



MARKSCHEME

May 2014

ECONOMICS

Standard Level

Paper 2

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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 *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>	0
1 <i>Vague definition.</i> The idea that it is investment between countries.	1
2 <i>Accurate definition.</i> An explanation that it is any two of the following: <ul style="list-style-type: none"> • long-term investment in another country • investment by a multinational corporation (MNC) • investment in another country representing at least 10% ownership. 	2

(ii) Describe *two responsibilities of a country’s central bank* (paragraph ⑤). [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> One of the following responsibilities is stated: <ul style="list-style-type: none"> • regulator of commercial banks • banker to the government • control of interest rates • control of money supply • maintenance of price stability • control of exchange rate policy. 	1
2 <i>There is clear understanding.</i> Two of the following responsibilities are stated: <ul style="list-style-type: none"> • regulator of commercial banks • banker to the government • control of interest rates • control of money supply • maintenance of price stability • control of exchange rate policy. 	2

- (b) **With reference to the text, explain how Japan’s current account can be in surplus while it has a trade in goods deficit (paragraph ①).** [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> For explaining that the current account is made up of the balance of trade in goods and the balance of trade in services, as well as net transfers and net income flows or for explaining that the Japanese trade deficit is negative, but this simply means that the other elements of the current account must outweigh that deficit, giving an overall surplus.	1–2
2 <i>The written response is accurate.</i> For explaining that the current account is made up of the balance of trade in goods and the balance of trade in services, as well as net transfers and net income flows and for explaining that the Japanese trade deficit is negative, but this simply means that the other elements of the current account must outweigh that deficit, giving an overall surplus.	3–4

- (c) **Using an exchange rate diagram, explain how Japanese authorities might intervene in the currency market as a result of their concern about the value of the Japanese yen (paragraph ⑤).** [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 or an accurate written response.</i> For drawing a correctly labelled exchange rate diagram showing an increase in supply of the yen and a fall in the exchange rate or for an explanation that the Japanese authorities would enter the foreign exchange markets, buying foreign currencies, thus increasing the supply of their own currency in the market and so increasing its supply and lowering its exchange rate.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled exchange rate diagram showing an increase in supply of the yen and a fall in the exchange rate and for an explanation that the Japanese authorities would enter the foreign exchange markets, buying foreign currencies, thus increasing the supply of their own currency in the market and so increasing its supply and lowering its exchange rate.	3–4

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

For an exchange rate diagram, the vertical axis may be exchange rate or yen per other currency. The horizontal axis should be quantity, or quantity of yen. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, discuss the possible consequences of the appreciation of the Japanese yen (paragraph 2).** **[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 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“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:

- definition of appreciation
- an increasing trade in goods deficit and falling current account surplus (paragraph 1)
- an eventual current account deficit (paragraph 5)
- slowing economic growth (paragraph 3)
- the impact of outward foreign direct investment (paragraph 4)
- the impact on employment of firms moving their production abroad (paragraph 5)
- the short-run and long-run impacts on the balance of payments accounts of FDI and increased (property) income from abroad (paragraph 5)
- “Japanese firms are also acquiring shares in natural resource companies” (paragraph 6) advantages of diversification
- the pressures on the government to intervene in the value of the Japanese yen (paragraph 8)
- downward pressure on inflation
- cheaper imports, with benefits for consumers and lower costs of imported raw materials and energy for Japanese companies
- the impact on export industries (paragraph 3)
- self-correcting nature of currency if it is allowed to float

- reaction from the international community of the manipulation of the currency by the government. Others may follow suit
- $PED_x = .34$ (*paragraph 3*) export revenue should increase despite currency appreciation (trade in services inelastic)
- Japan has an underlying problem of an aging and decreasing population that should be addressed beyond currency value
- the concern that the appreciation is partly due to the yen being viewed as a “safe haven” (*paragraph 2*) and therefore the financial inflows may suddenly be reversed.

Any reasonable discussion.

2. (a) (i) Define the term **currency 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>	0
1 <i>Vague definition.</i> The idea that the currency rises in value.	1
2 <i>Accurate definition.</i> An explanation that it is a rise in the value (or price) of a currency, plus one of the following: <ul style="list-style-type: none">• in terms of another currency• in a floating exchange rate system.	2

(ii) Define the term **subsidies** indicated in bold in the text (paragraph ❸). [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 it is money given to firms.	1
2 <i>Accurate definition.</i> An explanation that it is money given to a firm by the government in order to (any one of the following): <ul style="list-style-type: none">• reduce (production) costs• increase supply (output/production)• reduce price• increase consumption• increase investment and/or employment• protect domestic industries from imported products.	2

- (b) Using a demand and supply diagram, explain the impact of the “recent currency appreciation” on Australia’s domestic car market (*paragraph 1*). [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 or an accurate written response.</i> For drawing a correctly labelled demand and supply diagram, showing a decrease in demand for Australian cars or for an explanation that appreciation of the currency makes imported cars less expensive resulting in a fall in demand for Australian cars, reducing the price and quantity sold.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled demand and supply diagram, showing a decrease in demand for Australian cars and for an explanation that appreciation of the currency makes imported cars less expensive resulting in a fall in demand for Australian cars, reducing the price and quantity sold.	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks]. The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

Note: Candidates may show the supply curve shifting to the right and suggest that an appreciation of the currency will lead to cheaper imported raw materials and so lower costs for car producers. More cars would be sold at a lower price. If this is correctly drawn and explained, then it may be fully rewarded.

