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# **Economics**

## **Higher level and standard level**

**Specimen papers 1, 2 and 3**

**For first examinations in 2013**

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**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

SPECIMEN PAPER

1 hour 30 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Answer one question from Section A and one question from Section B.
- Use fully labelled diagrams and references to examples where appropriate.

**SECTION A**

Answer **one** question from this section.

**Microeconomics**

1. (a) Explain why firms in monopolistic competition can make economic profit in the short run only. *[10 marks]*  
(b) Compare and contrast the market structures of monopoly and monopolistic competition. *[15 marks]*
  
2. (a) Explain the possible negative externalities that might arise from the increased use of cars. *[10 marks]*  
(b) Discuss economic policy options that a government could use to reduce the negative externalities that might arise from the increased use of cars. *[15 marks]*

**SECTION B**

Answer *one* question from this section.

**Macroeconomics**

3. (a) Explain what might happen to the level of inflation if a government decides to move from a budget surplus to a budget deficit. *[10 marks]*
- (b) To what extent is an increase in interest rates the most effective cure for inflation? *[15 marks]*
4. (a) Analyse the methods by which Gross Domestic Product (GDP) may be measured. *[10 marks]*
- (b) “Using real Gross Domestic Product (GDP) data is a very useful means of comparing economic activity between countries.” Discuss this statement. *[15 marks]*
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# **MARKSCHEME**

## **SPECIMEN PAPER**

### **ECONOMICS**

#### **Higher Level**

##### **Paper 1**

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

## SECTION A

### Microeconomics

1. (a) **Explain why firms in monopolistic competition can make economic profit in the short run only.**

*[10 marks]*

Answers **may** include:

- definitions of monopolistic competition, economic profit, the short run, the long run
- theory of monopolistic competition; assumptions, short-run economic profit and in the long run the entry of new firms and zero economic profit
- diagrams to show economic profit, zero economic profit in monopolistic competition
- examples of monopolistic competition.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4–6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7–8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9–10</b>

**(b) Compare and contrast the market structures of monopoly and monopolistic competition.**

*[15 marks]*

**N.B.** It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of monopoly, monopolistic competition
- theory of monopoly and monopolistic competition
- diagrams to show monopoly and monopolistic competition
- examples of monopoly and monopolistic competition
- synthesis or evaluation (compare and contrast).

Points of similarity **may** include: downward sloping demand curves, price makers, profit maximization assumed ( $MC = MR$ ), economic profit possible in the short run, lack of productive and allocative efficiency.

Points of difference **may** include: number of producers, economies of scale for monopoly, ease of entry and exit, size of firms, degree of market power, economic profit in the short run and long run, effects on consumers.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

2. (a) **Explain the possible negative externalities that might arise from the increased use of cars.**

*[10 marks]*

Answers **may** include:

- definitions of externalities, negative externalities, externalities of consumption
- theory of market failure; MSC does not equal MSB, effect on third parties, MPB greater than MSB, over-consumption, over-allocation of resources, prices below social optimality
- diagrams to show negative externalities of consumption
- examples of negative externalities associated with the use of cars, such as noise and air pollution.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4–6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7–8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9–10</b>

- (b) **Discuss economic policy options that a government could use to reduce the negative externalities that might arise from the increased use of cars.** [15 marks]

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of negative externalities, indirect taxes, subsidies, legislation
- theory of possible policy responses to negative externalities; taxation, subsidies, legislation, advertising, education, to reduce the consumption of car travel or to increase the use of alternative means of travel
- diagrams to show the effects of taxation, subsidies, legislation, advertising, education
- examples of policies, such as road tolls, electronic road pricing, congestion charges, parking fees, car pooling legislation, car emission standards, banning advertising campaigns, and education initiatives
- synthesis or evaluation (discuss).

Discussion **may** include: advantages and disadvantages of policy options, effectiveness of individual policy options, effects upon stakeholders, implications for sustainability, short-term and long-term implications.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

**SECTION B**

**Macroeconomics**

3. (a) **Explain what might happen to the level of inflation if a government decides to move from a budget surplus to a budget deficit.**

*[10 marks]*

Answers **may** include:

- definitions of inflation, budget surplus, budget deficit
- theory of the government budget, the role of fiscal policy – increases in government expenditure and/or reduction in taxation levels leading to shifts (increases) of the AD curve and the possibility of demand-pull inflation
- diagrams to show the effects of an increase in AD
- examples of expansionary fiscal policies.

**Assessment Criteria**

**Part (a) 10 marks**

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1-3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4-6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7-8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9-10</b>

**(b) To what extent is an increase in interest rates the most effective cure for inflation?**

*[15 marks]*

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of inflation, interest rates, tight monetary policy, demand-side policies
- theory of inflation, monetary policy, alternative economic policies – the causes of inflation and the relevance of higher interest rates to each of them, alternative cures for inflation
- diagrams to show the different types of inflation, the effects of tight monetary policy
- examples of government application of monetary policy to reduce inflation
- synthesis or evaluation (to what extent).

Consideration of the merits of the statement **may** include: the circumstances under which interest rate changes will cure inflation, the circumstances under which interest rate changes will not cure inflation, the effectiveness of alternative policies.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

**Assessment Criteria**

**Part (b) 15 marks**

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

4. (a) **Analyse the methods by which Gross Domestic Product (GDP) may be measured.**

*[10 marks]*

Answers **may** include:

- definitions of GDP, expenditure method, income method, output method
- theory of measures of economic activity; analysis of the income approach, the output approach and the expenditure approach to the measurement of national income
- a diagram of the circular flow of income may be included, but is not necessary in this case
- examples of the components of the different methods.

**Assessment Criteria**

**Part (a) 10 marks**

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1-3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4-6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7-8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9-10</b>

- (b) “Using real Gross Domestic Product (GDP) data is a very useful means of comparing economic activity between countries.” Discuss this statement. [15 marks]

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of GDP, real, economic activity
- theory of the use of real GDP to make comparisons between countries in order to compare economic activity
- diagrams are not necessary
- examples of weaknesses, such as parallel markets, relative price levels, different measuring methods, self-provided goods
- synthesis or evaluation (discuss).

Discussion **may** include: strengths and weaknesses of using real GDP for comparison between countries, the relative importance of the strengths and/or weaknesses.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

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**ECONOMICS  
HIGHER LEVEL  
PAPER 2**

SPECIMEN PAPER

1 hour 30 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Answer one question from Section A and one question from Section B.
- Use fully labelled diagrams and references to the text/data where appropriate.

**SECTION A**

Answer **one** question from this section.

1. Study the extract below and answer the questions that follow.

**Rand at six-month high**

- ① A revival has seen the South African rand reach a near six-month peak against the dollar. Foreign buying of shares in South African companies and a surprise contraction in South Africa's **current account deficit** have helped to boost the currency. So far, in 2009, there has been an appreciation of the rand of more than 5% against the dollar and 9% against the euro, which is the currency of South Africa's main trading partners, the eurozone countries of the European Union (EU). If currency markets take the view that political risk will decrease after the general election, there is a "better than even" chance the rand could continue to appreciate, said a senior currency dealer.
- ② Two senior economists said there was a danger the rand would strengthen to a point where it would make exports uncompetitive and encourage imports. This could widen the current account deficit, which was at 7.4% of gross domestic product (GDP) last year. The currency could strengthen if, for instance, foreign investment increased ahead of the 2010 soccer World Cup (to be held in South Africa) or the gold price resumed its upward trend (gold is a major export for South Africa).
- ③ The rand's strength would help reduce upward pressure on inflation, which has been higher than the South African Reserve Bank's (SARB) (central bank's) 3% to 6% target range since March 2007. However, it is bad news for local factories, making local goods more expensive in other currencies and, as a result, slowing **economic growth**. Some analysts believe this will prompt the SARB to take steps to weaken the rand, making South African exports more competitive.
- ④ A consequence could be that in an attempt to weaken the rand, the SARB governor might reduce the bank's official interest rate too far, sparking a repeat of the consumer boom from 2003 to 2006, which left households heavily in debt. Some economists have advised the bank to purchase foreign exchange to weaken the currency, rather than lowering interest rates further.

[Source: adapted from *Business Day*, 7 April 2009 and *Business Report and Independent*, online edition, 29 April 2009]

*(This question continues on the following page)*

*(Question 1 continued)*

- (a) (i) Define the term *current account deficit* indicated in bold in the text (*paragraph 1*). [2 marks]
- (ii) Define the term *economic growth* indicated in bold in the text (*paragraph 3*). [2 marks]
- (b) Using an appropriate diagram, analyse the effect of a “contraction in South Africa’s current account deficit” (*paragraph 1*) on the value of the rand. [4 marks]
- (c) Using an AD/AS diagram, explain why a strong rand might “reduce upward pressure on inflation” (*paragraph 3*). [4 marks]
- (d) Using information from the text/data and your knowledge of economics, discuss the view that the South African Reserve Bank (central bank) should attempt to weaken the rand. [8 marks]

2. Study the extract and data below and answer the questions that follow.

### Europe accused of protectionism

- ❶ The European Union (EU) has been accused of going back on a promise to avoid making the global **recession** worse by imposing new restrictions on free trade. World leaders at the G20\* meeting in London agreed not to raise new restrictions to free trade in goods and services, in order to prevent a protectionist battle like the one which was widely blamed for the Great Depression in the 1930s.
- ❷ The EU will place a tariff of up to 60% on the imports of Chinese candles this month. Britain's retailers are furious about the tax on candles, which they say will protect Polish and German candle makers, and estimate that it will cost retailers up to UK£10 million. They argue that the problems associated with the candle makers' loss of comparative advantage should be solved with other policies.
- ❸ The EU has also imposed anti-dumping tariffs, which are meant to protect against cut-price subsidized imports, on Chinese wire, iron and steel pipes, and aluminium foil from Brazil, China and Armenia.
- ❹ Non-tariff restrictions are also a concern. At a recent trade policy review meeting at the World Trade Organization (WTO), an Indian trade official criticized the EU for imposing new health and safety standards on spices, groundnuts, processed food and cereals, creating impossibly high costs for Indian exporters and causing huge commercial losses. Also, the EU has several restrictions relating to service industries, such as the restrictions on Indian banks starting operations in the EU.

*(This question continues on the following page)*

(Question 2 continued)

A recent survey provided the following results:

Table 1

	1st quarter 2008 to 1st quarter 2009
Number of new restrictions imposed	1841
Non-tariff restrictions as a percentage of total new restrictions	44% (March 2008) – 66% (March 2009)

Table 2

	Number of new barriers imposed
United States	329
China	284
Brazil	186
European Union	152
India	120

- 5 However, the EU trade commissioner stated that “the EU will continue to show leadership and stand firm against protectionism,” arguing that it is “committed to free trade based on rules that benefit developed and economically less developed countries”. An EU spokesperson insisted that the anti-dumping measures actually promote free trade.

\* G20: is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States of America. The European Union is the 20th member.

[Source: adapted from *Business Report*, 7 April 2009 and “Europe accused of protectionism” by Heather Stewart © *Guardian News & Media Ltd* 2009, reproduced by permission, 4 May 2009 and *Institute of International Trade*, 13 April 2009]

- (a) (i) Define the term *recession* indicated in bold in the text (*paragraph 1*). [2 marks]
- (ii) Outline **one** objective of the World Trade Organization (WTO) (*paragraph 4*). [2 marks]
- (b) Using a tariff diagram, explain how the revenues of Polish and German candle makers will change as a result of the tariff on candles. [4 marks]
- (c) Explain why an EU spokesperson “insisted that the anti-dumping measures actually promote free trade” (*paragraph 5*). [4 marks]
- (d) Using information from the text/data and your knowledge of economics, evaluate the claim that the EU is “committed to free trade” (*paragraph 5*). [8 marks]

Turn over

## SECTION B

Answer **one** question from this section.

