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Economics
Standard level
Paper 1

Tuesday 3 November 2015 (afternoon)

1 hour 30 minutes

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.
- Section A: answer one question.
- Section B: answer one question.
- Use fully labelled diagrams and references to examples where appropriate.
- The maximum mark for this examination paper is **[50 marks]**.

Section A

Answer **one** question from this section.

Microeconomics

- (a) Explain why a government might decide to impose an indirect tax on the consumption of cigarettes. [10]
 - (b) Discuss the possible consequences of the imposition of an indirect tax on cigarettes for the different stakeholders in the market. [15]
- (a) Explain the concepts of consumer surplus and producer surplus in the market for air travel. [10]
 - (b) Discuss the view that a free market at competitive market equilibrium leads to the most efficient allocation of resources from society's point of view. [15]





Section B

Answer **one** question from this section.

Macroeconomics

- 3. (a) Explain, using a diagram, how interest rates are determined in an economy. [10]
 - (b) Discuss the effectiveness of using expansionary monetary policy to reduce unemployment. [15]

 - 4. (a) Explain how a rise in consumer confidence and business confidence might affect economic growth. [10]
 - (b) Discuss the view that economic growth always raises living standards in a country. [15]
-

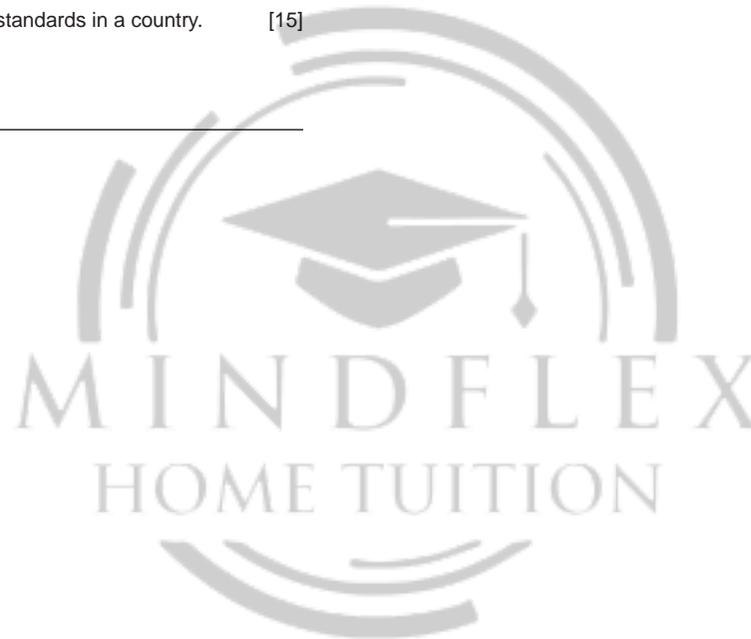
Markscheme

November 2015

Economics

Standard level

Paper 1



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

Section A

Microeconomics

1. (a) Explain why a government might decide to impose an indirect tax on the consumption of cigarettes. [10]

Answers *may* include:

- definition of indirect tax
- theory to explain how imposing an indirect tax on cigarettes will achieve government objectives of raising revenue and reducing consumption
- diagrams to illustrate the imposition of the tax on cigarettes
- examples of instances and/or reasons why governments impose indirect tax on cigarettes.

N.B. Candidates can be awarded full marks for coverage of one reason why a government might impose an indirect tax.

This markscheme is **confidential** and for the exclusive use of examiners in this examination session.

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Assessment Criteria

Part (a) 10 marks

Level	Marks
0	0
1	1-3
2	4-6
3	7-8
4	9-10

- (b) Discuss the possible consequences of the imposition of an indirect tax on cigarettes for the different stakeholders in the market.

[15]

Assessment Criteria

Part (b) 15 marks

Answers **may** include:

- definitions of indirect tax and market
- theory to explain the implications for consumers; for producers; for the government
- diagram to show the application of a tax to illustrate the impacts on different stakeholders
- examples of use of indirect taxes and the impact on stakeholders in practice
- synthesis or evaluation (discuss).

