



# **MARKSCHEME**

**May 2009**

**ECONOMICS**

**Higher Level**

**Paper 3**

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*In addition to the assessment criteria use the paper-specific markscheme below. Award up to the maximum marks as indicated.*

**1. (a) Define the following terms indicated in bold in the text:**

**(i) infrastructure (paragraph ⑤) [2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that government provide things like roads.

2 *Precise definition* **2**

Any of the following:

- essential facilities that add to the capital stock of the economy
- capital such as roads typically provided by government to make economic activity possible
- essential facilities such as roads that are necessary for economic activity to take place.

An answer that simply gives examples should not get any marks.

**(ii) cross-elasticity of demand (paragraph ⑥). [2 marks]**

level

0 *Wrong definition* **0**

1 *Vague definition* **1**

The idea that it is the relationship between two goods.

2 *Precise definition* **2**

An explanation that it is responsiveness of the quantity demanded (or demand) of one good to a change in the price of another good. Alternatively, the use of an accurate formula is sufficient for full marks.

(b) Using an appropriate diagram, explain why the demand for rail travel increases when petrol (gasoline) prices rise (*paragraph 6*). [4 marks]

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled diagram illustrating a shift in the demand curve for rail travel to the right <b>or</b> for providing an explanation that the demand for rail travel increases because the price of petrol has risen and so the cost of car (and bus) travel, which is a substitute, has increased. (It is not necessary to include a supply curve on the diagram. This is because according to the article, the price of rail travel has fallen.)       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled diagram illustrating a shift in the demand curve for rail travel to the right <b>and</b> for providing an explanation that the demand for rail travel increases because the price of petrol has risen and so the cost of car (and bus) travel, which is a substitute, has increased. (It is not necessary to include a supply curve on the diagram. This is because according to the article, the price of rail travel has fallen.) | <b>3-4</b> |

Other appropriate diagrams should be rewarded if accompanied by a reasonable explanation. These might include:

- a diagram for the car market showing a fall in demand due to the rising cost of petrol, a complement
- a diagram showing an upward-sloping demand curve, with the price of petrol on the vertical axis and the demand for rail travel on the horizontal axis, with an appropriate explanation of the link between the two products.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axis is sufficient for a demand and supply diagram. A title is not necessary.

(c) **Using an appropriate diagram, explain why the supply of infrastructure is likely to be inelastic in the short term.** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled diagram where the supply curve for infrastructure is inelastic (relatively steep and originates from the horizontal axis – quantity supplied) <b>or</b> for providing an explanation that infrastructure involves the addition to the capital stock of a nation, <i>e.g.</i> roads and bridges, however, it cannot be provided easily or added to quickly in the short term.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled diagram where the supply curve for infrastructure is inelastic (relatively steep and originates from the horizontal axis – quantity supplied) <b>and</b> for providing an explanation that infrastructure involves the addition to the capital stock of a nation, <i>e.g.</i> roads and bridges, however, it cannot be provided easily or added to quickly in the short term. | <b>3-4</b> |

Candidates who draw a perfectly inelastic supply curve and explain it correctly may be awarded full marks.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axis is sufficient. A title is not necessary.

(d) **Using information from the text/data and your knowledge of economics, evaluate factors that could contribute to increased use of rail services in Australia.**

*[8 marks]*

Responses **may** include:

- increased government expenditure – an increase in rail infrastructure has led to an increase in investment, employment and income (*paragraph 3*)
- a cut in rail fares – a reduction of 20% in fares has led to 400 extra services (*paragraph 2*)
- higher prices of substitutes – higher petrol prices and a positive XED (*paragraph 6*)
- a change in taste/preference – a greater awareness of climate change (*paragraph 5*) with a link to negative externalities
- government policies such as interest rate changes (*paragraph 5*) which make it more expensive to borrow money to buy cars and increase loan repayments faster travel reduces the opportunity cost of train travel
- increased population
- road charges (tolls)
- subsidies/concessions for rail travel.