3. Study the extract and data below and answer the questions that follow.

### United Nations secretary-general outlines Laos' progress

- ❶ “Laos has made considerable progress towards reaching the Millennium Development Goals (MDGs), but the nation must continue its efforts to reduce child malnutrition and mortality rates to make the country more competitive in the global economy,” said United Nations (UN) secretary-general Ban Ki-moon.
- ❷ “There have been steady improvements in health, education, living standards and life expectancy, with progress having been made in literacy rates and access to safe drinking water”, Mr Ban said. “These gains are supported by greater macroeconomic stability and increasing integration with the global economy,” he added.
- ❸ However, Mr Ban warned that much remains to be done if the country is to achieve the MDGs. “Poverty is widespread, especially in the countryside,” he said. “Income inequality is getting worse.” Mr Ban expressed his particular concern over the high rates of child malnutrition. Additionally, the country’s education level is the lowest among the countries belonging to the Association of Southeast Asian Nations (ASEAN). “This is not only a human tragedy; it will have serious implications for the future of this country’s workforce and its ability to compete economically at the international level,” he said.
- ❹ Laos intends to develop its economy based on the price mechanism, following the example of its neighbours Malaysia and Thailand, but with some state regulation to ensure the production of essential services. It will encourage foreign direct investment (FDI) and domestic investment, in order to encourage further industrialization. In 2008, the government of Laos was successful in stabilizing its macroeconomy and maintaining its 7.9% economic growth rate, while the percentage of households living in **absolute poverty** was reduced to 15.8%. From 2001 to 2008, Laos attracted US\$7.1 billion worth of FDI from 36 countries.

*(This question continues on the following page)*

(Question 3 continued)

**Table: East Asia and Pacific: regional data from the World Development Indicators (WDI) database, 2009**

	Gross national income (GNI) <i>per capita</i> (US\$) (purchasing power parity (PPP) 2007)	Primary education completion rate (%) (2007)	Carbon dioxide emissions ( <i>per capita</i> metric tonnes, 2005)	Internet users (per 1000 people, 2007)
Laos	2080	77	0.3	1.7
Malaysia	13 230	98	9.3	55.7
Thailand	7880	100	4.3	21.0

[Source: adapted from *UN News Service*, 13 April 2009, *Nhan Dan*, 3 May 2009 and *WDI database (World Development Indicators 2009)*, 3 May 2009]

- (a) (i) Outline **one** of the Millennium Development Goals (MDGs) (*paragraph 1*). [2 marks]
- (ii) Define the term *absolute poverty* indicated in bold in the text (*paragraph 4*). [2 marks]
- (b) Using an appropriate diagram, describe the change in the distribution of income in Laos (*paragraph 3*). [4 marks]
- (c) Explain the likely impact of the low education level on the economic development of Laos (*paragraph 3*). [4 marks]
- (d) Using information from the text/data and your knowledge of economics, to what extent would you support the view that Laos should develop its economy “based on the market mechanism” (*paragraph 4*)? [8 marks]

4. Study the extract below and answer the questions that follow.

### Mining deals with multinationals

- ① Mineral-rich countries in Africa enjoyed a mining boom between 2002 and 2007 as metal and oil prices nearly tripled. Multinational corporations (MNCs) competed furiously for new mines to meet growing world demand. As a result, a number of African nations found themselves in a much stronger bargaining position with foreign investors, who previously were able to demand (and get) huge tax benefits before they would invest. However, since then, amidst a global economic recession, world metal and oil prices have fallen substantially, raising concerns that investors will once again stay away.
- ② Copper, which accounts for 80% of Zambia’s export earnings, is a key component of the United States (US) electronics and building industry. It has seen prices fall from US\$9000 to US\$3000 per tonne as a result of the economic downturn. “This deterioration in our **terms of trade** is going to affect our economy badly. Mining companies have already started cutting down on further investment programmes and they are reducing their workforce, which is not good for our economy,” said a Zambian trade official.
- ③ Though richly endowed with mineral and oil deposits, Africa has generally drawn little benefit from that wealth. Mining and oil profits have often gone abroad or been wasted, leaving many people in poverty. Also, the environment has been damaged by the effects of mining, such as pollution. The emergence of more democratic governments, along with action by local communities, has led to efforts to make better use of Africa’s natural resources for economic development.
- ④ Most mining contracts in Africa were negotiated in the 1980s and 1990s when low world prices and high political risks meant that African countries had to attract investors by incentives such as tax exemptions. Consequently, many countries earned very little from such contracts. African governments are now trying to ensure that mining contracts and regulations address environmental protection, provide adequate compensation to affected communities and regenerate land after mining operations have ended.

[Source: adapted from *Business Daily Africa*, 24 April 2009 and *Mail and Guardian online*, 14 December 2008]

*(This question continues on the following page)*

(Question 4 continued)

- (a) (i) State **two** reasons why a multinational corporation (MNC) may wish to invest in an economically less developed country (LDC). [2 marks]
  - (ii) Define the term *terms of trade* indicated in bold in the text (*paragraph 2*). [2 marks]
  - (b) With the aid of a diagram, explain the likely impact on Zambia’s economic growth of the fall in copper prices from US\$9000 to US\$3000 per tonne (*paragraph 2*). [4 marks]
  - (c) With the aid of a diagram, explain how mining in Africa can create externalities of production. [4 marks]
  - (d) Using information from the text/data and your knowledge of economics, discuss the contribution made by multinational corporations (MNCs) to the economic development of mineral-rich countries (*paragraph 1*). [8 marks]
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# **MARKSCHEME**

## **SPECIMEN PAPER**

### **ECONOMICS**

#### **Higher Level**

##### **Paper 2**

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

**SECTION A**

**1. (a) (i) Define the term *current account deficit* indicated in bold in the text (paragraph ❶).** **[2 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that imports are greater than exports.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that the value of imports of goods and services is greater than the value of exports of goods and services.	<b>2</b>

**(ii) Define the term *economic growth* indicated in bold in the text (paragraph ❷).** **[2 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that it is an increase in the size of the economy.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is the growth of real output in an economy.	<b>2</b>

(b) Using an appropriate diagram, analyse the effect of a “contraction in South Africa’s current account deficit” (*paragraph 1*) on the value of the rand.

[4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled diagram to show the foreign exchange market with a decrease in supply and/or an increase in demand for the rand, resulting in a higher value for the rand <b>or</b> an explanation that a smaller current account deficit is caused by a lower value of imports and/or a higher value of exports, causing lower supply of and/or greater demand for the rand – thus increasing the equilibrium value of the rand.	1–2
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled diagram to show the foreign exchange market with a decrease in supply and/or an increase in demand for the rand, resulting in a higher value for the rand <b>and</b> an explanation that a smaller current account deficit is caused by a lower value of imports and/or a higher value of exports, causing lower supply of and/or greater demand for the rand – thus increasing the equilibrium value of the rand.	3–4

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

(c) **Using an AD/AS diagram, explain why a strong rand might “reduce upward pressure on inflation” (paragraph 3).** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram where AD shifts to the left and/or SRAS shifts to the right, thus reducing the average price level <b>or</b> for explaining that a strong rand will reduce the demand for exports (and/or increase the demand for imports) thus shifting AD to the left and/or a strong rand will make imported factors of production less expensive thus increasing SRAS. Either of these would reduce inflationary pressure.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram where AD shifts to the left and/or SRAS shifts to the right, thus reducing the average price level <b>and</b> for explaining that a strong rand will reduce the demand for exports (and/or increase the demand for imports) thus shifting AD to the left and/or a strong rand will make imported factors of production less expensive thus increasing SRAS. Either of these would reduce inflationary pressure.	<b>3–4</b>

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

- (d) **Using information from the text/data and your knowledge of economics, discuss the view that the South African Reserve Bank (central bank) should attempt to weaken the rand.**

*[8 marks]*

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	0
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	1–2
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

*Command term*

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- the rand has reached a near six-month peak (*paragraph 1*), which may inhibit growth
- the rand has appreciated 9% against the euro (*paragraph 1*) – thus making exports to South Africa’s main trading partners more expensive
- the current account deficit is likely to worsen if the rand continues to appreciate
- the current account deficit is already bad (7.4% of GDP last year (*paragraph 2*))
- a policy to weaken the rand might increase inflationary pressure
- local factories (*paragraph 3*) will benefit from such a policy as local exports will become more competitive
- buying foreign currency will avoid the need to lower interest rates too much (*paragraph 4*)
- another consumer boom (*paragraph 4*) may be avoided by purchasing foreign currencies

- the upcoming soccer World Cup (*paragraph 2*) will put upward pressure on the rand
- if the gold price resumes its upward trend (*paragraph 2*), there will be upward pressure on the rand
- some may argue that governments should not intervene in currency markets
- some may argue that the South African government has little power to influence the rand – market sentiment may be more powerful.

Any reasonable discussion.

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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that the economy gets smaller.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is two consecutive quarters of negative economic growth.	<b>2</b>

(ii) **Outline *one* objective of the World Trade Organization (WTO) (*paragraph 4*).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> The idea that one of the following needs to be addressed: <ul style="list-style-type: none"> <li>• to promote trade</li> <li>• to reduce barriers.</li> </ul>	<b>1</b>
2 <i>There is clear understanding.</i> A clear understanding demonstrated of one of the following: <ul style="list-style-type: none"> <li>• to promote free trade among member countries by reducing trade barriers</li> <li>• to administer WTO trade agreements</li> <li>• to be a forum for trade negotiations</li> <li>• to handle trade disputes among member nations</li> <li>• to monitor national trade policies</li> <li>• to provide technical assistance and training for developing countries</li> <li>• to cooperate with other international organizations.</li> </ul>	<b>2</b>

**(b) Using a tariff diagram, explain how the revenues of Polish and German candle makers will change as a result of the tariff on candles. [4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled tariff diagram showing the imposition of a tariff, with a higher price and increased output for domestic producers <b>or</b> for explaining that the imposition of a tariff will increase the price of candles and increase the sales of domestic producers, therefore increasing their revenue.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled tariff diagram showing the imposition of a tariff, with a higher price and increased output for domestic producers <b>and</b> for explaining that the imposition of a tariff will increase the price of candles and increase the sales of domestic producers, therefore increasing their revenue.	<b>3–4</b>

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

**(c) Explain why an EU spokesperson “insisted that the anti-dumping measures actually promote free trade” (paragraph 5). [4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1–2</b>
2 <i>The written response is accurate.</i> For explaining that even though “anti-dumping measures” are barriers to trade, they are intended to tackle the protectionist measure of dumping. Dumping is the selling of goods in overseas markets at a price which is below cost, or significantly below the price in domestic markets – possibly as a result of subsidies, and so in themselves are anti-free trade. Hence a measure to tackle dumping is actually supporting free trade.	<b>3–4</b>

- (d) **Using information from the text/data and your knowledge of economics, evaluate the claim that the EU is “committed to free trade” (paragraph 5).** [8 marks]

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	0
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	1–2
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

*Command term*

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses **may** include:

- the EU has been accused of going back on a promise to avoid making the global recession worse by imposing new restrictions on free trade (paragraph 1)
- even though at the G20 meeting world leaders agreed to refrain from doing so (paragraph 1)
- a tax of up to 60 % on candles will be imposed (paragraph 2) this will protect Polish and German candle makers (paragraph 2)
- British retailers will be affected – might cost up to an extra UK£10 million. (paragraph 2)
- loss of comparative advantage (paragraph 2)
- the EU has also imposed a range of taxes on other products
- these taxes will protect EU jobs, which may be seen as more important in times of recession
- the EU might argue that they are a defence against dumping, so in defence of free trade (paragraph 5)
- the EU is also turning to non-tariff barriers (paragraph 4)
- it is not only the EU which is imposing barriers (Table 2) – EU barriers might be justified in this way – it is not the worst offender

- the trade commissioner appears to contradict the actions of the EU – committed to multilateralism and the benefit of developing countries (*paragraph 5*)
- the economies of countries such as Brazil, China and Armenia may suffer
- foreign producers may face huge commercial losses (*paragraph 4*)
- barriers limit the advantages which may be gained from free trade
- the imposition of barriers may be politically advantageous, especially in times of recession.

