13–15 |

*Answers that only deal with trade or only deal with FDI should be rewarded a maximum of level 3.*

*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 development
- definition of trade
- definition of foreign direct investment.

*Economic models / theories may include:*

- AD/AS
- poverty cycle
- PPC
- trade creation / diversion
- comparative advantage
- free trade / protectionism.

*Points that support the view that trade is more beneficial:*

*Benefits of trade with Japan:*

- trading based on comparative advantage enables Vietnam to consume beyond its production possibilities curve therefore could increase living standard in Vietnam (Text B, paragraph 1)
- create more employment in export industries leading to improved living standard for the workers employed in these industries (Table 1)
- more exports of agricultural goods enable farms to earn and invest more, leading to more efficiency (Text A, paragraph 2 or Text B, paragraph 1)
- incomes are rising and will rise more in rural areas (Text B, paragraph 1 or Table 1).

*Costs of FDI from Japan:*

- because Japanese factories tend to locate in urban areas, inequality is increasing as shown by the rise in the Gini coefficient (Table 2)
- Japanese firms are taking advantage of low-cost labour (Text B, paragraph 2)
- environmental impact of more factories and coal-fired power plants and its effects on economic development (Text A, paragraph 3 or Text B, paragraph 2)
- foreign firms are getting preferential tax treatment and the government is spending on infrastructure, which has an opportunity cost of possibly less government spending on health and education (Text A, paragraph 4).

*Points that support the view that FDI is more beneficial:*

*Benefits of FDI from Japan:*

- more jobs are available leading to improving indicators for health and life expectancy (Table 2) and rising incomes (Text A, paragraph 1 and Table 1)
- Japanese FDI also results in Japanese aid directed at required infrastructure. This improves Vietnam's economic capacity (Table 2 and Text A, paragraph 5)
- Japanese firms are introducing more technology leading to improved human capital and enabling more exports of manufactured goods leading to more growth and consequential improvement in economic development (Text B, paragraph 2)

- FDI enables Vietnam to add more value to the primary products it produces. This helps avoid economic problems attached to specializing in primary product exports and therefore may increase living standards in rural areas (Text B, paragraph 2).

*Costs of trade with Japan:*

- because Vietnam is specializing in primary goods, trade with Japan may be disrupted by supply shocks (particularly due to the climate) and volatile prices (due to inelastic demand and supply) restricting economic development in rural areas (Text A, paragraph 3 and Text B, paragraph 1)
- land and fisheries and forests are being unsustainably used (Text A, paragraph 3).

*Synthesis of relative benefits of trade vs FDI:*

- trade and FDI are not substitutes for each other but together may have a significant impact on economic development, because more FDI allows Vietnam to start exporting manufactured and higher value-added goods (Text B, paragraph 2)
- both are contributing to development, but both have drawbacks.

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

2. (a) (i) List **two** of the Sustainable Development Goals (Text D, paragraph 1).

[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     |
|       | <b>One</b> goal is listed correctly  |       |
| 2     | <i>There is clear understanding.</i>   | 2     |
|       | A clear understanding is demonstrated by listing <b>two</b> of the following goals:<br>GOAL 1: No Poverty<br>GOAL 2: Zero Hunger<br>GOAL 3: Good Health / Well-being<br>GOAL 4: Quality Education<br>GOAL 5: Gender Equality<br>GOAL 6: Clean Water /Sanitation<br>GOAL 7: Affordable / Clean Energy<br>GOAL 8: Decent Work and Economic Growth<br>GOAL 9: Industry, Innovation and Infrastructure<br>GOAL 10: Reduced Inequalities<br>GOAL 11: Sustainable Cities/Communities<br>GOAL 12: Responsible Consumption/ Production<br>GOAL 13: Climate Action<br>GOAL 14: Life Below Water<br>GOAL 15: Life on Land<br>GOAL 16: Peace, Justice and Strong Institutions<br>GOAL 17: Partnerships to achieve the Goal. |       |

(ii) Define the term *tariffs* indicated in bold in the text (**Text D**, 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><br>The idea that they are a barrier to trade.                          | 1     |
| 2     | <i>Accurate definition.</i><br>An understanding that they are taxes (duty) on imports / export. | 2     |