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

2. (a) Define the following terms indicated in bold in the text:

(i) **market** (*paragraph ③*) *[2 marks]*

level

0 *Wrong definition* **0**

1 *Vague definition* **1**  
The idea that it is a market where goods are sold.

2 *Precise definition* **2**  
An explanation that a market is any situation where buyers and sellers are brought together.

(ii) **normal profit** (*paragraph ④*). *[2 marks]*

level

0 *Wrong definition* **0**

1 *Vague definition* **1**  
The idea that it is where all costs are covered.

2 *Precise definition* **2**  
Any one of the following would be appropriate:
 

- the revenue needed to keep a firm in an industry
- the revenue needed to cover the total economic costs of production
- the revenue needed to cover all costs of production including opportunity costs
- the revenue needed to cover all opportunity costs.

**(b) Using an appropriate diagram, explain how a firm in monopolistic competition can earn abnormal/economic profit.** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled diagram illustrating a firm in monopolistic competition producing at $MC=MR$ and making abnormal (economic) profits <b>or</b> for providing an explanation of the conditions (such as product differentiation, brand loyalty, or the ability to be a price setter) under which a firm in monopolistic competition would earn abnormal (economic) profits in the SR. | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled diagram illustrating a firm in monopolistic competition producing at $MC=MR$ and making abnormal (economic) profits <b>and</b> for providing an explanation of the conditions under which a firm in monopolistic competition would earn abnormal (economic) profits in the SR.   | <b>3-4</b> |

For full marks, candidates must accurately show the relationship between AC and MC, that is, MC must cross AC at the minimum of AC.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The horizontal axis should be quantity or output. The vertical axis should be costs, revenues, “price and costs”, “price and revenues”, “costs and revenues”, price or a currency symbol. A title is not necessary.

**(c) Using a demand and supply diagram for haircuts, explain how a shortage of staff in the hairdressing industry could affect the price of haircuts.** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled diagram showing an upward shift of the supply curve producing a higher price for haircuts same <b>or</b> for producing an explanation that the staff shortage raises the cost of labour (wages) and therefore causes a fall in supply resulting in a higher price.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled diagram showing an upward shift of the supply curve producing a higher price for haircuts same <b>and</b> for producing an explanation that the staff shortage raises the cost of labour (wages) and therefore causes a fall in supply resulting in a higher price. | <b>3-4</b> |

Candidates who incorrectly label diagrams cannot be rewarded with full marks. The use of P and Q on the axis is sufficient for a demand and supply diagram. A title is not necessary.

(d) Using information from the text/data and your knowledge of economics, evaluate the costs and benefits of monopolistic competition for consumers and producers.

[8 marks]

Responses may include:

Consumers:

- choice and variety resulting in better quality, larger range of services, quality of conversation etc. (paragraph 3)
- greater competition among producers as a result of more firms coming into the industry and forcing prices down, benefiting consumers (paragraph 4), prices may be higher than in perfect competition (excess capacity that characterises monopolistic competition implies that prices are higher than they need be).

Producers:

- differentiation of services can lead to consumer loyalty (paragraph 4)
- consumer loyalty can allow a degree of independence in price setting (paragraph 3)
- abnormal (economic) profits can be earned in short run (paragraph 4)
- easy exit for firms (paragraph 4)
- incur additional costs as they are forced to differentiate
- firms can only earn normal profits in the LR
- high risk of failure due to intense competition
- any reasonable answer.

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

3. (a) Define the following terms indicated in bold in the text:

(i) **structural unemployment** (*paragraph 2*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is people who are out of work and looking for a job.

2 *Precise definition* 2

Any **one** of the following would be appropriate:

- long-term unemployment that is caused as a result of a fall in the demand for a particular type of labour
- unemployment that occurs as a result of the changing structure of an economy resulting from changes in demand/supply and/or technology and/or trade patterns
- unemployment that occurs when there is a mismatch between the skills of unemployed workers and the jobs available
- unemployment that exists as a result of rigidities in the labour market.