Any reasonable evaluation.

**SECTION B**

3. (a) (i) **Outline one of the Millennium Development Goals (MDGs) (paragraph ①).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> The idea that one of the following needs to be addressed: <ul style="list-style-type: none"> <li>• poverty and hunger</li> <li>• education</li> <li>• gender equality</li> <li>• child health</li> <li>• maternal health</li> <li>• diseases</li> <li>• the environment</li> <li>• global cooperation.</li> </ul>	<b>1</b>
2 <i>There is clear understanding.</i> A clear understanding demonstrated of one of the following: <ul style="list-style-type: none"> <li>• eradicate extreme poverty and hunger</li> <li>• achieve universal primary education</li> <li>• promote gender equality and empower women</li> <li>• reduce child mortality</li> <li>• improve maternal health</li> <li>• combat HIV/AIDS, malaria and other diseases</li> <li>• ensure environmental sustainability</li> <li>• develop a global partnership for development.</li> </ul>	<b>2</b>

(ii) **Define the term *absolute poverty* indicated in bold in the text (paragraph ④).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that one does not have enough to survive.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it involves incomes that are at or below a minimum income level (which may be defined as a poverty line) needed to secure the basic necessities of life (such as food, shelter, clothing).	<b>2</b>

**(b) Using an appropriate diagram, describe the change in the distribution of income in Laos (paragraph ⑤).** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled Lorenz curve diagram showing a movement away from the line of perfect equality <b>or</b> for explaining that the higher-earning households are now earning a greater share of the country's income in relation to the lower-earning households.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled Lorenz curve diagram showing a movement away from the line of perfect equality <b>and</b> for explaining that the higher-earning households are now earning a greater share of the country's income in relation to the lower-earning households.	<b>3–4</b>

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

**(c) Explain the likely impact of the low education level on the economic development of Laos (paragraph ⑤).** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1–2</b>
2 <i>The written response is accurate.</i> An explanation that a low level of education will limit the productivity of the labour force and hence prevent any increase in the productive capacity of the economy. This may be illustrated using a PPC diagram. Given that economic growth may lead directly to economic development via higher incomes, or by providing the finance for the government to invest in health, education and infrastructure, growth may lead to development. Thus a low level of education is likely to inhibit economic development.	<b>3–4</b>

- (d) **Using information from the text/data and your knowledge of economics, to what extent would you support the view that Laos should develop its economy “based on the market mechanism” (paragraph 4)?** *[8 marks]*

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	<b>1–2</b>
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	<b>6–8</b>

*Command term*

“To what extent” requires candidates to consider the merits or otherwise of an argument or concept. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Responses **may** include:

- description of the price mechanism (*paragraph 4*).

Benefits of the price mechanism:

- less government regulation encourages FDI (*paragraph 4*)
- increased domestic investment (*paragraph 4*)
- greater levels of competition
- higher GNI *per capita* (*Table*)
- greater access to the Internet (*Table*)
- improved economic efficiency
- greater economic growth.

Costs of the price mechanism:

- under-provision of essential services (merit goods) (*paragraph 3*)
- over-provision of demerit goods
- higher carbon emissions (*Table*)
- exploitation of all resources
- greater income inequality (*paragraph 3*)
- greater urban/rural inequality.

Any reasonable response.

4. (a) (i) State *two* reasons why a multinational corporation (MNC) may wish to invest in an economically less developed country (LDC). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> One correct reason should be awarded [1 mark].	<b>1</b>
2 <i>There is clear understanding.</i> Two correct reasons should be awarded [2 marks].	<b>2</b>

Possible reasons:

- to gain access to new markets
- to cut costs by avoiding the need to comply with legislation which exists in the domestic economy
- to gain access to resources
- to avoid import duties by producing in the target market
- to gain access to cheaper labour and raw materials than in the domestic economy.

Any reasonable response.

(ii) Define the term *terms of trade* indicated in bold in the text (paragraph 2). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that it is a relationship between prices of exports and imports.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is a measure (the ratio) of a country's average export prices relative to its average import prices.	<b>2</b>

(b) **With the aid of a diagram, explain the likely impact on Zambia’s economic growth of the fall in copper prices from US\$9000 to US\$3000 per tonne (paragraph 2).**

**[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram to show a fall in aggregate demand resulting from lower export receipts, causing real GDP to decrease <b>or</b> for explaining that the fall in copper prices will adversely affect export receipts, thus reducing aggregate demand and hence having a negative effect on Zambia’s economic growth.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram to show a fall in aggregate demand resulting from lower export receipts, causing real GDP to decrease <b>and</b> for explaining that the fall in copper prices will adversely affect export receipts, thus reducing aggregate demand and hence having a negative effect on Zambia’s economic growth.	<b>3–4</b>

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

(c) **With the aid of a diagram, explain how mining in Africa can create externalities of production.** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled market diagram showing a negative externality of production, with the marginal social cost curve above the marginal private cost curve <b>or</b> for explaining that mining leads to negative externalities of production, such as damage to the environment or to water supply, which are not felt by producers or consumers of the product, but by third parties such as local residents. The negative externalities mean that social costs are higher than private costs.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled market diagram showing a negative externality of production, with the marginal social cost curve above the marginal private cost curve <b>and</b> for explaining that mining leads to negative externalities of production, such as damage to the environment or to water supply, which are not felt by producers or consumers of the product, but by third parties such as local residents. The negative externalities mean that social costs are higher than private costs.	<b>3–4</b>

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

- (d) **Using information from the text/data and your knowledge of economics, discuss the contribution made by multinational corporations (MNCs) to the economic development of mineral-rich countries (paragraph 1).** *[8 marks]*

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	<b>1–2</b>
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	<b>6–8</b>

*Command term*

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- recognition of the term economic development.

Advantages/benefits:

- export receipts from mining
- greater tax revenues to the government
- the possibility of employment for domestic workers
- increased national income via the multiplier effect
- technology and skills transfer
- the above should be linked to development.

Disadvantages/costs:

- tax revenues might not be high due to huge tax benefits (*paragraph 1*)
- MNCs cut back on investment in times of recession (*paragraph 2*)
- profits may be repatriated (*paragraph 3*)
- governments may receive revenues from MNCs and waste them (*paragraph 3*)
- pollution may result from mining operations (*paragraph 3*)
- the land may be scarred by mining (*paragraph 4*)
- MNCs may exert undue influence on the government of the host country
- damaging consequences of a deterioration in the terms of trade (*paragraph 2*).

Any reasonable discussion.

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**ECONOMICS  
HIGHER LEVEL  
PAPER 3**

SPECIMEN PAPER

1 hour

Candidate session number

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**INSTRUCTIONS TO CANDIDATES**

- Write your session number in the boxes above.
- You are permitted access to a calculator for this paper.
- Do not open this examination paper until instructed to do so.
- Answer two questions in the spaces provided.
- Unless otherwise stated in the question, all numerical answers must be given exactly or correct to two decimal places.
- You must show all your working.

Answer **two** questions. Each question is worth **[25 marks]**.

1. The daily supply and demand curves for beef in a city are given by

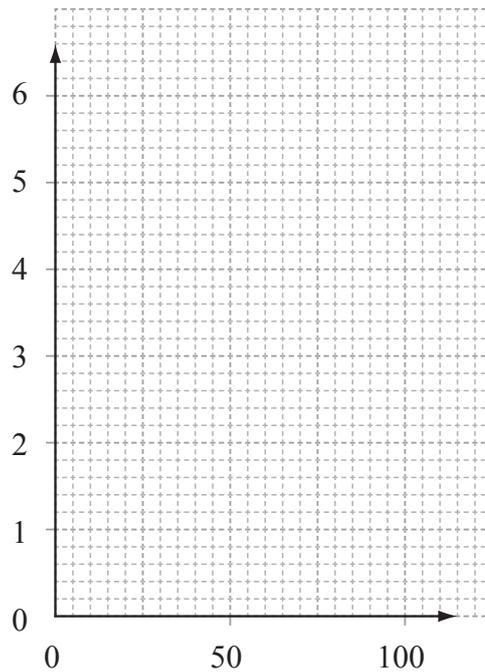
$$Q_s = -20 + 20P \qquad Q_D = 80 - 5P$$

Where  $Q_s$  and  $Q_D$  are the quantities in thousands of kilos and  $P$  is the price per kilo in US\$.

(a) Calculate  $Q_s$  and  $Q_D$  at a price of US\$3 per kilo. [2 marks]

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(b) Label the axes on the graph below. [1 mark]



(c) Construct the supply and demand curves on the above graph and identify the  $Q$  intercept for the demand curve and the  $P$  intercept for the supply curve. [3 marks]

*(This question continues on the following page)*



*(Question 1 continued)*

- (h) Calculate the new equilibrium price and quantity below and identify both of these on the graph.

*[4 marks]*

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- (i) If the health scare causes a decrease in demand of 25 000 kilos, explain why the new equilibrium quantity is not 25 000 kilos lower than the original equilibrium quantity.

*[4 marks]*

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2. The table below shows the income tax rates that apply to different ranges of earnings for workers in an economy.

Income (US\$)	Income tax rate (%)
0 – 6000	0
6001 – 20 000	20
20 001 – 50 000	40
50 001+	50

- Individual A (low income) earns US\$18 000 per year and spends US\$14 000 on goods and services, of which 15 % is indirect tax.
- Individual B (middle income) earns US\$42 000 per year and spends US\$28 000 on goods and services, of which 15 % is indirect tax.
- Individual C (high income) earns US\$100 000 per year and spends US\$45 000 on goods and services, of which 15 % is indirect tax.

(a) Distinguish between direct and indirect taxes.

[2 marks]

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(b) Calculate the amount of **income tax** paid by individuals A, B and C as a percentage of their income.

[6 marks]

Individual A: .....

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Individual B: .....

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Individual C: .....

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(This question continues on the following page)

Turn over

*(Question 2 continued)*

- (c) With reference to the concepts of average and marginal rates of tax, use the data from the table to explain whether this type of income tax is progressive or regressive.

*[4 marks]*

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- (d) Calculate the amount of **indirect tax** paid by individuals A, B and C as a percentage of their income.

*[3 marks]*

Individual A: .....

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Individual B: .....

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Individual C: .....

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*(This question continues on the following page)*

*(Question 2 continued)*

- (e) Calculate the average rate of **total tax** (direct + indirect) paid by individuals A, B and C on their individual incomes.

*[6 marks]*

Individual A: .....  
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Individual B: .....  
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Individual C: .....  
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- (f) Explain why governments often have tax systems in which the average rate of tax rises as income rises.

*[4 marks]*

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3. Nigeria is a net exporter of oil and is dependent on it as a major source of export revenue. The table below sets out the average price of oil between 2003 and 2008 and the oil export revenue earned by Nigeria.

Year	Average price of oil (US\$ per barrel)	Index of oil prices	Oil export revenue (US\$ billions)	Index of oil revenue
2003	37		20.2	
2004	42		22.8	
2005	46		34.1	
2006	55		38.9	
2007	59		42.4	
2008	95		54.6	

Using the data in the table answer the following questions.