(b) (i) Sketch a production possibilities curve (PPC) diagram to show the effect of improved human capital on Malawi's potential output (**Text D**, paragraph 2). **[3]**

The diagram has three requirements:

- correctly labelled PPC diagram
- two PPC curves drawn
- shift to the right is clearly shown

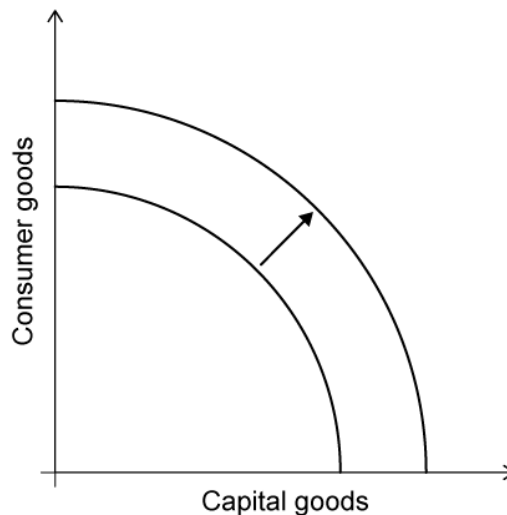
| Level |   | Marks |
|-------|---|-------|
| 0     | <i>The work does not reach a standard described by the descriptors below.</i> | 0     |
| 1     | <i>The diagram meets only <b>one</b> requirement.</i>                         | 1     |
| 2     | <i>The diagram meets only <b>two</b> requirements.</i>                        | 2     |
| 3     | The diagram meets <b>all three</b> requirements.                              | 3     |

*Candidates who incorrectly label diagrams can be awarded a maximum of [2].*

*For a PPC diagram, there must be two goods or groups of goods competing for the same resources on the axes. Good X and Good Y are appropriate, but simply X and Y are not sufficient. A title is not necessary.*

Clear labelling of the PPC curves such as PPC1 PPC2 is sufficient to indicate the shift to the right.

Labelling PPC diagram with P and Q or PL and RGDP are fundamental errors thus zero marks.



- (ii) Using information from **Table 3**, calculate real GDP (at 2010 prices) in 2019 using the price deflator. [2]

$$\frac{29\,882}{389.6} \times 100 = 7669.92$$

*Any valid working should be rewarded with [1]*

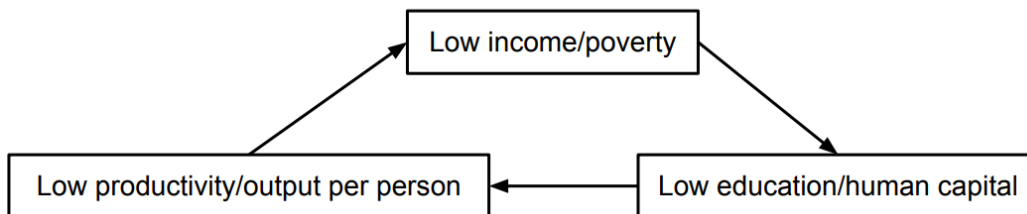
(US)\$ 7669.92 million

*An answer of 7 669.92, without workings, without units or incorrect units, is sufficient for [1].*

*If the answer is rounded up, it cannot be awarded [1]. It has to be given correctly to 2 decimal places (in line with the examination “Instructions to candidates”).*

- (c) Using a poverty cycle diagram, explain how an increase in funds for the education of teenage girls could break the poverty cycle (**Text D**, 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   |
|       | For a poverty cycle diagram, with the low education causing low productivity (output per unit of input) and low incomes <b>OR</b> for an explanation that education will improve human capital / will raise productivity (output per person) [1] and therefore raise incomes/reduce poverty [1] (which will break the cycle).   |       |
| 2     | <i>There is a correct diagram <b>AND</b> an accurate written response.</i>  | 3–4   |
|       | For a poverty cycle diagram, with the low education causing low productivity (output per unit of input) and low incomes <b>AND</b> for an explanation that education will improve human capital / will raise productivity (output per person) [1] and therefore raise incomes/reduce poverty [1] (which will break the cycle).<br><i>Or any other valid response.</i> |       |



*The wording in the boxes may be different, so long as it is equivalent. No title is necessary.*

