



# **MARKSCHEME**

**May 2011**

**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) demand (paragraph ①) [2 marks]**

level

- |   |   |          |
|---|---|----------|
| 0 | <i>Wrong definition</i>   | <b>0</b> |
| 1 | <i>Vague definition</i><br>The idea that it is the amount of a good that consumers wish to buy.                                 | <b>1</b> |
| 2 | <i>Precise definition</i><br>An explanation that it is the willingness and ability to purchase a quantity of a good or service. | <b>2</b> |

A vague definition with a diagram would be eligible for **[2 marks]**.

**(ii) subsidies (paragraph ②). [2 marks]**

level

- |   |  |          |
|---|--|----------|
| 0 | <i>Wrong definition</i>  | <b>0</b> |
| 1 | <i>Vague definition</i><br>The idea that an amount of money is given by governments to firms.  | <b>1</b> |
| 2 | <i>Precise definition</i><br>An explanation that an amount of money is given by governments to firms to: <ul style="list-style-type: none"> <li>• increase supply, <b>or</b></li> <li>• lower costs, <b>or</b></li> <li>• lower the price, <b>or</b></li> <li>• increase quantity, <b>or</b></li> <li>• improve competitiveness in international trade.</li> </ul> | <b>2</b> |

A vague definition with a diagram would be eligible for **[2 marks]**.

- (b) **Using an appropriate diagram, explain why, in a free market, low-emission vehicles may be under-provided.** *[4 marks]*

level

- |   |   |            |
|---|---|------------|
| 0 | <i>Inappropriate answer</i>   | <b>0</b>   |
| 1 | <p><i>Identification of appropriate theory</i></p> <p>For drawing a diagram showing low-emission vehicles as having external benefits of consumption (MSB to the right of MPB) <b>or</b> an explanation that in a free market low-emission vehicles will be under-provided (or under-consumed), giving rise to market failure as the market does not produce where MSC is equal to MSB (or does not produce at the socially efficient/optimal level of output).</p>       | <b>1–2</b> |
| 2 | <p><i>Correct application of appropriate theory</i></p> <p>For drawing a diagram showing low-emission vehicles as having external benefits of consumption (MSB to the right of MPB) <b>and</b> an explanation that in a free market low-emission vehicles will be under-provided (or under-consumed), giving rise to market failure as the market does not produce where MSC is equal to MSB (or does not produce at the socially efficient/optimal level of output).</p> | <b>3–4</b> |

**N.B.** An alternative approach would be to draw a diagram showing low-emission vehicles as having benefits to society such that marginal social costs that are lower than marginal private costs (MSC to the right of MPC) with an explanation that in a free market, low-emission vehicles will be underprovided giving rise to a market failure as the market does not produce where MSC is equal to MSB (or does not produce at the socially efficient/optimum level of output).

Another alternative approach would be to use demand and supply analysis to explain and draw a situation where the  $D_{\text{private}}$  is less than  $D_{\text{social}}$  (or  $S_{\text{social}}$  is greater than  $S_{\text{private}}$ ) and the market equilibrium where  $D = S$  occurs is at a lower level than the socially efficient/optimum level.

Candidates might use demand and supply analysis to show and explain that low-emission vehicles are not provided in large quantities because of a low demand or low supply (due to high costs). If well explained, may be rewarded up to **[2 marks]**. If this approach is used, and there is some reference to external effects then full marks may be awarded.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

The vertical axis may be price, P, marginal costs and benefits or costs and benefits. The horizontal axis may be quantity, Q or output.

- (c) Using an appropriate diagram, explain how “halving the indirect tax on cars with smaller engines” (*paragraph ③*) is likely to affect the car market in China.

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1–2

For drawing a market diagram to show that halving the indirect tax will shift the supply curve to the right, causing price to fall and quantity to increase **or** an explanation that halving the indirect tax will shift the supply curve to the right (or increase supply) due to a fall in costs, causing a fall in price and an increase in quantity.