- (a) Calculate the number of barrels of oil sold in 2004. [1 mark]

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- (b) Between 2003 and 2008, calculate the percentage increase in the

- (i) average price of oil; [2 marks]

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- (ii) oil export revenue. [2 marks]

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*(This question continues on the following page)*

*(Question 3 continued)*

- (c) Suggest a reason why the revenue earned by Nigeria from oil has increased at the same time as the average price of oil has increased.

*[4 marks]*

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- (d) Using 2004 as a base year, convert the average price of oil and the oil export revenue into index numbers and complete the table on page 8. Give the index numbers as whole numbers.

*[6 marks]*

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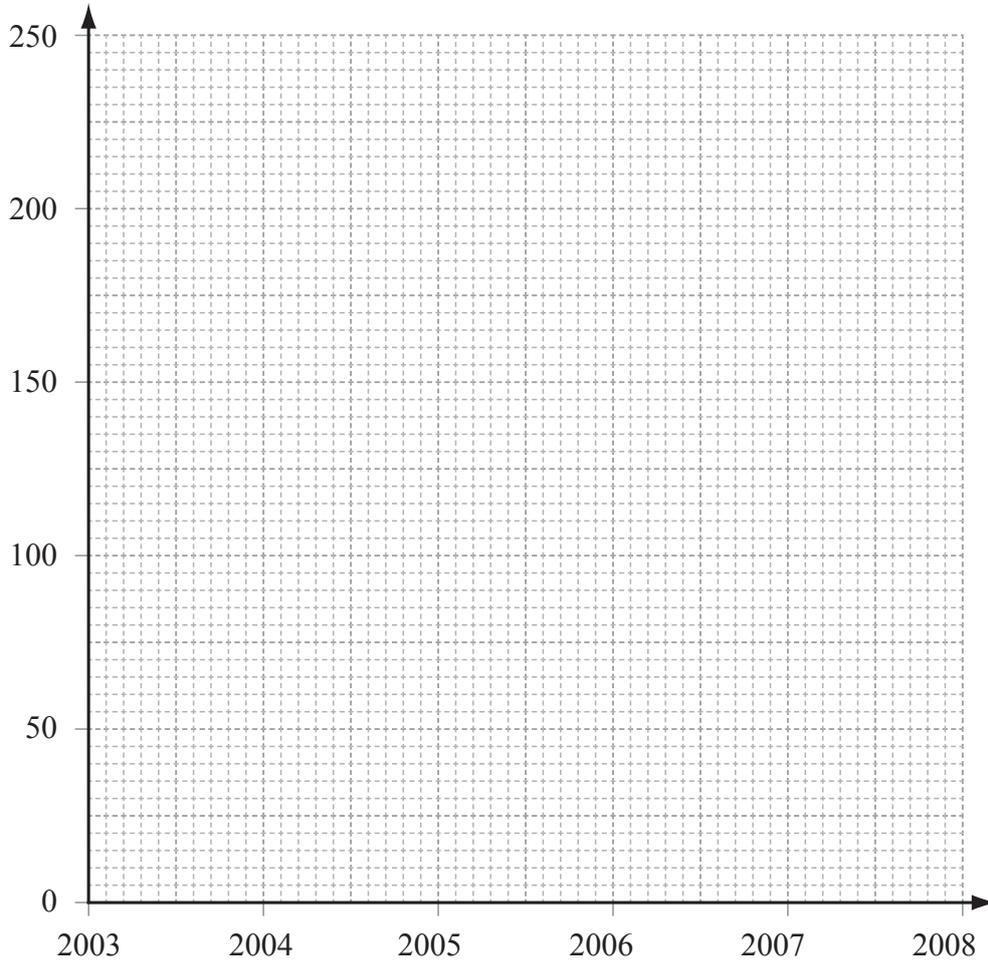
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*(This question continues on the following page)*

(Question 3 continued)

- (e) Label the axes on the graph below and draw and label the curves for the index of oil prices and index of oil revenue from 2003 to 2008.

[4 marks]



- (f) State the equation used to calculate the terms of trade index.

[2 marks]

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(This question continues on the following page)

*(Question 3 continued)*

- (g) Explain the impact that the rising oil price might have had on Nigeria's terms of trade.

*[4 marks]*

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# **MARKSCHEME**

## **SPECIMEN PAPER**

### **ECONOMICS**

#### **Higher Level**

##### **Paper 3**

Notes for examiners:

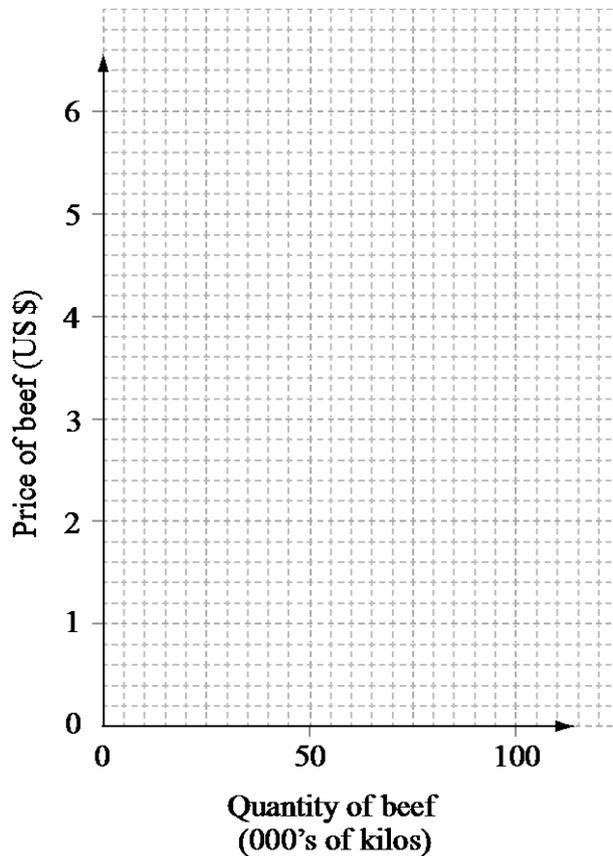
1. Whenever relevant, carry over marks must be awarded. If a candidate makes an error in calculation, but then uses the incorrect figure appropriately and accurately in later question parts, then the candidate may be fully rewarded. This is the “own-figure rule” and you should put OFR on the script where you are rewarding this.
2. Alternative approaches may be taken in responses to the [4 mark] questions that use A02 command terms. If this is the case and the alternative approaches are valid, then full credit should be given.

1. (a) Calculate  $Q_S$  and  $Q_D$  at a price of US\$3 per kilo. [2 marks]

$$Q_S = -20 + (20 \times 3) = -20 + 60 = 40 = 40\,000 \text{ kilos} \quad [1 \text{ mark}]$$

$$Q_D = 80 - (5 \times 3) = 80 - 15 = 65 = 65\,000 \text{ kilos} \quad [1 \text{ mark}]$$

(b) Label the axes on the graph below. [1 mark]



(c) Construct the supply and demand curves on the above graph and identify the Q intercept for the demand curve and the P intercept for the supply curve.

[3 marks]

For a correct demand curve ( $D_1$ )

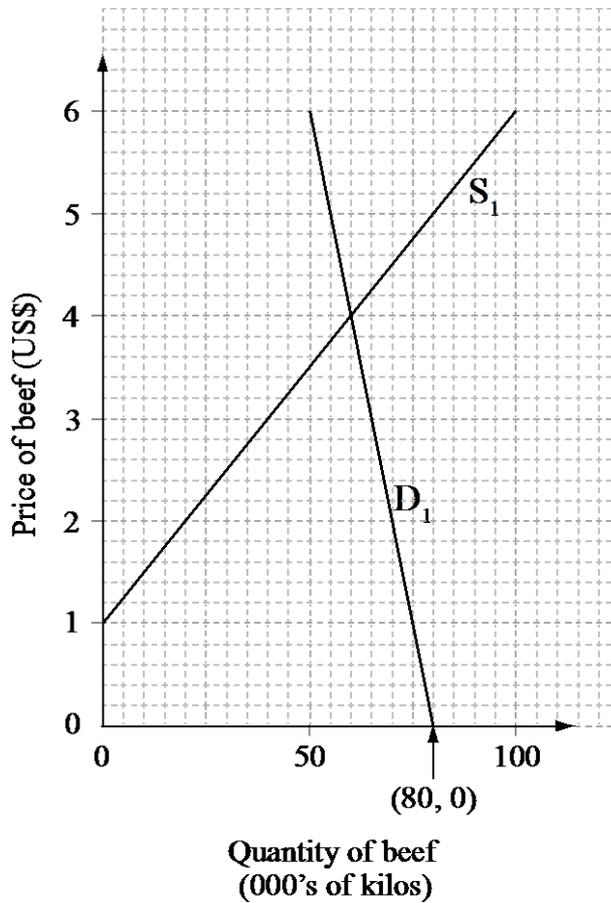
[1 mark]

For a correct supply curve ( $S_1$ )

[1 mark]

For identifying on the graph the P intercept for the supply curve (0, 1) and for identifying on the graph the intercept for the demand curve (80, 0).

[1 mark]



(d) Calculate the equilibrium price and quantity below and identify both of these on the graph. [4 marks]

$Q_s = Q_d \quad -20 + 20P = 80 - 5P \quad 25P = 100 \quad P = \text{US\$}4$  [1 mark]

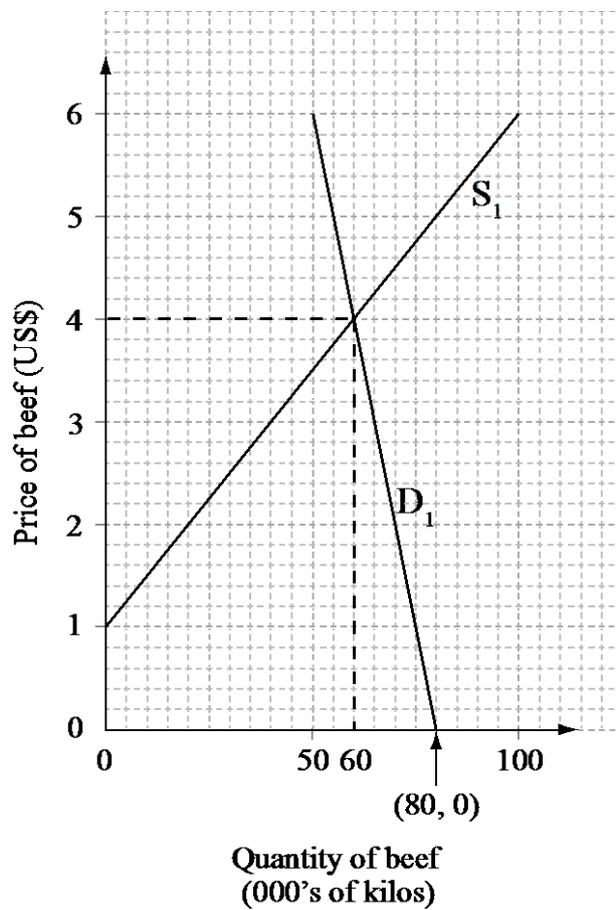
$Q_s = -20 + (20 \times 4) = 60 \quad Q = 60000 \text{ kilos}$

**OR**

$Q_d = 80 - (5 \times 4) = 60 \quad Q = 60000 \text{ kilos}$  [1 mark]

For identifying on the graph the equilibrium price of US\$4. [1 mark]

For identifying on the graph the equilibrium quantity of 60 000 kilos. [1 mark]