(ii) **oligopoly** (*paragraph 3*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is a market structure where a small number of firms dominate.

2 *Precise definition* 2

An explanation that it is a market structure with any two of the following characteristics: a small number of firms dominate the industry, interdependency of firms, high barriers to entry, homogeneous or differentiated product, collusive or non-collusive behavior, price rigidity, non-price competition.

**(b) Using an AD/AS diagram, explain how supply-side policies could affect real output in the long-run.** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram with a movement of the LRAS showing an increase in real output <b>or</b> an explanation of how supply-side policies can increase real output in the long run such as by increasing the quantity and/or increasing the quality of factors of production.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled AD/AS diagram with a movement of the LRAS showing an increase in real output <b>and</b> an explanation of how supply-side policies can increase real output in the long run such as by increasing the quantity and/or increasing the quality of factors of production. | <b>3-4</b> |

Candidates may draw a vertical LRAS or a Keynesian AS where the vertical part of the curve shifts. A maximum of **[3 marks]** (**[1 mark]** for the diagram may be awarded if only an upward-sloping SRAS is used).

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For AD/AS, the vertical axis may be price level, average price level or inflation rate. The horizontal axis may be output, real output, national output, real national output, national income or GDP. A title is not necessary.

(c) **Using a production possibility curve diagram, explain how the discovery of new oil reserves might affect the Russian economy.** **[4 marks]**

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled PPC showing a movement to the right to illustrate an increase in potential output <b>or</b> an explanation of how a discovery of new oil reserves can increase the potential output of the Russian economy by increasing the quantity of resources available.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled PPC showing a movement to the right to illustrate an increase in potential output <b>and</b> an explanation of how a discovery of new oil reserves can increase the potential output of the Russian economy by increasing the quantity of resources available. | <b>3-4</b> |

Candidates who show a PPC diagram with a movement from a point inside the curve towards the PPC should receive **[0 marks]** for the diagram.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For a PPC, the axis could be two alternative products, one on each axis, e.g. Good A and Good B or schools and cars, or two groups of products, e.g. consumer goods and producer goods. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the economic performance of Russia and Poland since the 1990s.** [8 marks]

Responses **may** include:

Positives for Russia:

- Russia has exhibited rising growth rates throughout the period 2002–2006 ranging between 5 % in 2002 to above 10 % in 2005–2006
- unemployment in Russia is hovering around 7 % and dropping, significantly below Poland's.

Negatives for Russia:

- high income inequality (*paragraph ③*)
- high degree of corruption may result in less economic growth
- high degree of commodity dependence (gas/oil *etc.*) (“Russia has come to depend on a small number of companies in the natural resource area” (*paragraph ③*))
- rising export revenues from these sectors may have contributed to its growth but also to a high current account surplus (between 8 % and 12 % of GDP) which has exerted pressure on the ruble to appreciate and thus eroded the competitiveness of other export oriented industries
- this type of growth is not sustainable and is risky as any downturn in the world economy will immediately lower Russian growth
- inflation has also been high (higher than Poland's but dropping from a high of 16% in 2002 down to slightly less than 12 % in 2006 which could undermine growth in the long run as non-oil investments may be hurt.

Positives for Poland:

- growth rates are rising to around 4 % per annum which is satisfactory for a transition economy and may be more sustainable than Russia
- strengthened property rights and monetary controls, privatized and modernized its private sector which encouraged economic growth, employment and income generation
- inflation has been kept a good levels between 1 % and 4 % even though the drop in 2006 to less than 1 % may warn of the risk of deflation.

Negatives for Poland:

- unemployment has been very high (above 12 % throughout the period) but at least seems to be decreasing
- the high unemployment may be the result of both tight policies as inflation has been kept low but also of rigidities in the labour market (*data and paragraph ②*); it may thus include both a cyclical and a large structural component
- the current account deficit has ranged between 2 and 4 % of GDP so it is not a problem.