2 *Correct application of appropriate theory*

3–4

For drawing a market diagram to show that halving the indirect tax will shift the supply curve to the right, causing price to fall and quantity to increase **and** an explanation that halving the indirect tax will shift the supply curve to the right (or increase supply) due to a fall in costs, causing a fall in price and an increase in quantity.

**N.B.** An alternative approach would be to draw a diagram showing two supply curves (a market supply curve and a “supply + tax” curve) **with** a third supply curve which is shifted to the right of “supply + tax” due to the halving of the tax (does not have to be to scale) with an explanation that halving the tax will shift the “supply + tax” curve to the right (or increase supply), causing a fall in price and an increase in quantity. This approach does not need to include a reference to the fall in costs for full marks, as it is a suitably detailed approach.

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

Price and quantity, or “P” and “Q” on the axis are sufficient.

- (d) Using information from the text/data and your knowledge of economics, evaluate *three* of the policies the Chinese government has introduced or might introduce to bring cleaner, low-emission vehicles to its roads (*paragraph 1*).

[8 marks]

Responses **may** include:

- consideration of three of the following policies mentioned in the text:
  - setting emission regulations (*paragraph 2*) (Has introduced)
  - reduction of road fees (*paragraph 4*) (Has introduced)
  - reduction of the indirect tax on cars with small engines (*paragraph 4*) (Has introduced)
  - subsidy to producers (*paragraph 2*) (Might introduce)
  - provide incentives to convince consumers to switch to electric cars (*paragraph 4*) (Might introduce)
- fiscal consequences for the government in terms of the possible effects on expenditure and revenues
- welfare arguments in terms of environmental and societal benefits
- emission regulations could reduce demand for high-emission cars and increase demand for low-emission cars
- as a major producer, subsidised low-emission vehicles may give the Chinese car industry an advantage in world trade so exports may increase
- road fees will not necessarily encourage people to switch to low-emission cars if the fees are the same for both types of cars, as the relative price of the two types of cars will not change
- policies are not likely to be effective unless they actually reduce the costs of production of firms and/or the price of low-emission cars to consumers.

**N.B.** Candidates may introduce and evaluate policies that have not been mentioned in the text.

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.

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

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

**Level**

0	No valid discussion.	<b>0</b>
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) underemployment (paragraph ❶)** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that there is not full employment.	1
2	<i>Precise definition</i> An explanation that it exists when: <ul style="list-style-type: none"> <li>• workers are employed part-time even though they are available for full-time employment, <b>or</b></li> <li>• workers are employed, but work less than they would have wanted to, <b>or</b></li> <li>• when workers are carrying out jobs for which they are over-qualified.</li> </ul>	2

**(ii) rationing (paragraph ❷).** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea of distribution or allocation.	1
2	<i>Precise definition</i> An explanation that it is <ul style="list-style-type: none"> <li>• a way that scarce goods (or services or resources) are allocated, <b>or</b></li> <li>• the distribution/allocation of a good (or service or resources) among users (consumers), <b>or</b></li> <li>• also a method of distributing a good when there is a shortage.</li> </ul>	2

*N.B.* Candidates may combine elements of the above.

(b) Using a Lorenz curve diagram, explain how the introduction of cash transfer payments is likely to affect the distribution of income in the Philippine economy (*paragraphs 4*).

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1-2

For drawing a Lorenz curve diagram showing perfect equality in income distribution and two curves below, the curve nearer the line of perfect equality showing an improvement following transfer payments **or** an explanation that transfer payments improve income distribution by transferring income to poor families.

2 *Correct application of appropriate theory*

3-4

For drawing a Lorenz curve diagram showing perfect equality in income distribution and two curves below, the curve nearer the line of perfect equality showing an improvement following transfer payments **and** an explanation that transfer payments improve income distribution by transferring income to poor families.

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

The vertical axis may be “cumulative percentage of income”, “percentage of income” or “% income”. The horizontal axis may be “cumulative percentage of population”, “percentage of population” or “% income”. There should be an arrow (or some form of labelling) to indicate the direction of change of the two Lorenz curves. If candidates do not write percentage (or %) or confuse the axis, they may not be rewarded full marks. It is **not** required that the candidates show the diagram as a “box” for full marks.