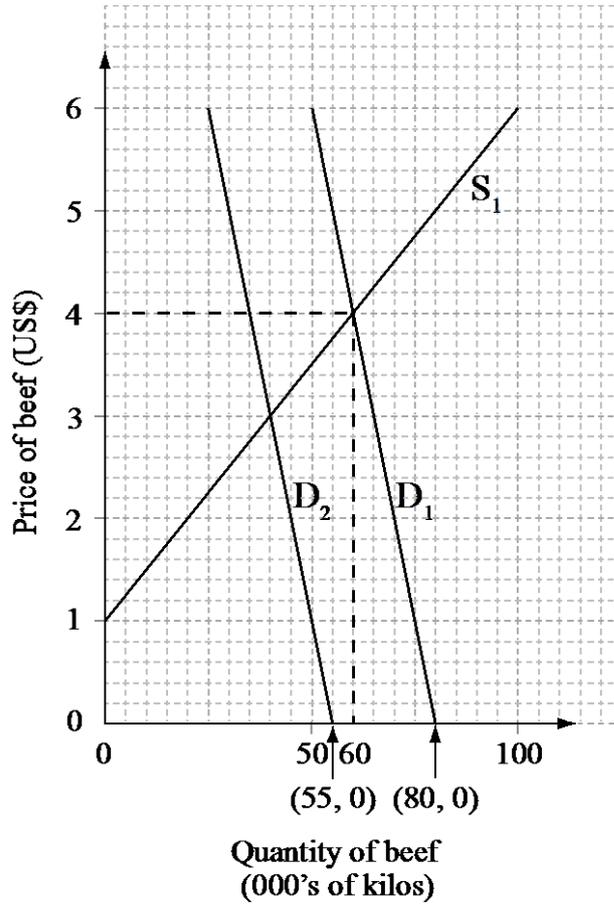
(e) State the equation for this new demand curve. [1 mark]

$$Q_D = 55 - 5P$$

(f) Draw the new demand curve on the graph and identify the new Q intercept. [2 marks]

For a correct demand curve ( $D_2$ ) based upon the original demand function. [1 mark]

For identifying on the graph the Q intercept for the demand curve (55, 0). [1 mark]



**(g) Explain with reference to the figures, why the price that you calculated in part (d) is no longer the equilibrium price.** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1-2</b>
2 <i>The written response is clear.</i>	<b>3-4</b>

*Do not award beyond Level 1, if the answer is not supported by the relevant figures.*

At the old quantity supplied equilibrium price of US\$4, with a new demand curve, there would now be excess of 25 000 kilos. This means that now, at a price of US\$4, quantity demanded will be 35 000 kilos and quantity supplied will still be 60 000 kilos. The price will have to fall in order to eliminate the excess quantity supplied and to reach a new equilibrium.

(h) Calculate the new equilibrium price and quantity below and identify both of these on the graph. [4 marks]

$Q_s = Q_d \quad -20 + 20P = 55 - 5P \quad 25P = 75 \quad P = \text{US\$}3 \quad [1 \text{ mark}]$

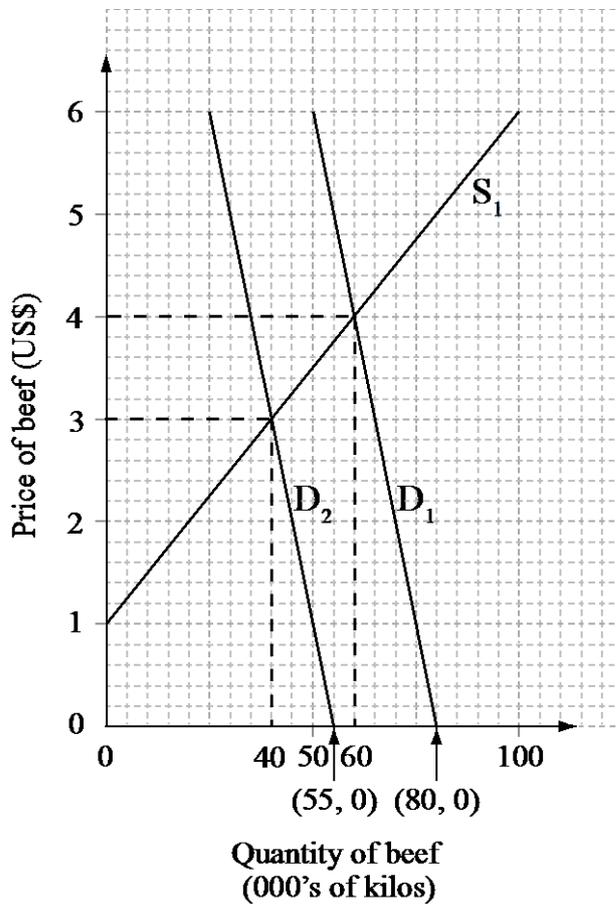
$Q_s = -20 + (20 \times 3) = 40 \quad Q = 40\,000 \text{ kilos}$

**OR**

$Q_d = 55 - (5 \times 3) = 40 \quad Q = 40\,000 \text{ kilos} \quad [1 \text{ mark}]$

For identifying on the graph the new equilibrium price of US\$3. [1 mark]

For identifying on the graph the new equilibrium quantity of 40 000 kilos. [1 mark]



- (i) **If the health scare causes a decrease in demand of 25 000 kilos, explain why the new equilibrium quantity is not 25 000 kilos lower than the original equilibrium quantity.**

**[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1–2</b>
2 <i>The written response is clear.</i>	<b>3–4</b>

*Do not award beyond Level 1, if the answer is not supported by the relevant figures.*

At the original price of US\$4, with the new demand curve, there will be excess quantity supplied. There will be a movement down the existing supply curve towards the new equilibrium, but also a movement down the new demand curve towards the new equilibrium in order to eliminate the excess quantity supplied.

Thus, quantity supplied will fall by 20 000 kilos as price falls, but quantity demanded will increase by 5 000 kilos because of the falling price. So, in the end, the equilibrium quantity has only fallen by 20 000 kilos, from 60 000 kilos to 40 000 kilos.

2. (a) Distinguish between direct and indirect taxes. [2 marks]

Direct taxes are levied on income. [1 mark]

Indirect taxes are levied on expenditure. [1 mark]

(b) Calculate the amount of income tax paid by individuals A, B and C as a percentage of their income. [6 marks]

Individual A:

(0 × US\$6000) + (0.2 × US\$12 000) = US\$2400 [1 mark]

US\$2400 / US\$18 000 × 100 = 13.33 % [1 mark]

Individual B:

(0 × US\$6000) + (0.2 × US\$14 000) + (0.4 × US\$22 000) = US\$11 600 [1 mark]

US\$11 600 / US\$42 000 × 100 = 27.62 % [1 mark]

Individual C:

(0 × US\$6000) + (0.2 × US\$14 000) + (0.4 × US\$30 000) + (0.5 × US\$50 000) = US\$39 800 [1 mark]

US\$39 800 / US\$100 000 × 100 = 39.8 % [1 mark]

(c) With reference to the concepts of average and marginal rates of tax, use the data from the table to explain whether this type of income tax is progressive or regressive. [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>The written response is limited.</i>	1–2
2 <i>The written response is clear.</i>	3–4

Do not award beyond Level 1, if the answer is not supported by the relevant figures.

A progressive tax system is one where the average rate of tax paid by individuals increases as income increases. This means that the marginal rate of tax is above the average rate of tax. The figures from the table and from (b) will confirm that this type of income tax is progressive.

- (d) Calculate the amount of *indirect tax* paid by individuals A, B and C as a percentage of their income. [3 marks]

**Individual A:**

$$\frac{(\text{US}\$14\,000 \times 0.15)}{\text{US}\$18\,000} \times 100$$

$$= 11.67 \%$$

[1 mark]

**Individual B:**

$$\frac{(\text{US}\$28\,000 \times 0.15)}{\text{US}\$42\,000} \times 100$$

$$= 10 \%$$

[1 mark]

**Individual C:**

$$\frac{(\text{US}\$45\,000 \times 0.15)}{\text{US}\$100\,000} \times 100$$

$$= 6.75 \%$$

[1 mark]

- (e) Calculate the average rate of *total tax* (direct + indirect) paid by individuals A, B and C on their individual incomes. [6 marks]

**Individual A:**

$$\frac{(\text{US}\$2400 + \text{US}\$2100)}{\text{US}\$18\,000} \times 100 \text{ OR } 13.33 \% + 11.67 \%$$

[1 mark]

$$= 25 \%$$

[1 mark]

**Individual B:**

$$\frac{(\text{US}\$11\,600 + \text{US}\$4200)}{\text{US}\$42\,000} \times 100 \text{ OR } 27.62 \% + 10 \%$$

[1 mark]

$$= 37.62 \%$$

[1 mark]

**Individual C:**

$$\frac{(\text{US}\$39\,800 + \text{US}\$6750)}{\text{US}\$100\,000} \times 100 \text{ OR } 39.8 \% + 6.75 \%$$

[1 mark]

$$= 46.55 \%$$

[1 mark]

- (f) **Explain why governments often have tax systems in which the average rate of tax rises as income rises.** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1–2</b>
2 <i>The written response is clear.</i>	<b>3–4</b>

Governments use a higher average rate of tax on individuals who have a higher income to try to redistribute income from richer citizens to poorer ones. This is an attempt by governments to try to redress the economic problem of an inequitable distribution of income.

3. (a) **Calculate the number of barrels of oil sold in 2004.** **[1 mark]**

$$\frac{\text{US\$22.8 billion}}{42} = 542\,857\,143 \text{ barrels}$$

(a rounded figure of 543 million is acceptable)

- (b) **Between 2003 and 2008, calculate the percentage increase in the**

- (i) **average price of oil;** **[2 marks]**

$$\frac{95 - 37}{37} \times 100$$

$$= 156.76\%$$

(Examiners should be aware that the percentage may be calculated based upon the average price increase, which would be acceptable.)

- (ii) **oil export revenue.** **[2 marks]**

$$\frac{54.6 - 20.2}{20.2} \times 100$$

$$= 170.30\%$$

(Examiners should be aware that the percentage may be calculated based upon the average revenue increase, which would be acceptable.)

- (c) **Suggest a reason why the revenue earned by Nigeria from oil has increased at the same time as the average price of oil has increased.** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1–2</b>
2 <i>The written response is clear.</i>	<b>3–4</b>

Nigeria’s oil revenue may have increased because the demand for oil has increased. This means revenue from selling oil would have increased at the same time that its price increased. This could be shown by an increase in demand for oil on a demand and supply diagram.

Alternatively, it could have increased because the price elasticity of demand for oil is less than one (demand for oil is price inelastic) and so increases in price along a given demand curve have led to relatively smaller percentage decreases in quantity demanded.