- (c) **Using a demand and supply diagram, explain the impact on Australia’s car market resulting from the government’s policy to implement a carbon tax (paragraph 5).** **[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 or an accurate written response.</i> For drawing a correctly labelled demand and supply diagram showing a decrease (leftward shift) of the supply curve or for an explanation that a carbon tax will increase production costs causing a fall in supply and therefore the price of cars to increase and quantity to decrease.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled demand and supply diagram showing a decrease (leftward shift) of the supply curve and for an explanation that a carbon tax will increase production costs causing a fall in supply and therefore the price of cars to increase and quantity to decrease.	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**. The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

Note: Candidates may show an externalities diagram, with the MPC curve being shifted by the imposition of the tax. If the explanation is also correct, then this may be fully rewarded.

- (d) Using information from the text/data and your knowledge of economics, discuss the effects of “global economic uncertainty” (paragraph ①), “low trade barriers” (paragraph ②) and a “carbon tax” (paragraph ⑤) on Australia’s car industry. [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 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“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:

“Global economic uncertainty”

- reduced demand for cars on a global scale hence reduced demand for Australian cars or supply of car parts (including exports)
- likely to require government assistance resulting in opportunity cost issues for government (paragraph ④)
- lack of “policy certainty” (paragraph ②) further reduces investment in the car industry during time of global economic uncertainty.

“Low trade barriers”

- “most open car market in the world” (paragraph ②), facing increasing competition from cheaper imports
- intense competition from imports (paragraph ⑤), which may stimulate innovation and cost reductions
- decision to “reduce the funding of the Green Car Innovation Fund by hundreds of millions of dollars” (paragraph ②) reduces incentive to produce cars to compete with cheaper imports
- Australian producers not competing on equal terms with foreign producers (paragraph ②). In light of this, Australian government not giving enough support to domestic producers according to Mr Devereux (paragraph ⑤)

- Australian innovations have been developed by foreign car manufacturers (*paragraph 4*) vs developing domestically.

“Carbon Tax”

- increases production costs at a time when the industry *is already* suffering from increasingly competitive imports (*paragraph 5*) and other problems such as a high dollar, low trade barriers, less government financial support and lower demand due to global economic uncertainty
- encourages industry to pursue cleaner production methods which are likely to make them more internationally competitive in long run and possibly increase car exports. Other countries may copy this Australian innovation
- if car makers in other countries don't have the same carbon taxes, this will make the Australian car makers less competitive.

Any reasonable discussion.

SECTION B

3. (a) (i) **Define the term *absolute poverty* 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 it is when a person struggles to survive.	1
2 <i>Accurate definition.</i> An explanation that it is when people live below a certain level of income that is necessary to meet basic needs.	2

(ii) **List two components of the Human Development Index (HDI) (paragraph ②).** [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> For any one of the following: <ul style="list-style-type: none">• real national income per head (real GNI/GDP per capita)• life expectancy• mean years of schooling• expected years of schooling.	1

Note that measures of education have changed in 2011. It would be acceptable to refer to adult literacy rate or average years of schooling or school enrollment rates. However, generalizations, such as “educational indicator” or “health indicator” should not be rewarded.

2 <i>There is clear understanding.</i> For any two of the following: <ul style="list-style-type: none">• real national income per head (real GNI/GDP per capita)• life expectancy• mean years of schooling• expected years of schooling.	2
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Note that measures of education have changed in 2011. It would be acceptable to refer to adult literacy rate or average years of schooling or school enrollment rates. However, generalizations, such as “educational indicator” or “health indicator” should not be rewarded.

- (b) Using a Lorenz curve diagram, explain the meaning of “a Gini coefficient of 0.59” (paragraph ❶). [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 or an accurate written response.</i> For drawing a correctly labelled Lorenz curve diagram with the line of equality and Haiti’s Lorenz curve to show income inequality or an explanation that the Gini coefficient of 0.59 is the ratio of the area between the line of equality and the country’s Lorenz curve, and the total area under the line of equality. (This may be expressed as a formula.)	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled Lorenz curve diagram with the line of equality and Haiti’s Lorenz curve to show income inequality and an explanation that the Gini coefficient of 0.59 is the ratio of the area between the line of equality and the country’s Lorenz curve, and the total area under the line of equality. (This may be expressed as a formula.)	3–4

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

Note: Candidates who simply interpret the value of 0.59 as being high inequality would only receive one mark for the explanation.

For a Lorenz curve, the vertical axis should be (cumulative) percentage of income and the horizontal axis should be (cumulative) percentage of population or households. A title is not necessary.

Note: the term “cumulative” is not necessary for labeling to be marked as correct.