Discussion **may** include: the advantages and disadvantages as applied to the different stakeholders and more generally in terms of society, for example reduced passive smoking for all as well as reduced consumption for individual consumers.

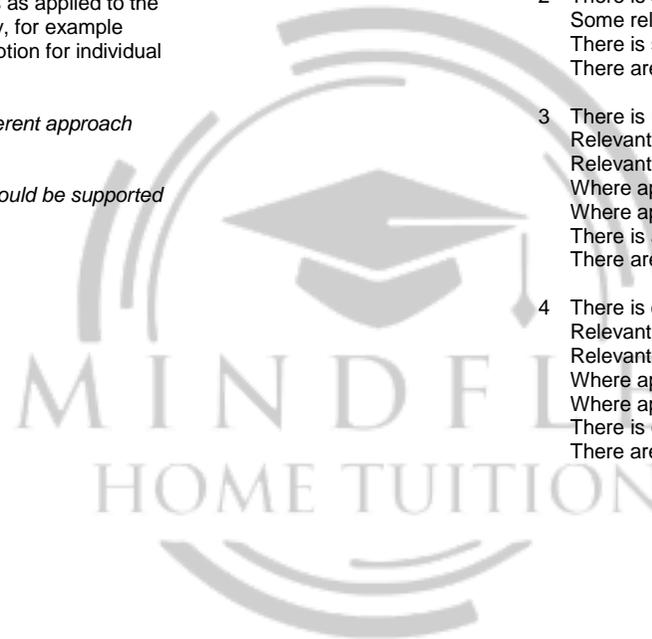
Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

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

Level

Marks

0	The work does not reach a standard described by the descriptors below.	0
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.	1–5
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.	6–9
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.	10–12
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.	13–15



2. (a) Explain the concepts of consumer surplus and producer surplus in the market for air travel.

[10]

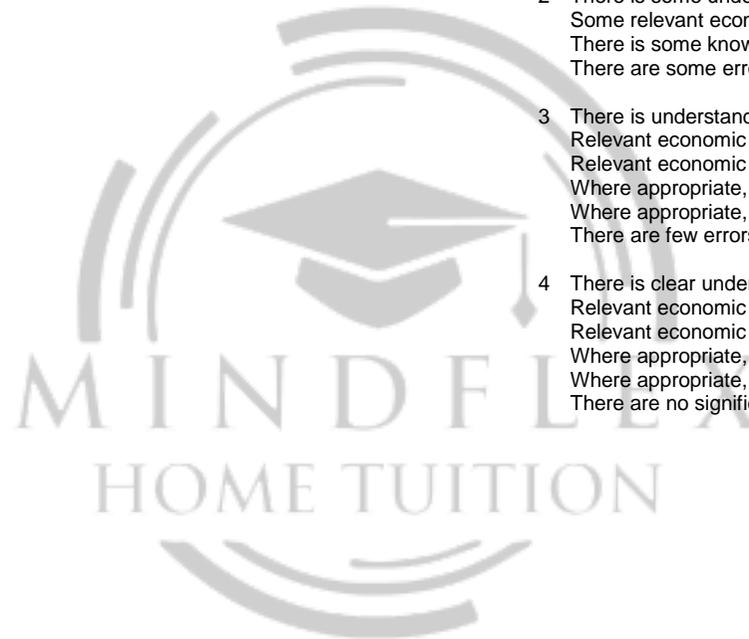
Assessment Criteria

Answers **may** include:

- definitions of consumer surplus and producer surplus
- theory to explain that consumer surplus is to be found above equilibrium price and below the demand curve, and that producer surplus is below equilibrium price but above the supply curve
- diagram to show consumer surplus and producer surplus in the market for air travel
- examples of consumer surplus and producer surplus in airline ticket pricing.

Part (a) 10 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
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.	1-3
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.	4-6
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.	7-8
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.	9-10



- (b) Discuss the view that a free market at competitive market equilibrium leads to the most efficient allocation of resources from society's point of view.