Candidates who confuse the two labels may be rewarded up to [3 marks].



- (c) Using an appropriate diagram, explain how it may be possible for dishonest traders to “buy rice at the low government-subsidized price and re-sell it at higher prices” (paragraph ⑥). [4 marks]

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a supply and demand diagram showing a maximum legal price of rice that lies below the equilibrium price <b>or</b> an explanation that traders with a rice pass can buy at the maximum price and re-sell at higher prices because there are some unsatisfied consumers who are willing to pay a price higher than the maximum.       | <b>1–2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a supply and demand diagram showing a maximum legal price of rice that lies below the equilibrium price <b>and</b> an explanation that traders with a rice pass can buy at the maximum price and re-sell at higher prices because there are some unsatisfied consumers who are willing to pay a price higher than the maximum. | <b>3–4</b> |

**N.B.** An alternative diagram may be to show a government subsidy (increase in supply and lower price), so that traders with rice passes are able to buy at the “government subsidised price”. The explanation would refer to the ability of these traders to then sell at higher prices to people who were not eligible for the rice passes.

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

The use of P and Q on the axis is sufficient.

- (d) **Using information from the text/data and your knowledge of economics, evaluate alternative policies that the Philippine government could pursue in an effort to reduce poverty.**

[8 marks]

Responses **may** include:

- the government might provide a range of merit goods such as health care and education that will help reduce poverty and achieve economic and human development (*paragraph ⑤*)
- investments in infrastructure (such as transportation, sanitation, clean water supplies, *etc.*) make positive contributions to economic and human development (*paragraph ⑤*) (positive externalities)
- price controls lead to resource misallocation (*paragraph ⑤*)
- investments in education and health care services make the labour force more productive and help poor people escape the poverty trap
- education opportunities for women help close the gender gap and lower population growth rates
- family planning helps achieve lower population growth rates so as to secure higher *per capita* GDP growth
- improved tax collection increases government revenues that can be used to pay for merit goods (infrastructure, health care services, education, *etc.*)
- income redistribution can help people to get out of the poverty trap, and provide education and health care services for children and permit small-scale investments
- the economy has been growing, but growth is not enough to achieve human development and poverty reduction (*paragraphs ② and ③*) therefore it is necessary to have other policies in place.

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.

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

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

**Level**

0	No valid discussion.	<b>0</b>
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

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

**(i) current account (paragraph ①)** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that it has to do with imports and exports.	1
2	<i>Precise definition</i> An explanation that it is a measure of the flow of funds from trade in goods and services. Candidates may go further and explain that it also includes net income flows, but this is not necessary for full marks.	2

**(ii) fiscal policy (paragraph ②).** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that it has to do with government spending and revenue.	1
2	<i>Precise definition</i> An explanation that it involves policies using government spending and/or taxation to manage AD (or achieve other objectives).	2

**(b) Using an appropriate diagram and referring to the data, explain the theory of the short-run Phillips curve.** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a diagram showing the inverse relationship between the rate of inflation and unemployment rate <b>or</b> for explaining that the data on inflation and unemployment illustrate this short-run inverse relationship: when the rate of inflation was increasing from 2005 to the end of 2007, the unemployment rate was falling; or when the rate of inflation began to fall from the beginning of 2008, the unemployment rate started to rise.       | <b>1-2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a diagram showing the inverse relationship between the rate of inflation and unemployment rate <b>and</b> for explaining that the data on inflation and unemployment illustrate this short-run inverse relationship: when the rate of inflation was increasing from 2005 to the end of 2007, the unemployment rate was falling; or when the rate of inflation began to fall from the beginning of 2008, the unemployment rate started to rise. | <b>3-4</b> |

**N.B.** There must be some reference to the text for full marks. This may be to refer to specific dates or may be to refer to specific values of the unemployment rates or inflation rates.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

The horizontal axis should be unemployment rate or % unemployment and the vertical axis should be inflation rate or % inflation or % change in the average price level.