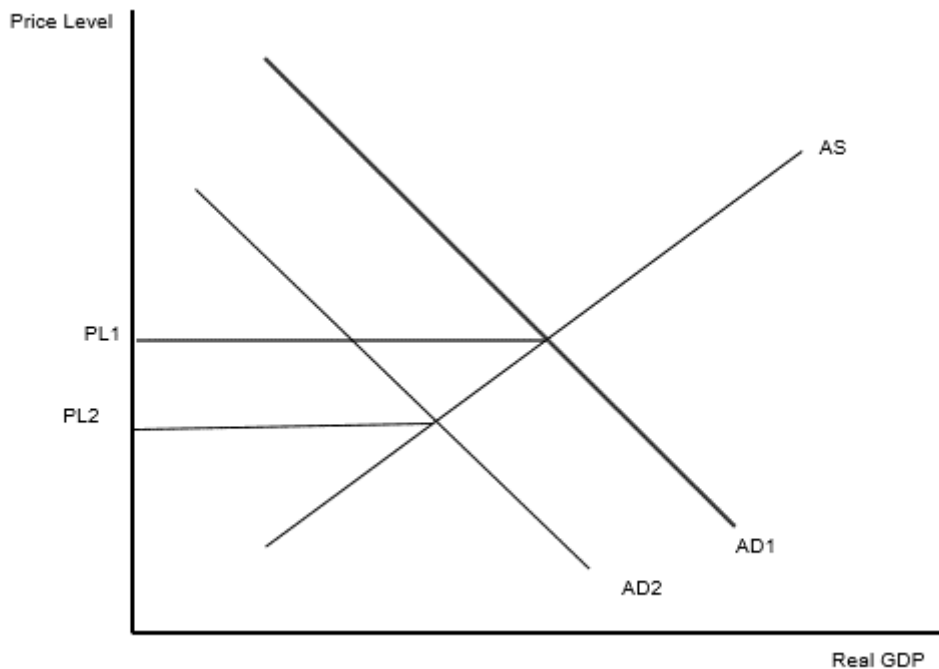
- (d) Using an AD/AS diagram, explain how a reduction in government spending may reduce inflation (**Text D**, paragraph 4).

[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.<br>For an AD/AS diagram, with the AD curve shifting left (downwards) and the price level falling <b>OR</b> an explanation that a reduction in government spending (as a component of AD) will lower AD <b>[1]</b> , leading a fall in the price level <b>[1]</b> .       | 1–2   |
| 2     | There is a correct diagram <b>AND</b> an accurate written response.<br>For an AD/AS diagram, with the AD curve shifting left (downwards) and the price level falling <b>AND</b> for an explanation that a reduction in government spending (as a component of AD) will lower AD <b>[1]</b> , leading a fall in the price level <b>[1]</b> . | 3–4   |

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

For AD/AS diagram, the vertical axis may be Average (general) price level or price level. The horizontal axis may be real output, real national output, real national income, real GDP or real Y. Any abbreviation of the previous terms is acceptable. A title is not necessary.



An answer may alternatively draw a Keynesian AS curve, with the original intersection of AD and AS being in the upward sloping portion of the AS curve. Alternatively, the original intersection may be in the horizontal section of the AS curve and the PL may not fall. This can receive full marks if the explanation states that due to high unemployment/spare capacity in Malawi, contractionary fiscal policy will not be able to reduce inflation.