[15]

Assessment Criteria

Part (b) 15 marks

Level	Marks
0	0
1	1-5
2	6-9
3	10-12
4	13-15

Answers **may** include:

- definitions of competitive market equilibrium, community/social surplus, allocative efficiency
- theory to explain that the demand curve represents benefits to society hence marginal social benefit and the supply curve costs to society hence marginal social cost. At equilibrium $MSB = MSC$ so it is the optimum allocation of resources from society's point of view
- diagram to show community/social surplus in a market at equilibrium
- examples of markets in allocative efficiency
- synthesis and evaluation (discuss).

Candidates **may** argue that a market for a demerit good or in an unsustainable activity, even if in equilibrium, might not imply the most efficient allocation of resources for society. Candidates who challenge the quotation by presenting a convincing argument with examples that market failure undermines allocative efficiency should be fully rewarded. Market failure could be illustrated using externalities (production and consumption), lack of public goods or depletion of common access resources/threat to sustainability.

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

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

Section B

Assessment Criteria

Macroeconomics

Part (a) 10 marks

3. (a) Explain, using a diagram, how interest rates are determined in an economy. [10]

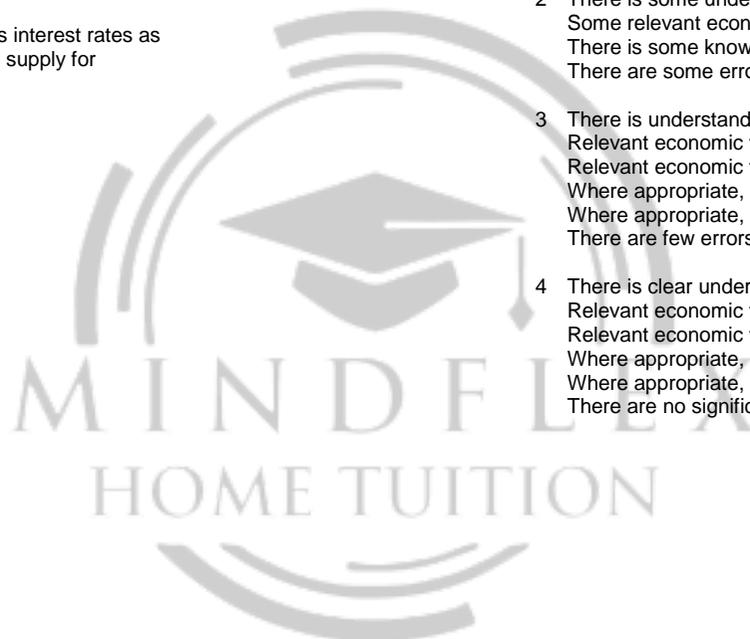
Level Marks

Answers may include:

- definition of interest rates
- explanation of how interest rates are determined by the demand and supply for money. Explanation of how the central bank influences interest rates
- diagram to show the demand and supply curve for money (loanable funds) determining the equilibrium interest rate
- examples of interest rates being determined.

N.B. Where candidates just explain that the central bank sets interest rates as part of monetary policy with no consideration of demand and supply for money, a maximum of level 2 can be awarded.

0	The work does not reach a standard described by the descriptors below.	0
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.	1–3
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.	4–6
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.	7–8
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.	9–10



- (b) Discuss the effectiveness of using expansionary monetary policy to reduce unemployment.

[15]

Assessment Criteria

Part (b) 15 marks

Answers **may** include:

- definitions of monetary policy and unemployment
- explain how reducing interest rates will increase economic growth and reduce unemployment
- demand and supply diagram to show how a rise in demand for labour reduces unemployment
- examples of countries using expansionary monetary policy to reduce unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: the use of monetary policy to reduce unemployment in terms of:

- cutting interest rates may not increase the demand for labour
- time lags associated with monetary policy
- the policy is not appropriate for other types of unemployment like structural and frictional
- expansionary monetary policy might lead to inflation
- reduced borrowing costs could lead to substitution of labour with capital.