Candidates who confuse the two labels may be rewarded up to **[3 marks]**.

(c) Explain why a record deficit on the balance of trade (*paragraph ①*) may be of special concern to a country like France, which is a member of the European Monetary Union, having adopted a single currency (the euro) (*paragraph ②*).

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1-2

For explaining that a country that has adopted a single currency (the euro) can no longer rely on the use of exchange rate policy to correct a trade imbalance (or current account balance), **or** for explaining that if France had its own national currency, a depreciation would help correct the large trade deficit by making imports more expensive domestically and exports less expensive to foreigners.

2 *Correct application of appropriate theory*

3-4

For explaining that a country that has adopted a single currency (the euro) can no longer rely on the use of exchange rate policy to correct a trade imbalance (or current account balance), **and** for explaining that if France had its own national currency, a depreciation would help correct the large trade deficit by making imports more expensive domestically and exports less expensive to foreigners.

**N.B.** An alternative approach would be to explain that as a member of a monetary union, France does not have the ability to change interest rates in order to correct its trade balance. This means that it cannot correct the large trade deficit by raising interest rates as an expenditure reducing policy to reduce spending on imports.

- (d) **Using information from the text/data and your knowledge of economics, evaluate some supply-side policies that the French government could pursue to lower its current account deficit.**

[8 marks]

Responses **may** include:

- an explanation of current account deficit (*paragraph 1*)
- an explanation that France could pursue policies that will increase its exports and decrease its imports, in order to lower the deficit, which according to the data has been growing and is expected to continue to increase into 2010
- an explanation of relevant supply-side policies with examples (*paragraph 2*)
- use of an AD/AS diagram to show the impact of supply-side policies on LRAS
- an explanation of how market-oriented supply-side policies (labour market reforms suggested by the OECD) can help increase export competitiveness and increase exports (*paragraph 3*)
- an explanation of how supply-side policies can help increase the competitiveness of domestic industries, this reducing demand for imports
- an evaluation of possible negative effects of these policies, such as lower worker protection, long time lags, resistance from trade unions (*paragraph 3*)
- an explanation of how interventionist supply-side policies (government-financed worker training and education, support for small businesses in the export sector, support for infrastructure development) can also help increase the competitiveness of domestic industries, thereby increasing exports and reducing imports
- an evaluation of disadvantages, such as the need for tax revenues to finance these, which could be difficult for France in view of its already large budget deficit
- a reference to the political difficulties of implementing reforms
- a discussion of the view that supply-side policies may be needed to confront high and rising unemployment, but that the current account deficit may not necessarily be the priority.

**N.B.** To reach level 3, candidates must direct their responses specifically to the issue of the current account deficit, rather than write in general terms about supply-side policies.

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.

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

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

**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

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

**(i) exchange rate (paragraph 1)** [2 marks]

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is the price of a currency.	1
2	<i>Precise definition</i> An explanation that it is the price or value of one currency expressed in terms of another.	2

**(ii) interest rates (paragraph 3).** [2 marks]

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is money received.	1
2	<i>Precise definition</i> An explanation that they are the price of money, <b>or</b> <ul style="list-style-type: none"><li>• the price of borrowed money, <b>or</b></li><li>• the price of credit, <b>or</b></li><li>• the reward for saving/lending money.</li></ul>	2

(b) **Using an appropriate diagram, explain how Thailand’s central bank might intervene to lower the value of the Thai baht.** *[4 marks]*

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a diagram to show the supply of Thai baht shifting to the right, causing a lower exchange rate, <b>or</b> an explanation that intervention by Thailand’s central bank to sell Thai baht (or to buy foreign reserves) on the foreign exchange market will increase supply of the currency, causing the currency to depreciate.       | <b>1–2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a diagram to show the supply of Thai baht shifting to the right, causing a lower exchange rate, <b>and</b> an explanation that intervention by Thailand’s central bank to sell Thai baht (or to buy foreign reserves) on the foreign exchange market will increase supply of the currency, causing the currency to depreciate. | <b>3–4</b> |