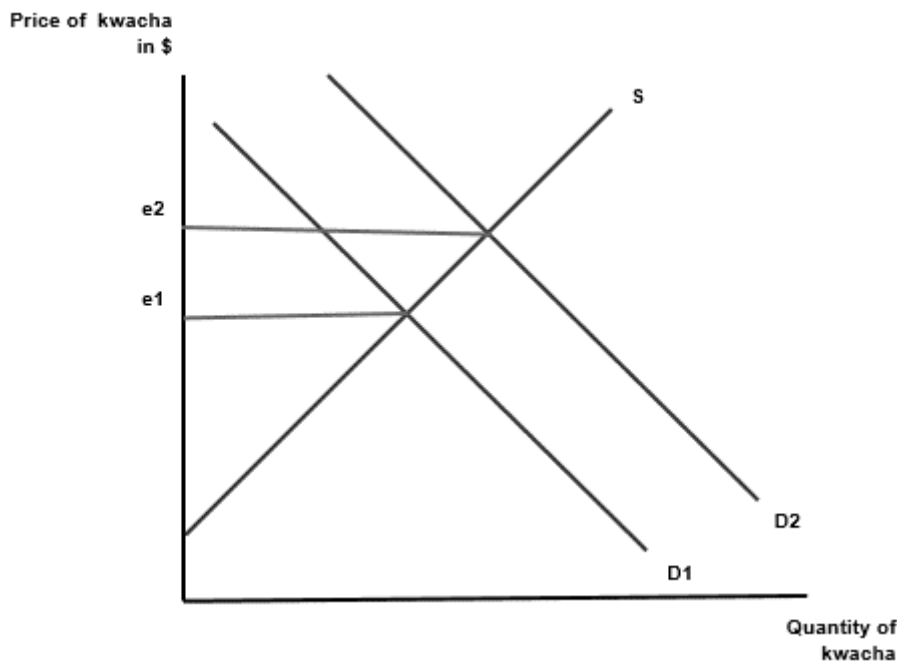
(e) Using an exchange rate diagram, explain how a reduction in the current account deficit could affect the exchange rate for the kwacha (**Text D**, paragraph 5).

[4]

| Level |   | Marks |
|-------|---|-------|
| 0     | <i>The work does not meet a standard described by the descriptors below.</i>  | 0     |
| 1     | <i>There is a correct diagram <b>OR</b> an accurate written response.</i>   | 1–2   |
|       | For an exchange rate diagram, with the demand curve shifting right (or the supply curve shifting left) and the equilibrium price of the kwacha rising<br><b>OR</b><br>for an explanation that a reduction in the deficit could be caused by increased demand for the currency due to more exports/greater inflows (and/or a reduced supply of the currency due to fewer imports/fewer outflows) [1] which causes the exchange rate to rise / appreciate [1].  |       |
| 2     | <i>There is a correct diagram <b>AND</b> an accurate written response.</i>  | 3–4   |
|       | For an exchange rate diagram, with the demand curve shifting right (or the supply curve shifting left) and the equilibrium price of the kwacha rising<br><b>AND</b><br>for an explanation that a reduction in the deficit could be caused by increased demand for the currency due to more exports/greater inflows (and/or a reduced supply of the currency due to fewer imports/fewer outflows) [1] which causes the exchange rate to rise / appreciate [1]. |       |

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



**NB** Acceptable alternatives are the supply curve shifting left or both curves shifting.



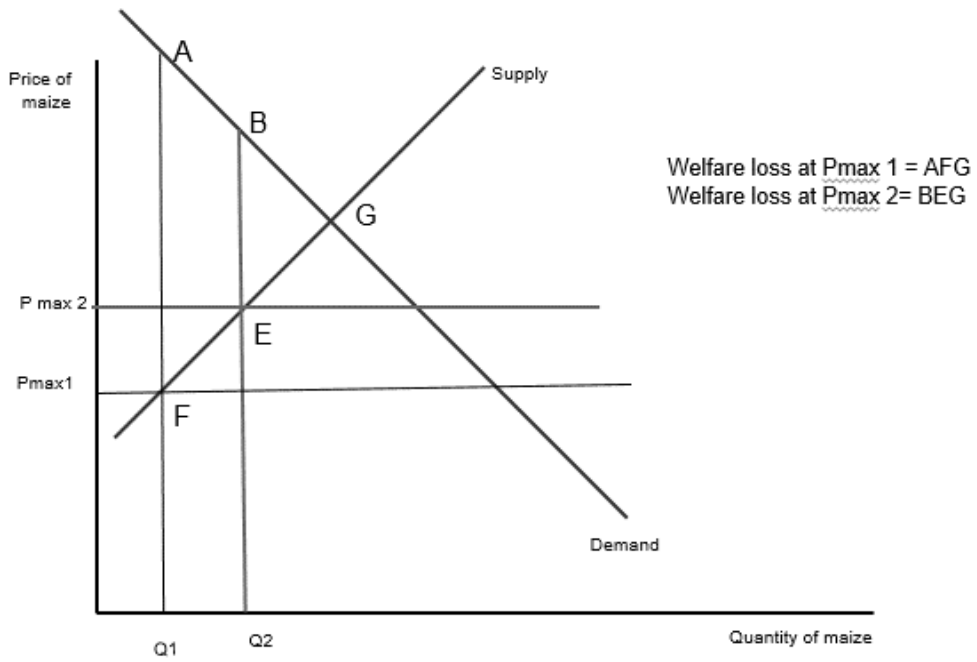
- (f) Using a demand and supply diagram, explain how the rise in the maximum price of maize would change the welfare loss associated with the maximum price (Text E, paragraph 2).