- (d) **Using 2004 as a base year, convert the average price of oil and the oil export revenue into index numbers and complete the table on page 8. Give the index numbers as whole numbers.** **[6 marks]**

Year	Average price of oil (US\$ per barrel)	Index of oil prices	Oil export revenue (US\$ billions)	Index of oil revenue
2003	37	<b>88</b>	20.2	<b>89</b>
2004	42	<b>100</b>	22.8	<b>100</b>
2005	46	<b>110</b>	34.1	<b>150</b>
2006	55	<b>131</b>	38.9	<b>171</b>
2007	59	<b>140</b>	42.4	<b>186</b>
2008	95	<b>226</b>	54.6	<b>240</b>

For a correct index of oil prices column. **[3 marks]**

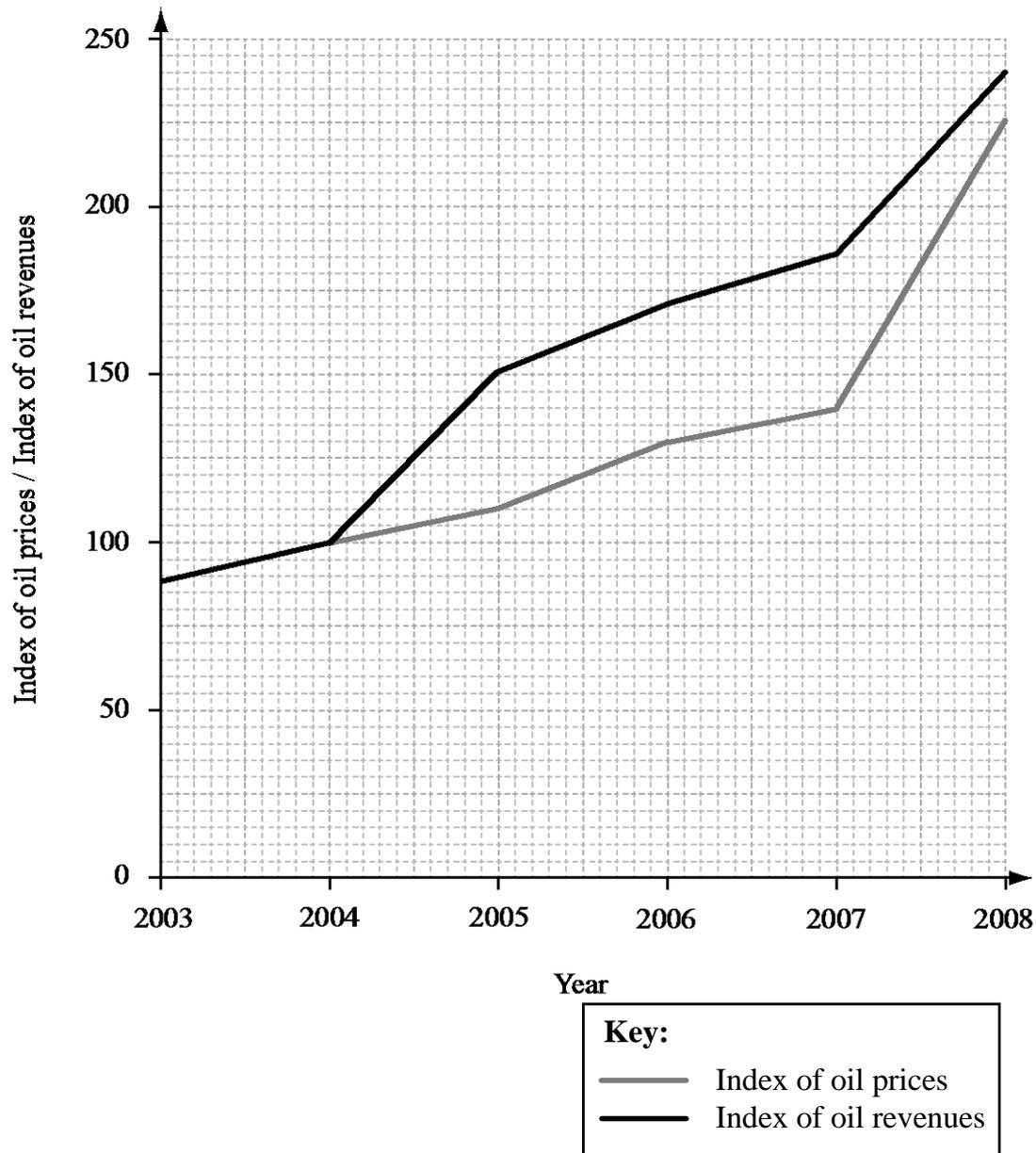
For a correct index of oil revenue column. **[3 marks]**

Deduct **[1 mark]** for each incorrect figure.

(Examiners should be aware that candidates may round up or down. If this is stated then full marks may be awarded.)

(e) Label the axes on the graph below and draw and label the curves for the index of oil prices and index of oil revenue from 2003 to 2008.

[4 marks]



Correctly labelled axes.

[1 mark]

Correct index of oil prices curve.

[1 mark]

Correct index of oil revenues curve.

[1 mark]

Correct labelling of curves.

**OR**

Suitable key

[1 mark]

(If candidates use their own figures from (d), which are incorrect, but plot them accurately, then full marks may be awarded.)

- (f) **State the equation used to calculate the terms of trade index.** *[2 marks]*

$$\frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$$

There are three elements to the equation (index, export and import prices  $\times 100$ ). Three correct elements = *[2 marks]*. Two correct elements = *[1 mark]*.

- (g) **Explain the impact that the rising oil price might have had on Nigeria's terms of trade.** *[4 marks]*

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1-2</b>
2 <i>The written response is clear.</i>	<b>3-4</b>

*Do not award beyond Level 1, if the answer is not supported by the relevant figures.*

Given that oil is a major source of Nigeria's export revenues and the index of average oil prices has risen it is likely that Nigeria's terms of trade has improved. This is assuming that import prices have increased by less than export prices.

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**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

SPECIMEN PAPER

1 hour 30 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Answer one question from Section A and one question from Section B.
- Use fully labelled diagrams and references to examples where appropriate.

**SECTION A**

Answer **one** question from this section.

**Microeconomics**

1. (a) Explain why a government might introduce subsidies for food. *[10 marks]*  
  
(b) Discuss possible negative consequences that may arise from a government decision to subsidize food. *[15 marks]*
  
2. (a) Suggest reasons why the price elasticity of demand for cigarettes might have a different value from the price elasticity of demand for foreign holidays. *[10 marks]*  
  
(b) Examine the usefulness of a knowledge of price elasticity of demand to firms and governments. *[15 marks]*

**SECTION B**

Answer *one* question from this section.

**Macroeconomics**

3. (a) Distinguish between structural unemployment and cyclical (demand-deficient) unemployment. *[10 marks]*
- (b) Discuss policies that a government might use to reduce the levels of structural unemployment and cyclical (demand-deficient) unemployment. *[15 marks]*
4. (a) Describe the phases of the business cycle. *[10 marks]*
- (b) “An increase in aggregate demand in an economy is always desirable.” Discuss this statement. *[15 marks]*
-





# **MARKSCHEME**

## **SPECIMEN PAPER**

### **ECONOMICS**

#### **Standard Level**

##### **Paper 1**

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

## **SECTION A**

### **Microeconomics**

- 1. (a) Explain why a government might introduce subsidies for food. [10 marks]**

Answers **may** include:

- definition of subsidies
- theory of supply and demand applied to food markets. Use of theory to explain why governments might choose to do this
- diagrams to show the impact of a subsidy
- examples of commodities to which this might be, or has been applied.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4–6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7–8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9–10</b>

- (b) **Discuss possible negative consequences that may arise from a government decision to subsidize food.**

*[15 marks]*

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of relevant terms
- theory of markets used to illustrate possible negative consequences. Impacts on government spending and budget. Consequences for trade. Negative effects on resource allocation. Overproduction
- diagrams to show possible negative consequences with appropriate explanation
- examples of where these negative consequences have occurred, or might occur
- synthesis or evaluation (discuss).

Discussion **may** include: an evaluation of the negative consequences, negative effects of the subsidies upon stakeholders, short-run and long-run implications, alternative policies that might achieve similar aims.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

2. (a) **Suggest reasons why the price elasticity of demand for cigarettes might have a different value from the price elasticity of demand for foreign holidays.**

*[10 marks]*

Answers **may** include:

- definitions of price elasticity of demand, inelastic, elastic
- theory of price elasticity of demand applied to the examples given.  
Demand for cigarettes as arguably more inelastic, addictive in nature, few substitutes, relatively cheaper and using less income to buy.  
Demand for foreign holidays as more elastic as they may be considered to be a luxury, expensive using relatively more income to buy
- diagrams to show different elasticities
- examples of where this might or does, apply.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4–6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7–8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9–10</b>

- (b) **Examine the usefulness of a knowledge of price elasticity of demand to firms and governments.**

*[15 marks]*

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of taxes and revenues
- theory of supply and demand relating to indirect taxes. Elasticity, pricing decisions and their effect on revenue
- diagrams to show revenue implications for firms and tax revenues of government
- examples of where such knowledge would or did provide useful information
- synthesis or evaluation (examine).

Arguments **may** include: a consideration of the different uses that firms may have for elasticity, an evaluation of the use of PED, XED and YED for firms, a consideration of the different uses that governments may have for elasticity, an evaluation of the use of PED, XED and YED for governments.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

**SECTION B**

**Macroeconomics**

3. (a) **Distinguish between structural unemployment and cyclical (demand-deficient) unemployment.**

*[10 marks]*

Answers **may** include:

- definitions of structural unemployment and cyclical unemployment
- theory of aggregate demand and aggregate supply used to explain cyclical unemployment. Changes in market demand and supply to explain structural unemployment (alternatively, labour market theory may be applied)
- diagrams to show aggregate demand and aggregate supply, and market demand and supply (alternatively, labour market diagrams may be applied)
- examples of unemployment that is structural and unemployment that is cyclical.

**Assessment Criteria**

**Part (a) 10 marks**

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4–6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7–8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9–10</b>

- (b) **Discuss policies that a government might use to reduce the levels of structural unemployment and cyclical (demand-deficient) unemployment.** [15 marks]

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of policies such as fiscal policy, monetary policy and supply-side policy
- theory of how various government policies that are identified might be used to reduce the level of unemployment. Fiscal, monetary and supply-side policy explained and applied to the question
- diagrams to show impacts of government policy
- examples of the application of such policies
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of the relative merits of each policy identified with regards to its suitability for solving structural and/or cyclical unemployment.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

**4. (a) Describe the phases of the business cycle.**

*[10 marks]*

Answers **may** include:

- definitions of the different phases of the business cycle
- theory used to explain how changes in aggregate demand and aggregate supply affect the business cycle
- a diagram to show the operation of the business cycle
- examples of the operation of the business cycle from actual or theoretical cases.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–3</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>4–6</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	<b>7–8</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	<b>9–10</b>

- (b) “An increase in aggregate demand in an economy is always desirable.”  
Discuss this statement.

[15 marks]

*N.B.* It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- a definition of aggregate demand
- theory of macroeconomics applied to explain an increase in aggregate demand and to identify possible impacts on the main economic indicators
- diagrams to show an increase in aggregate demand and illustrate implications for the economy
- examples of aggregate demand having increased and its impacts from theoretical or actual circumstances
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of possible positive and/or negative consequences of such an increase in aggregate demand, an evaluation of the possible short-run and long-run implications of an increase in aggregate demand, an evaluation of the effects of an increase in aggregate demand on the economic aims of governments.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2	There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
3	There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	<b>10–12</b>
4	There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

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**ECONOMICS  
STANDARD LEVEL  
PAPER 2**

SPECIMEN PAPER

1 hour 30 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Answer one question from Section A and one question from Section B.
- Use fully labelled diagrams and references to the text/data where appropriate.

**SECTION A**

Answer **one** question from this section.

1. Study the extract below and answer the questions that follow.

**Rand at six-month high**

- ① A revival has seen the South African rand reach a near six-month peak against the dollar. Foreign buying of shares in South African companies and a surprise contraction in South Africa's current account deficit have helped to boost the currency. So far, in 2009, there has been an **appreciation** of the rand of more than 5% against the dollar and 9% against the euro, which is the currency of South Africa's main trading partners, the eurozone countries of the European Union (EU). If currency markets take the view that political risk will decrease after the general election, there is a "better than even" chance the rand could continue to appreciate, said a senior currency dealer.
- ② Two senior economists said there was a danger the rand would strengthen to a point where it would make exports uncompetitive and encourage imports. This could widen the current account deficit, which was at 7.4% of gross domestic product (GDP) last year. The currency could strengthen if, for instance, foreign investment increased ahead of the 2010 soccer World Cup (to be held in South Africa) or the gold price resumed its upward trend (gold is a major export for South Africa).
- ③ The rand's strength would help reduce upward pressure on **inflation**, which has been higher than the South African Reserve Bank's (SARB) (central bank's) 3% to 6% target range since March 2007. However, it is bad news for local factories, making local goods more expensive in other currencies and, as a result, slowing economic growth. Some analysts believe this will prompt the SARB to take steps to weaken the rand, making South African exports more competitive.
- ④ A consequence could be that in an attempt to weaken the rand, the SARB governor might reduce the bank's official interest rate too far, sparking a repeat of the consumer boom from 2003 to 2006, which left households heavily in debt. Some economists have advised the bank to purchase foreign exchange to weaken the currency, rather than lowering interest rates further.