Candidates could make a judgment on the importance of factors contributing to the strong/weak economic performance of Russia and Poland or they could compare the two economies and make a judgment as to which economy has performed better, justifying their judgment.

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

4. (a) Define the following terms indicated in bold in the text:

(i) **import substitution** (*paragraph 1*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is a strategy (or policy or measure) to deliberately reduce imports.

2 *Precise definition* 2

An explanation that it is a strategy (or policy or measure) to deliberately reduce imports plus a second valid point such as:

- imports are reduced through protectionism
- import substitution is a growth strategy
- in order to create a domestic industry.

(ii) **real GDP** (*table*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that real GDP is a measure of the value of a nation's production.

2 *Precise definition* 2

An explanation that it is the total value of all goods and services produced in a country of a country's national income over a given time period adjusted for inflation.

(b) **Using a tariff diagram, explain why the introduction of a tariff might reduce the quantity of imports demanded in India.** *[4 marks]*

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled tariff diagram showing an upward shift in the world supply curve <b>or</b> for providing an explanation that introducing a tariff would increase the price of imports, thereby reducing the quantity of imports demanded.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled tariff diagram showing an upward shift in the world supply curve <b>and</b> for providing an explanation that introducing a tariff would increase the price of imports, thereby reducing the quantity of imports demanded. | <b>3-4</b> |

It would not be appropriate to draw the tariff as a “normal” indirect tax, as it would not be possible to show a change in the level of imports.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axis is sufficient. All curves including supply, world supply and world supply plus tariff must be labelled, but abbreviations are fine. A title is not necessary.

(c) **Using an appropriate diagram, explain how an increase in foreign direct investment can lead to an appreciation of the Indian rupee.** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a correctly labelled diagram showing a shift to the right in the demand curve for the Indian rupee <b>or</b> for providing an explanation that when multinational corporations invest in another country they convert their currency into the local currency, increasing the demand for the local currency (the Indian rupee in this case) causing an appreciation of the currency.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a correctly labelled diagram showing a shift to the right in the demand curve for the Indian rupee <b>and</b> for providing an explanation that when multinational corporations invest in another country they convert their currency into the local currency, increasing the demand for the local currency (the Indian rupee in this case) causing an appreciation of the currency. | <b>3-4</b> |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The vertical axis may be exchange rate, price of rupees in dollars, price of rupees in other currencies or dollars per rupee. The horizontal axis should be quantity, or quantity of rupees. A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate the impact of increased foreign direct investment on the Indian economy.

[8 marks]

Responses **may** include:

- a definition of foreign direct investment
- an explanation of currency appreciation and its impact on export and import prices
- increased terms of trade due to the currency appreciation, but the effect of this depends of the PED for exports and imports
- foreign investments may foster an increase in exports with greater income for exporters but marginal propensity to import may also increase, as the deterioration of the balance on current account of India shows (*table*)
- increased economic growth resulting from foreign investment and its multiplier effects
- the creation of increased employment opportunities (*paragraph ⑤*)
- inflow of money on capital account can finance current account
- impact can also be negative: the currency appreciation reduces export potential in the case of goods and services with price elastic demand
- the economy becomes too vulnerable to international shocks
- the outflow of funds due to profit repatriation and interest payments affects the balance of payments in a negative way
- the inflow of FDI may make domestic goods less competitive as the currency appreciates (*paragraph ⑤*) but the high exchange rate makes imports cheaper and likely to reduce inflationary pressures
- possible exploitation of labour
- negative externalities due to low levels of regulations.