[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>For a demand and supply diagram, with a maximum price below the equilibrium, which is raised to another maximum price (which is still below the equilibrium) [1] with the reduction in welfare loss shown [1]</p> <p><b>OR</b></p> <p>for an explanation that when the maximum price is raised, the welfare loss is lower [1] because (<i>one of the following is sufficient [1]</i>):</p> <ul style="list-style-type: none"> <li>• quantity supplied increases and quantity demanded decreases</li> <li>• the market is closer to the optimum / equilibrium</li> <li>• there is a decrease in excess demand / the shortage is reduced</li> <li>• there is a more efficient allocation of resources.</li> </ul> <p><i>Any other valid explanation.</i></p>  |       |
| 2     | <i>There is a correct diagram <b>AND</b> an accurate written response.</i>   | 3–4   |
|       | <p>For a demand and supply diagram, with a maximum price below the equilibrium, which is raised to another maximum price (which is still below the equilibrium) [1] with the reduction in welfare loss shown [1]</p> <p><b>AND</b></p> <p>for an explanation that when the maximum price is raised, the welfare loss is lower [1] because (<i>one of the following is sufficient [1]</i>):</p> <ul style="list-style-type: none"> <li>• quantity supplied increases and quantity demanded decreases</li> <li>• the market is closer to the optimum / equilibrium</li> <li>• there is a decrease in excess demand / the shortage is reduced</li> <li>• there is a more efficient allocation of resources.</li> </ul> <p><i>Any other valid explanation.</i></p> |       |

*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.*



Accept any annotation that clearly shows the change in welfare loss.

- (g) Using information from the texts/data and your knowledge of economics, evaluate the government’s policies to promote economic growth and economic development in Malawi.

[15]

| Level |  | Marks |
|-------|--|-------|
| 0     | <ul style="list-style-type: none"> <li>The work does not meet a standard described by the descriptors below.</li> </ul>  | 0     |
| 1     | <ul style="list-style-type: none"> <li>The response indicates little understanding of the specific demands of the question.</li> <li>Economic theory is stated but it is not relevant.</li> <li>Economic terms are stated but they are not relevant.</li> <li>The response contains no evidence of synthesis or evaluation.</li> <li>The response contains no use of text/data.</li> </ul>   | 1–3   |
| 2     | <ul style="list-style-type: none"> <li>The response indicates some understanding of the specific demands of the question.</li> <li>Relevant economic theory is described.</li> <li>Some relevant economic terms are included.</li> <li>The response contains evidence of superficial synthesis or evaluation.</li> <li>The response contains limited use of text/data.</li> </ul>  | 4–6   |
| 3     | <ul style="list-style-type: none"> <li>The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>Relevant economic theory is partly explained.</li> <li>Some relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included.</li> <li>The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>The response includes some relevant information from the text/data.</li> </ul>  | 7–9   |
| 4     | <ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is explained.</li> <li>Relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included and explained.</li> <li>The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>The use of information from the text/data is generally appropriate, relevant, and applied correctly.</li> </ul>  | 10–12 |
| 5     | <ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is fully explained.</li> <li>Relevant economic terms are used appropriately throughout the response.</li> <li>Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.</li> </ul> | 13–15 |

**NB** Answers that **only** deal with development **or only** deal with growth should be awarded a maximum of level 3.

*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 development
- definition of growth.