[Source: adapted from *Business Day*, 7 April 2009 and *Business Report and Independent*, online edition, 29 April 2009]

*(This question continues on the following page)*

*(Question 1 continued)*

- (a) (i) Define the term *appreciation* indicated in bold in the text (*paragraph 1*). [2 marks]
- (ii) Define the term *inflation* indicated in bold in the text (*paragraph 3*). [2 marks]
- (b) Using an appropriate diagram, analyse the effect of “foreign buying of shares in South African companies” (*paragraph 1*) on the value of the rand. [4 marks]
- (c) Draw an AD/AS diagram and use it to explain the effect on the South African economy of lowering interest rates (*paragraph 4*). [4 marks]
- (d) Using information from the text/data and your knowledge of economics, evaluate the effects of a stronger rand on the South African economy. [8 marks]

2. *Study the extract and data below and answer the questions that follow.*

### **Europe accused of protectionism**

- ❶ The European Union (EU) has been accused of going back on a promise to avoid making the global recession worse by imposing new **restrictions on free trade**. World leaders at the G20\* meeting in London agreed not to raise new restrictions to free trade in goods and services, in order to prevent a protectionist battle like the one which was widely blamed for the Great Depression in the 1930s.
- ❷ The EU will place a tariff of up to 60% on the imports of Chinese candles this month. Britain's retailers are furious about the tax on candles, which they say will protect Polish and German candle makers, and estimate that it will cost retailers up to UK£10 million.
- ❸ The EU has also imposed anti-dumping tariffs, which are meant to protect against cut-price subsidized imports, on Chinese wire, iron and steel pipes, and aluminium foil from Brazil, China and Armenia.
- ❹ Non-tariff restrictions are also a concern. At a recent trade policy review meeting at the World Trade Organization (WTO), an Indian trade official criticized the EU for imposing new health and safety standards on spices, groundnuts, processed food and cereals, creating impossibly high costs for Indian exporters and causing huge commercial losses. Also, the EU has several restrictions relating to service industries, such as the restrictions on Indian banks starting operations in the EU.

*(This question continues on the following page)*

(Question 2 continued)

A recent survey provided the following results:

Table 1

	1st quarter 2008 to 1st quarter 2009
Number of new restrictions imposed	1841
Non-tariff restrictions as a percentage of total new restrictions	44% (March 2008) – 66% (March 2009)

Table 2

	Number of new barriers imposed
United States	329
China	284
Brazil	186
European Union	152
India	120

- 5 However, the EU trade commissioner stated that “the EU will continue to show leadership and stand firm against protectionism,” arguing that it is “committed to free trade based on rules that benefit developed and economically less developed countries”. An EU spokesperson insisted that the anti-dumping measures actually promote free trade.

\* G20: is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States of America. The European Union is the 20th member.

[Source adapted from: *Business Report*, 7 April 2009 and “Europe accused of protectionism” by Heather Stewart © *Guardian News & Media Ltd* 2009, reproduced by permission 4 May 2009 and *Institute of International Trade*, 13 April 2009]

- (a) (i) Define the term *restrictions on free trade* indicated in bold in the text (paragraph 1). [2 marks]
- (ii) Outline **one** objective of the World Trade Organization (WTO) (paragraph 4). [2 marks]
- (b) Using a tariff diagram, explain how the revenues of Polish and German candle makers will change as a result of the tariff on candles. [4 marks]
- (c) Explain the purpose of anti-dumping tariffs (paragraph 3). [4 marks]
- (d) Using information from the text/data and your knowledge of economics, evaluate the use of trade protection in times of global recession. [8 marks]

Turn over

## SECTION B

Answer **one** question from this section.

3. Study the extract and data below and answer the questions that follow.

### United Nations secretary-general outlines Laos' progress

- ❶ “Laos has made considerable progress towards reaching the Millennium Development Goals (MDGs), but the nation must continue its efforts to reduce child malnutrition and mortality rates to make the country more competitive in the global economy,” said United Nations (UN) secretary-general Ban Ki-moon.
- ❷ “There have been steady improvements in health, education, living standards and life expectancy, with progress having been made in literacy rates and access to safe drinking water,” Mr Ban said. “These gains are supported by greater macroeconomic stability and increasing integration with the global economy,” he added.
- ❸ However, Mr Ban warned that much remains to be done if the country is to achieve the MDGs. “Poverty is widespread, especially in the countryside,” he said. “Income inequality is getting worse.” Mr Ban expressed his particular concern over the high rates of child malnutrition. Additionally, the country’s education level is the lowest among the countries belonging to the Association of Southeast Asian Nations (ASEAN). “This is not only a human tragedy; it will have serious implications for the future of this country’s workforce and its ability to compete economically at the international level,” he said.
- ❹ Laos intends to develop its economy based on the price mechanism, following the example of its neighbours Malaysia and Thailand, but with some state regulation to ensure the production of essential services. It will encourage **foreign direct investment (FDI)** and domestic investment, in order to encourage further industrialization. In 2008, the government of Laos was successful in stabilizing its macroeconomy and maintaining its 7.9% economic growth rate, while the percentage of households living in absolute poverty was reduced to 15.8%. From 2001 to 2008, Laos attracted US\$7.1 billion worth of FDI from 36 countries.

*(This question continues on the following page)*

(Question 3 continued)

**Table: East Asia and Pacific: regional data from the World Development Indicators (WDI) database, 2009**

	Gross national income (GNI) <i>per capita</i> (US\$) (purchasing power parity (PPP) 2007)	Primary education completion rate (%) (2007)	Carbon dioxide emissions ( <i>per capita</i> metric tonnes, 2005)	Internet users (per 1000 people, 2007)
Laos	2080	77	0.3	1.7
Malaysia	13 230	98	9.3	55.7
Thailand	7880	100	4.3	21.0

[Source: adapted from *UN News Service*, 13 April 2009, *Nhan Dan*, 3 May 2009 and *WDI database (World Development Indicators 2009)*, 3 May 2009]

- (a) (i) Outline **one** of the Millennium Development Goals (MDGs) (*paragraph 1*). [2 marks]
- (ii) Define the term *foreign direct investment (FDI)* indicated in bold in the text (*paragraph 4*). [2 marks]
- (b) Using an appropriate diagram, describe the change in the distribution of income in Laos (*paragraph 3*). [4 marks]
- (c) Explain the likely impact of the low education level on the economic development of Laos (*paragraph 3*). [4 marks]
- (d) Using information from the text/data and your knowledge of economics, evaluate the policies which the government of Laos might pursue in order to maintain its “considerable progress towards reaching the Millennium Development Goals (MDGs)” (*paragraph 1*). [8 marks]

4. Study the extract below and answer the questions that follow.

### Mining deals with multinationals

- ① Mineral-rich countries in Africa enjoyed a mining boom between 2002 and 2007 as metal and oil prices nearly tripled. **Multinational corporations (MNCs)** competed furiously for new mines to meet growing world demand. As a result, a number of African nations found themselves in a much stronger bargaining position with foreign investors, who previously were able to demand (and get) huge tax benefits before they would invest. However, since then, amidst a global economic recession, world metal and oil prices have fallen substantially, raising concerns that investors will once again stay away.
- ② Copper, which accounts for 80% of Zambia’s export earnings, is a key component of the United States (US) electronics and building industry. It has seen prices fall from US\$9000 to US\$3000 per tonne as a result of the economic downturn. “This is going to affect our economy badly. Mining companies have already started cutting down on further investment programmes and they are reducing their workforce, which is not good for our economy,” said a Zambian trade official.
- ③ Though richly endowed with mineral and oil deposits, Africa has generally drawn little benefit from that wealth. Mining and oil profits have often gone abroad or been wasted, leaving many people in poverty. Also, the environment has been damaged by the effects of mining, such as pollution. The emergence of more democratic governments, along with action by local communities, has led to efforts to make better use of Africa’s natural resources for economic development.
- ④ Most mining contracts in Africa were negotiated in the 1980s and 1990s when low world prices and high political risks meant that African countries had to attract investors by incentives such as tax exemptions. Consequently, many countries earned very little from such contracts. African governments are now trying to ensure that mining contracts and regulations address environmental protection, provide adequate compensation to affected communities and regenerate land after mining operations have ended.

[Source: adapted from *Business Daily Africa*, 24 April 2009 and *Mail and Guardian online*, 14 December 2008]

*(This question continues on the following page)*

(Question 4 continued)

- (a) (i) State **two** reasons why a multinational corporation (MNC) may wish to invest in an economically less developed country (LDC). [2 marks]
- (ii) Define the term *multinational corporations (MNCs)* indicated in bold in the text (*paragraph 1*). [2 marks]
- (b) With the aid of a diagram, explain the likely impact on Zambia’s economic growth of the fall in copper prices from US\$9000 to US\$3000 per tonne (*paragraph 2*). [4 marks]
- (c) With the aid of a diagram, explain how mining in Africa can create externalities of production. [4 marks]
- (d) Using information from the text/data and your knowledge of economics, discuss the contribution made by multinational corporations (MNCs) to the economic development of mineral-rich countries (*paragraph 1*). [8 marks]
-





# **MARKSCHEME**

## **SPECIMEN PAPER**

### **ECONOMICS**

#### **Standard Level**

#### **Paper 2**

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

**SECTION A**

**1. (a) (i) Define the term *appreciation* indicated in bold in the text (paragraph ❶).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that currency is worth more.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is an increase in the price or value of one currency in terms of another.	<b>2</b>

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

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that it is rising prices.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is a sustained increase in the general (or average) level of prices.	<b>2</b>

(b) Using an appropriate diagram, analyse the effect of “foreign buying of shares in South African companies” (*paragraph 1*) on the value of the rand.

[4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled foreign exchange market diagram showing an increased demand for the rand, causing the equilibrium exchange rate to increase <b>or</b> an explanation that foreigners buying shares in South African companies will purchase rand in order to purchase the South African shares, causing an increased demand for rand and thus an appreciation of the currency.	1–2
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled foreign exchange market diagram showing an increased demand for the rand, causing the equilibrium exchange rate to increase <b>and</b> an explanation that foreigners buying shares in South African companies will purchase rand in order to purchase the South African shares, causing an increased demand for rand and thus an appreciation of the currency.	3–4

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

(c) **Draw an AD/AS diagram and use it to explain the effect on the South African economy of lowering interest rates (paragraph 4).** [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram showing an increase in aggregate demand, causing an increase in equilibrium real GDP and price level <b>or</b> an explanation that a reduction in interest rates will encourage investment and consumer spending, causing an increase in aggregate demand which will lead to an increase in equilibrium real GDP and price level.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram showing an increase in aggregate demand, causing an increase in equilibrium real GDP and price level <b>and</b> an explanation that a reduction in interest rates will encourage investment and consumer spending, causing an increase in aggregate demand which will lead to an increase in equilibrium real GDP and price level.	<b>3–4</b>

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

- (d) **Using information from the text/data and your knowledge of economics, evaluate the effects of a stronger rand on the South African economy.** [8 marks]

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	0
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	1–2
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

*Command term*

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses **may** include:

- the rand has reached a near six-month peak (*paragraph 1*), which may result in slowing economic growth (*paragraph 3*)
- the rand has appreciated 9% against the euro (*paragraph 1*) – thus making exports to South Africa’s main trading partners more expensive
- the current account deficit is likely to worsen if the rand continues to appreciate
- the current account deficit is (7.4% of GDP (*paragraph 2*)) negative and a stronger rand is likely to make it worse
- jobs will be at risk if the rand remains strong
- a strong rand has the effect of reducing inflationary pressure (*paragraph 3*)
- reducing the bank’s official interest rate could cause another consumer boom leaving many households in debt (*paragraph 4*)
- local factories suffer as local exports will be expensive (*paragraph 3*)
- foreign investment may be discouraged.