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

**5. (a) Define the following terms indicated in bold in the text:**

**(i) human resources (paragraph 4)** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that it is people.	<b>1</b>
2	<i>Precise definition</i> An explanation that it is the labour force of a country or the human capital of a country.	<b>2</b>

**(ii) investment (paragraph 6).** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> Spending on equipment or machinery.	<b>1</b>
2	<i>Precise definition</i> An explanation that it is the addition of capital stock to the economy <b>or</b> expenditure on capital equipment. <i>[0 marks]</i> to be given for an explanation of financial investment.	<b>2</b>

**(b) Using an appropriate diagram, explain how investment in human resources can lead to an increase in the potential output of a country.**

**[4 marks]**

level

0 *Inappropriate answer*

**0**

1 *Identification of appropriate theory*

**1-2**

For drawing a correctly labelled diagram (PPF or LRAS) showing an increase in potential output (outward shift of the PPF or a shift to the right of the LRAS curve) **or** for providing an explanation that investment in human resources, such as education, can result in greater skills and knowledge and increase the potential output of a nation.

2 *Correct application of appropriate theory*

**3-4**

For drawing a correctly labelled diagram (PPF or LRAS) showing an increase in potential output (outward shift of the PPF or a shift to the right of the LRAS curve) **and** for providing an explanation that investment in human resources, such as education, can result in greater skills and knowledge and increase the potential output of a nation.

Candidates who show a PPC diagram with a movement from a point inside the curve towards the PPC should receive **[0 marks]** for the diagram.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For a PPC, the axis could be two alternative products, one on each axis, *e.g.* Good A and Good B or schools and cars, or two groups of products, *e.g.* consumer goods and producer goods. A title is not necessary.

For AD/AS, the vertical axis may be price level, average price level or inflation rate. The horizontal axis may be output, real output, national output, real national output, national income or GDP. The LRAS may be Keynesian or vertical. A title is not necessary.

(c) Using an AD/AS diagram, explain how an increase in investment expenditure can, potentially, increase employment (*paragraph 6*). [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2

For drawing a correctly labelled diagram showing a shift to the right in the AD curve **or** for providing an explanation that investment expenditure is a component of aggregate demand and so an increase in investment expenditure will increase aggregate demand and output, ceteris paribus, and so, potentially create new jobs to produce the extra output.

2 *Correct application of appropriate theory* 3-4

For drawing a correctly labelled diagram showing a shift to the right in the AD curve **and** for providing an explanation that investment expenditure is a component of aggregate demand and so an increase in investment expenditure will increase aggregate demand and output, ceteris paribus, and so, potentially create new jobs to produce the extra output.

Alternatively, candidates could draw an outward shift of an LRAS curve and explain that increased investment may also be explained as a supply side policy and the new jobs are created in order to produce the extra output.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For AD/AS, the vertical axis may be price level, average price level or inflation rate. The horizontal axis may be output, real output, national output, real national output, national income or GDP. Any AS curve may be used. A title is not necessary.

- (d) Using the information from the text/data and your knowledge of economics, evaluate the role of micro-credit as an instrument of economic development in Venezuela.

[8 marks]

Responses **may** include:

- a definition of economic development
- a definition of micro-credit
- the poverty cycle may be broken
- micro-credit stimulates economic activity (*paragraph 4*), production, economic growth and this may lead to economic development
- it can contribute to a reallocation of resources (*paragraph 1*)
- it encourages innovation and develops new markets
- it promotes a culture of entrepreneurship
- it helps families generate income (*paragraph 3*)
- increased standards of living
- it empowers women (*paragraph 4*)
- it reduces poverty and contributes to a more equitable distribution of income
- it rebuilds the confidence of people (*paragraph 3*)
- it stimulates appropriate use of technology
- it is an investment in human capital (human resources)
- it involves minimal state intervention
- it is not enough, on its own, to have a significant impact on the economic development of a nation (*paragraph 5*)
- it adds to individual debt
- it is often provided at above market rates in order for the schemes to be self-supporting
- it will not succeed unless the appropriate infrastructure is in place and appropriate information is made available to the recipients
- it arguably, does not help the “poorest of the poor” of a nation.

Answers that make no reference to the text cannot be rewarded beyond level 2.

Candidates must relate the points in the answer to the concept of economic development, as stated in the question.

It is not enough to paraphrase the text, the text must be used as the basis to develop relevant economic argument.

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>

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