**N.B.** The following approaches, if properly drawn and explained, may be rewarded with full marks:

- the Thai central bank could lower interest rates causing either an increase in the supply of the currency as savers move their savings elsewhere, **or** a decrease in demand as saving in Thai banks provides a lower return to savers, and thus reducing the demand for the Thai baht
- the central bank could “talk down” the value of the Thai baht, causing either an increase in supply or decrease in demand as speculators fear that it will lose its value.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

The vertical axis may be exchange rate, price of Thai baht in dollars, price of Thai baht in other currencies, \$, USD, **but not** simply “price” or “P”. The horizontal axis should be quantity, or quantity of baht.



(c) **With the aid of an AD/AS diagram, explain the likely effect on the Thai economy of a further cut in interest rates (*paragraph 3*).** [4 marks]

level

- 0 *Inappropriate answer* 0
  
- 1 *Identification of appropriate theory* 1-2  
For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) **or** an explanation that a fall in interest rates may result in an increase in consumption (and/or investment) and therefore an increase in AD and an increase in real GDP. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.
  
- 2 *Correct application of appropriate theory* 3-4  
For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) **and** an explanation that a fall in interest rates may result in an increase in consumption (and/or investment) and therefore an increase in AD and an increase in real GDP. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.

**OR**

- 1 *Identification of appropriate theory* 1-2  
For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) **or** an explanation that a fall in interest rates may result in a fall in the value of the Thai baht and therefore an increase in net exports. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.
  
- 2 *Correct application of appropriate theory* 3-4  
For drawing an AD/AS diagram to show an increase in AD, causing an increase in real GDP (real output, national income) **and** an explanation that a fall in interest rates may result in a fall in the value of the Thai baht and therefore an increase in net exports. The effect on the price level depends on the AS that is drawn. If a short run aggregate supply curve is drawn, candidates should say that there is an increase in the price level. If a Keynesian AS curve is drawn with an increase in AD remaining in the horizontal region then the price level will not change.

**N.B.** An alternative approach may be to consider the effects of a decrease in interest rates on AS. A fall in interest rates may result in a decrease in the costs of production to firms, and thus an increase in SRAS. A fall in interest rates leading to an increase in investment can be seen to increase the quantity of capital in the economy, and thus shift out the LRAS. If appropriately explained and illustrated, then full marks may be rewarded.

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

The vertical axis may be price level, average price level or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y) or GDP.

- (d) Using information from the text/data and your knowledge of economics, evaluate the view that Thailand’s central bank should intervene in the foreign exchange market in order to weaken the Thai baht.**

**[8 marks]**

Responses **may** include:

- the economy has stagnated and so exporters need help. Exports have fallen 26.1 % (*paragraph 4*)
- a discussion of the benefits of a lower value of the currency including, the support for the “the struggling export sector” (*paragraph 5*)
- although a lower value of a currency can be inflationary, this does not seem to be a problem in Thailand given that the economy is shrinking (*paragraph 4*)
- a lower value of the currency will be damaging to consumers of imported goods, and will raise costs of imported factors of production
- the J-curve and the Marshall-Lerner condition suggests that currency depreciation takes time to contribute to an improvement in export revenues
- even if the central bank does intervene, the lower value of the currency may not have the desired effect of stimulating exports due to possible inelastic demand
- it may be argued that currencies should be left to market forces
- active intervention by the central bank might invite retaliation and competitive devaluation and/or trade protection
- interest rates may continue to fall (*paragraph 5*) so there is no need for the government to intervene
- supply-side policies intended to increase efficiency and flexibility may be preferable to exchange rate manipulation.

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.