- (c) **Using a production possibilities curve (PPC) diagram, comment on the likely effect of the earthquake in 2010 on Haiti’s economy (paragraph ①).** [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 or an accurate written response.</i> For drawing a correctly labelled PPC diagram showing an inward shift of the PPC curve or for explaining that the earthquake would reduce the quantity and/or quality of factors of production in the economy, thus reducing production possibilities (potential output).	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled PPC diagram showing an inward shift of the PPC curve and for explaining that the earthquake would reduce the quantity and/or quality of factors of production in the economy, thus reducing production possibilities (potential output).	3–4

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

For a PPC, the axes could be two alternative products, one on each axis, *eg* Good A and Good B or Schools and Motor Cars; or two groups of products, *eg* Consumer Goods and Producer Goods. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, discuss strategies that the Haitian government might use to achieve economic growth and development.** *[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 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“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:

- definitions of economic growth and economic development
- explanation of market-oriented reforms targeting economic growth (*paragraph 3*)
- suggestions of strategies to counter problems in the text and thus gain growth and/or development, which might include:
 - improvements in income distribution (*paragraph 1*)
 - achieving political stability (*paragraph 2*)
 - aid to repair natural disaster damage (*paragraph 2*)
 - IMF aid (*paragraph 3*)
 - provision of infrastructure to possibly minimize effects of future tropical storms/hurricanes
- export-led growth / import substitution (*paragraph 3*)
- education and health provision
- financial sector strategies to improve saving and investment
- privatization and other supply-side policies (*paragraph 3*)
- improving the role of women
- FDI
- debt relief.

Any reasonable discussion.

4. (a) (i) List *two* 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>	0
1 <i>There is limited understanding.</i> One goal is stated or two goals are partially stated.	1
2 <i>There is clear understanding.</i> Two of the following goals are listed: <ul style="list-style-type: none"> • eradicate extreme poverty and hunger • achieve universal primary education • promote gender equality and empower women • reduce child mortality • improve maternal health • combat HIV/AIDs, malaria and other diseases • ensure environmental sustainability • develop a global partnership for development. 	2

(ii) Define the term *economic growth* 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>	0
1 <i>Vague definition.</i> The idea that it is a growing economy (or an increase in GDP).	1
2 <i>Accurate definition.</i> An explanation that it is an increase in the value of real output (over time). Or, an explanation that it is an increase in real GDP.	2

Note: the term “over time” is not necessary for 2 marks.

- (b) Using a demand and supply diagram, explain how the AfDB projects will lead to more “affordable health care services” (paragraph 4). [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 or an accurate written response.</i> For drawing a correctly labelled market diagram showing an increase in supply (rightward shift) of health care services resulting in more services at a lower price or for explaining that the increased spending on health care services will increase the supply of services leading to an increase in quantity at a lower price resulting in “affordable health care services”.	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled market diagram showing an increase in supply (rightward shift) of health care services resulting in more services at a lower price and for explaining that the increased spending on health care services will increase the supply of services leading to an increase in quantity at a lower price resulting in “affordable health care services”.	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks]. The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

- (c) With reference to a poverty trap (poverty cycle), explain how “investing in human development is crucial to ... reducing poverty” (paragraph 2). [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> An explanation that a poverty trap is an inability to invest in physical, human and natural capital due to low savings or income, forming a self-perpetuating cycle (which may be illustrated by the use of a poverty cycle diagram) or an explanation that in this case, investing in human capital through improvements in health and sanitation provides the intervention needed to break out of the cycle, by raising productivity and thus incomes, reducing poverty.	1–2
2 <i>The written response is accurate.</i> An explanation that a poverty trap is an inability to invest in physical, human and natural capital due to low savings or income, forming a self-perpetuating cycle (which may be illustrated by the use of a poverty cycle diagram) and an explanation that in this case, investing in human capital through improvements in health and sanitation provides the intervention needed to break out of the cycle, by raising productivity and thus incomes, reducing poverty.	3–4

- (d) Using information from the text/data and your knowledge of economics, evaluate the likely effectiveness of the AfDB and Ugandan government projects in promoting economic development (*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 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

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

Responses **may** include:

- definition of economic development
- possibility that corruption might prevent the projects from meeting targets
- the need for good governance to ensure that development objectives are met
- the benefits of improved health of women to empower women; “immediate project beneficiaries are estimated at 3 million people, the majority being women and children under 15 years of age” (*paragraph ④*)
- proposals conform to the existing National Development Plan (*paragraph ②*)
- targeting both urban and rural areas may increase the likely effectiveness
- explanation as to how US\$155.8 million will “boost” efforts to meet health water and sanitation goals (*paragraph ①*)
- discussion regarding the challenges of breaking the poverty cycle
- discussion regarding improved health, sanitation and water infrastructure leading to growth which can lead to development
- discussion of projects in context of relevant millennium development goals
- discussion of projects in terms of external benefits/merit goods
- role of NGO’s in helping achieve MDG’s
- discussion of criteria in awarding contracts in these key priority areas.

Any other appropriate response.