*Economic Models / theories may include*

- an explanation of the links between growth and development
- an AD/AS diagram
- a poverty cycle diagram
- a diagram showing the effects of lowering tariffs
- PPC
- indicators of development.

| <i>Possible policy may include:</i>  | <i>Strengths may include:</i>   | <i>Limitations may include:</i>   |
|--|---|---|
| <b>Improving human capital</b> through more spending on education and health so that workers on farms can be more productive (Text D, paragraphs 1 and 2). | <ul style="list-style-type: none"> <li>- also improves gender inequality index and health and education indicators (Table 4)</li> <li>- may also reduce inequality between urban and rural areas and overall income inequality (Gini coefficient is very high) (Text D, paragraph 1 and Table 4)</li> <li>- adds to productive capacity.</li> </ul> | <ul style="list-style-type: none"> <li>- needs funds but budget deficit already too large, with government debt and debt servicing costs rising steeply (Text D, paragraph 5 and Table 3).</li> </ul>   |
| <b>Making it easier for farmers to get loans (microfinance)</b> (Text D, paragraph 3).   | <ul style="list-style-type: none"> <li>- farmers can buy fertilizers or new types of seeds or invest in irrigation schemes leading to higher productivity.</li> </ul>   | <ul style="list-style-type: none"> <li>- some farmers may acquire too many debts.</li> </ul>  |
| <b>Improving soil quality</b> by subsidizing fertilizers, irrigating more, investing more (Text D, paragraphs 1 and 2; Text E, Paragraph 3).               | <ul style="list-style-type: none"> <li>- increases productivity and therefore GDP (Table 3).</li> </ul>   | <ul style="list-style-type: none"> <li>- may cause negative production externalities→ unsustainable (Text E, Paragraph 3)</li> <li>- needs funds but budget deficit plus costs of servicing the debt already large (Text D, paragraph 4).</li> </ul>  |
| <b>Using aid from overseas</b> to invest in infrastructure etc (Text D, paragraph 2 and Table 4).  | <ul style="list-style-type: none"> <li>- budget deficit will not be impacted as much (Text D, paragraph 5 and Table 3)</li> <li>- can learn from overseas technologies (Text E, paragraph 1).</li> </ul>  | <ul style="list-style-type: none"> <li>- loans will eventually need to be repaid, raising debt-servicing costs (Table 3)</li> <li>- overseas aid agencies may require more controls over the economy</li> <li>- technology may be inappropriate</li> <li>- infrastructure projects usually require more imports, which could worsen the deficit on the Balance of Trade (Text D, paragraph 5).</li> </ul> |

|   |   |   |
|---|---|---|
| <p><b>Using price controls</b> to stabilize prices (Text E, paragraph 2).</p>   | <ul style="list-style-type: none"> <li>- minimum prices can raise farmers' incomes and may use less child labour (Text F)</li> <li>- maximum prices can safeguard the very poor.</li> </ul>   | <ul style="list-style-type: none"> <li>- Inefficient allocation of resources and welfare losses → unsustainable.</li> </ul>   |
| <p><b>Using export promotion strategies</b> rather than import substitution (Text D, paragraph 5).</p>  | <ul style="list-style-type: none"> <li>- potential gains from specialization according to comparative advantage</li> <li>- will increase GDP and therefore incomes</li> <li>- reduction of tariffs will result in cheaper imports (Text D, paragraph 5).</li> </ul> | <ul style="list-style-type: none"> <li>- focus on cash crops and crops for exports may lead to less help for small farms and more food insecurity (Text E, paragraph 1)</li> <li>- supply shocks will occur due to droughts and cyclones (Text D, paragraph 4)</li> <li>- reduction of tariffs will mean less government revenue and/or a rise in other taxes and will mean (short-run) losses for producers who compete with imports (Text D, paragraph 5).</li> </ul> |
| <p><b>Diversifying away from dependence</b> on maize and on tobacco exports towards cotton, nuts, tea, and sugar (Text D, paragraph 5, Text F).</p> | <ul style="list-style-type: none"> <li>- growing rather than declining export revenues (Text F)</li> <li>- more sustainable</li> <li>- reducing risks of over-specialization (supply shocks/price volatility/falling demand for tobacco).</li> </ul>                | <ul style="list-style-type: none"> <li>- diversifying into exports of other primary goods may also cause problems in the future due to low price and income elasticities of demand → volatile prices and lower earnings in the future (Text D, paragraph 5)</li> <li>- should try to switch into higher value-added manufacturing and processing.</li> </ul>  |

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