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

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

**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) economic growth (paragraph 3)** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that there is a growth in GDP.	<b>1</b>
2	<i>Precise definition</i> An explanation that it is the growth of real output (real GDP) in an economy over time.	<b>2</b>

**(ii) investment (paragraph 5).** *[2 marks]*

level

0	<i>Wrong definition</i>	<b>0</b>
1	<i>Vague definition</i> The idea that it is spending by firms.	<b>1</b>
2	<i>Precise definition</i> An explanation that it is: <ul style="list-style-type: none"> <li>• the spending on capital, <b>or</b></li> <li>• the addition of capital stock to the economy, <b>or</b></li> <li>• the spending on health or education to improve human capital.</li> </ul>	<b>2</b>

(b) **Explain how foreign aid can help a country such as Malawi to break out of a poverty cycle.** **[4 marks]**

level

- |   |  |            |
|---|--|------------|
| 0 | <i>Inappropriate answer</i>  | <b>0</b>   |
| 1 | <i>Identification of appropriate theory</i><br>An explanation of a poverty cycle, such as one where low incomes lead to low savings, which lead to low investment, in turn leading to low incomes and low savings once again, <b>or</b> an explanation that foreign aid can increase resources available in the economy, therefore leading to higher incomes which can allow Malawi to break out of the poverty cycle.       | <b>1–2</b> |
| 2 | <i>Correct application of appropriate theory</i><br>An explanation of a poverty cycle, such as one where low incomes lead to low savings, which lead to low investment, in turn leading to low incomes and low savings once again, <b>and</b> an explanation that foreign aid can increase resources available in the economy, therefore leading to higher incomes which can allow Malawi to break out of the poverty cycle. | <b>3–4</b> |

**N.B.** An alternate poverty cycle (any linked chain of events leading to low incomes) may be used, and if appropriately explained, may be fully rewarded.

Candidates may explain a break in a poverty cycle in a different way, *e.g.* aid may be used to provide health care and improve human capital, and if appropriately explained, this approach may be fully rewarded.

(c) **Using a production possibility curve (PPC) diagram, explain why economic growth may not necessarily lead to economic development.** [4 marks]

level

- 0 *Inappropriate answer* **0**
  
- 1 *Identification of appropriate theory* **1–2**  
For drawing one or more production possibility curve (PPC) diagram(s) showing economic growth as a movement from one point on the diagram to another point further from the origin with or without a PPC shift, **or** a plausible explanation that economic growth may not lead to economic development, *e.g.* due to factors such as an uneven distribution of income, lack of investment in human capital, poor governance, *etc.*
  
- 2 *Correct application of appropriate theory* **3–4**  
For drawing one or more production possibility curve (PPC) diagram(s) showing economic growth as a movement from one point on the diagram to another point further from the origin with or without a PPC shift, **and** a plausible explanation that economic growth may not lead to economic development, *e.g.* due to factors such as an uneven distribution of income, lack of investment in human capital, poor governance, *etc.*

**N.B.** Candidates may take an approach to show an increase in the output of merit goods versus luxury goods, or vice-versa, in order to show that economic growth may not necessarily lead to economic development. If this is illustrated and explained effectively, this approach may be rewarded fully.

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

The labels on the axis should show two kinds of output which are competing for a country’s resources, and will depend on the nature of the explanation.

- (d) **Using information from the text/data and your knowledge of economics, evaluate the effectiveness of different forms of aid in promoting economic development.**

[8 marks]

Responses **may** include:

- discussion of types of aid *e.g.* multi-lateral/bilateral, tied, grant aid, soft loans, emergency relief, emergency financial relief, NGO aid
- benefits of aid which is targeted to meeting development objective (*paragraph 2*)
- aid can contribute to economic growth (*paragraph 3*) which might then be used to achieve development objectives
- benefits of cooperation between aid agencies, governments, international organisations and local community groups (*paragraph 4*)
- benefits of aid which is driven by the needs of the people (*paragraph 6*) and linked to appropriate domestic policies and good governance
- problems associated with corruption (*paragraph 2*) that prevent aid from addressing development objectives
- problems associated with aid which is given for political and strategic reasons
- problems associated with aid dependency
- problems associated with tied aid that is not related to development
- a comparison of official aid and unofficial aid.

*N.B.* To reach level 3, candidates must direct their responses to the issue of promoting economic development, rather than write in general terms about aid.

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.

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

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

**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

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