Any reasonable evaluation.

2. (a) (i) **Define the term *restrictions on free trade* indicated in bold in the text (paragraph ①).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that trade is limited/restrained.	1
2 <i>Accurate definition.</i> An explanation that they are restrictions imposed by a government in order to influence the flow of goods and services to and from the country.	2

(ii) **Outline *one* objective of the World Trade Organization (WTO) (paragraph ④).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is limited understanding.</i> The idea that one of the following needs to be addressed: <ul style="list-style-type: none"><li>• to promote trade</li><li>• to reduce barriers.</li></ul>	1
2 <i>There is clear understanding.</i> A clear understanding demonstrated of one of the following: <ul style="list-style-type: none"><li>• to promote free trade among member countries by reducing trade barriers</li><li>• to administer WTO trade agreements</li><li>• to be a forum for trade negotiations</li><li>• to handle trade disputes among member nations</li><li>• to monitor national trade policies</li><li>• to provide technical assistance and training for developing countries</li><li>• to cooperate with other international organizations.</li></ul>	2

**(b) Using a tariff diagram, explain how the revenues of Polish and German candle makers will change as a result of the tariff on candles. [4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled tariff diagram showing the imposition of a tariff, with a higher price and increased output for domestic producers <b>or</b> for explaining that the imposition of a tariff will increase the price of candles and increase the sales of domestic producers, therefore increasing their revenue.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled tariff diagram showing the imposition of a tariff, with a higher price and increased output for domestic producers <b>and</b> for explaining that the imposition of a tariff will increase the price of candles and increase the sales of domestic producers, therefore increasing their revenue.	<b>3–4</b>

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

**(c) Explain the purpose of anti-dumping tariffs (paragraph ⑤). [4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1–2</b>
2 <i>The written response is accurate.</i> For explaining that dumping, which is seen as an unfair practice, may have the effect of destroying domestic industries which may be undercut by cheap imports. An “anti-dumping” tariff aims to prevent the practice of dumping – selling of goods in overseas markets at a price which is below cost, or significantly below the price in domestic markets – possibly as a result of subsidies.	<b>3–4</b>

- (d) **Using information from the text/data and your knowledge of economics, evaluate the use of trade protection in times of global recession.** *[8 marks]*

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	<b>1–2</b>
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	<b>6–8</b>

*Command term*

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses **may** include:

Reasons **for** the use of trade protection:

- trade protection may protect domestic industry and employment
- this will protect Polish and German candle makers (*paragraph 2*)
- this may be seen as more important in a global recession
- there may be political reasons for imposing barriers
- restrictions may prevent dumping (cut-price subsidized imports) (*paragraph 3*)
- restrictions may be imposed to guarantee health and safety standards (*paragraph 4*)
- restrictions may allow infant industries to flourish, or declining industries to decline gradually
- tariffs may raise revenue at a time when tax receipts are falling.

Reasons **against** the use of trade protection:

- tariffs may lead to a protectionist battle which was widely blamed for the Great Depression in the 1930s (*paragraph 1*)
- there is evidence of such a protectionist battle from 2008 to 2009 (*Table 1*)
- the advantages of trade may be lost
- the price of imported goods and raw materials will increase
- domestic (*e.g.* British) retailers will be affected – might cost up to an extra UK£10 million (*paragraph 2*)
- foreign producers may face huge commercial losses (*paragraph 4*)
- relations between the world’s trading nations will deteriorate
- there will be less choice for domestic consumers (*e.g.* banking services) (*paragraph 4*)
- global resource allocation will worsen
- the imposition of trade barriers appears to be against the intentions of world leaders (*paragraph 1*) – suggesting that they are not a good idea (and/or will disadvantage developing countries).

Any reasonable evaluation.

**SECTION B**

3. (a) (i) **Outline one of the Millennium Development Goals (MDGs) (paragraph ①).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> The idea that one of the following needs to be addressed: <ul style="list-style-type: none"> <li>• poverty and hunger</li> <li>• education</li> <li>• gender equality</li> <li>• child health</li> <li>• maternal health</li> <li>• diseases</li> <li>• the environment</li> <li>• global cooperation.</li> </ul>	<b>1</b>
2 <i>There is clear understanding.</i> A clear understanding demonstrated of one of the following: <ul style="list-style-type: none"> <li>• eradicate extreme poverty and hunger</li> <li>• achieve universal primary education</li> <li>• promote gender equality and empower women</li> <li>• reduce child mortality</li> <li>• improve maternal health</li> <li>• combat HIV/AIDS, malaria and other diseases</li> <li>• ensure environmental sustainability</li> <li>• develop a global partnership for development.</li> </ul>	<b>2</b>

(ii) **Define the term *foreign direct investment (FDI)* indicated in bold in the text (paragraph ④).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that investment is coming from overseas.	<b>1</b>
2 <i>Precise definition.</i> An explanation that it is the purchase of productive assets by a multinational corporation in another country.	<b>2</b>

**(b) Using an appropriate diagram, describe the change in the distribution of income in Laos (paragraph ③).** **[4 marks]**

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1	<p><i>There is a correct diagram <b>or</b> an accurate written response.</i></p> <p>For drawing a clearly labelled Lorenz curve diagram showing a movement away from the line of perfect equality <b>or</b> for explaining that the higher-earning households are now earning a greater share of the country's income in relation to the lower-earning households.</p>	<b>1–2</b>
2	<p><i>There is a correct diagram <b>and</b> an accurate written response.</i></p> <p>For drawing a clearly labelled Lorenz curve diagram showing a movement away from the line of perfect equality <b>and</b> for explaining that the higher-earning households are now earning a greater share of the country's income in relation to the lower-earning households.</p>	<b>3–4</b>

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

**(c) Explain the likely impact of the low education level on the economic development of Laos (paragraph ③).** **[4 marks]**

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1	<i>The written response is limited.</i>	<b>1–2</b>
2	<p><i>The written response is accurate.</i></p> <p>An explanation that a low level of education will limit the productivity of the labour force and hence prevent any increase in the productive capacity of the economy. This may be illustrated using a PPC diagram. Given that economic growth may lead directly to economic development via higher incomes, or by providing the finance for the government to invest in health, education and infrastructure, growth may lead to development. Thus a low level of education is likely to inhibit economic development.</p>	<b>3–4</b>

- (d) **Using information from the text/data and your knowledge of economics, evaluate the policies which the government of Laos might pursue in order to maintain its “considerable progress towards reaching the Millennium Development Goals (MDGs)” (paragraph 1).** **[8 marks]**

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	<b>1–2</b>
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	<b>6–8</b>

*Command term*

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses **may** include:

Possible policies:

- expenditure on programmes to reduce child malnutrition (*paragraph 1*)
- expenditure on health programmes to reduce child mortality (*paragraph 1*)
- policies to maintain macroeconomic stability (*paragraph 2*)
- redistribution of income (*paragraph 3*)
- policies to increase incomes in the countryside – e.g. property rights (*paragraph 3*)
- investment in education (*Table*)
- economic policies to encourage more FDI (fill the savings gap and increase GNI) (*Table*)
- continued state regulation to ensure essential services (*paragraph 4*)
- increased use of the price mechanism (*paragraph 4*).

Possible drawbacks of the policies:

- difficulty of raising the necessary funding due to very low income
- opportunity cost of increased funding
- difficulty of ensuring that those in need receive the assistance which is funded
- challenge of improving the quality of health and education services
- dangers of increased FDI – pollution (*Table*), influence on the government, employment protection, profits repatriation disadvantages of the price mechanism *e.g.* income inequality.

Any reasonable evaluation.

4. (a) (i) **State two reasons why a multinational corporation (MNC) may wish to invest in an economically less developed country (LDC).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> One correct reason should be awarded [1 mark].	<b>1</b>
2 <i>There is clear understanding.</i> Two correct reasons should be awarded [2 marks].	<b>2</b>

Possible reasons:

- to gain access to new markets
- to cut costs by avoiding the need to comply with legislation which exists in the domestic economy
- to gain access to resources
- to avoid import duties by producing in the target market
- to gain access to cheaper labour and raw materials than in the domestic economy.

Any reasonable response.

(ii) **Define the term *multinational corporations (MNCs)* indicated in bold in the text (paragraph 1).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that they are firms that operate abroad.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that they are firms that produce goods and/or services in more than one country.	<b>2</b>

(b) **With the aid of a diagram, explain the likely impact on Zambia’s economic growth of the fall in copper prices from US\$9000 to US\$3000 per tonne (paragraph 2).**

**[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram to show a fall in aggregate demand resulting from lower export receipts, causing real GDP to decrease <b>or</b> for explaining that the fall in copper prices will adversely affect export receipts, thus reducing aggregate demand and hence having a negative effect on Zambia’s economic growth.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram to show a fall in aggregate demand resulting from lower export receipts, causing real GDP to decrease <b>and</b> for explaining that the fall in copper prices will adversely affect export receipts, thus reducing aggregate demand and hence having a negative effect on Zambia’s economic growth.	<b>3–4</b>

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

(c) **With the aid of a diagram, explain how mining in Africa can create externalities of production.** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled market diagram showing a negative externality of production, with the marginal social cost curve above the marginal private cost curve <b>or</b> for explaining that mining leads to negative externalities of production, such as damage to the environment or to water supply, which are not felt by producers or consumers of the product, but by third parties such as local residents. The negative externalities mean that social costs are higher than private costs.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled market diagram showing a negative externality of production, with the marginal social cost curve above the marginal private cost curve <b>and</b> for explaining that mining leads to negative externalities of production, such as damage to the environment or to water supply, which are not felt by producers or consumers of the product, but by third parties such as local residents. The negative externalities mean that social costs are higher than private costs.	<b>3–4</b>

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

- (d) **Using information from the text/data and your knowledge of economics, discuss the contribution made by multinational corporations (MNCs) to the economic development of mineral-rich countries (paragraph 1).** *[8 marks]*

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

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

Level		Marks
0	The work does not reach a standard described by the descriptors below.	<b>0</b>
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	<b>1–2</b>
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	<b>3–5</b>
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	<b>6–8</b>

*Command term*

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- recognition of the term economic development.

Advantages/benefits:

- export receipts from mining
- greater tax revenues to the government
- the possibility of employment for domestic workers
- increased national income via the multiplier effect
- technology and skills transfer
- the above should be linked to development.

Disadvantages/costs:

- tax revenues might not be high due to huge tax benefits (*paragraph 1*)
- MNCs cut back on investment in times of recession (*paragraph 2*)
- profits may be repatriated (*paragraph 3*)
- governments may receive revenues from MNCs and waste them (*paragraph 3*)
- pollution may result from mining operations (*paragraph 3*)
- the land may be scarred by mining (*paragraph 4*)
- MNCs may exert undue influence on the government of the host country
- damaging consequences of a deterioration in the terms of trade (*paragraph 2*).

Any reasonable discussion.

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