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

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

Level

Marks

0	The work does not reach a standard described by the descriptors below.	0
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.	1–5
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.	6–9
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.	10–12
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.	13–15

4. (a) Explain how a rise in consumer confidence and business confidence might affect economic growth.

[10]

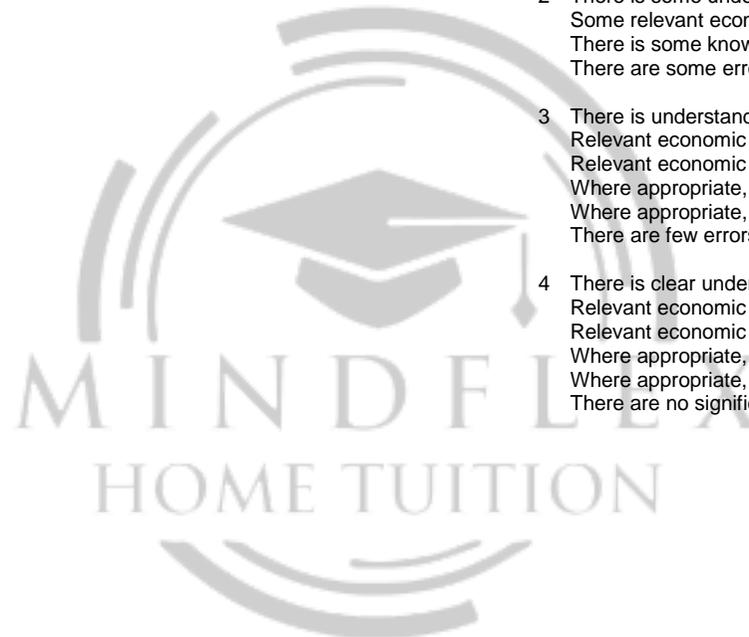
Assessment Criteria

Answers **may** include:

- definitions of consumer confidence, business confidence and economic growth
- explanation of how rising consumer confidence might increase consumption and AD leading to economic growth. Explanation of how rising business confidence might increase investment and AD leading to economic growth
- AD/AS diagram to show an increase in GDP brought about by rising consumption and investment
- examples of situations where rising consumer and business confidence have affected economic growth.

Part (a) 10 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
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.	1-3
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.	4-6
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.	7-8
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.	9-10



- (b) Discuss the view that economic growth always raises living standards in a country.

[15]

Assessment Criteria

Part (b) 15 marks

Level	Marks
0	0
1	1-5
2	6-9
3	10-12
4	13-15

Answers **may** include:

- definitions of economic growth and living standards
- explanation that economic growth may lead to a rise in living standards through: increasing incomes; a fall in unemployment; more tax revenue to improve public services and provide merit goods
- diagram to show economic growth increasing incomes and employment
- examples of economic growth increasing living standards
- synthesis or evaluation (discuss).

Discussion **may** include: economic growth increasing living standards in terms of the: income benefits of economic growth going to the richest people and widening the income disparity; economic growth leading to negative externalities; not being sustainable; impact growth has on inflation.

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

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

N.B. Diagrams are not essential in part (b) for this question to access level 3 and 4.



Section A

Economics Standard level Paper 2

Wednesday 4 November 2015 (morning)

1 hour 30 minutes

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.
- Section A: answer one question.
- Section B: answer one question.
- Use fully labelled diagrams and references to the text/data where appropriate.
- The maximum mark for this examination paper is **[40 marks]**.

Answer **one** question from this section.

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

Clean energy products

- 1 In a speech on climate change, President Obama announced a plan for the United States (US) to work with trading partners and the World Trade Organization (WTO) towards global free trade in clean energy products, such as solar panels and wind towers.
- 2 The US will build on the Asia-Pacific Economic Cooperation (APEC)* agreement where member economies agreed to remove quotas and reduce tariffs to 5% or less by 2015 on a negotiated list of 54 clean energy products.
- 3 However, the APEC agreement does not include reducing anti-dumping tariffs. Such tariffs are allowed under WTO rules. When importers are suspected of **dumping** clean energy products on the domestic market, industries seek protection by putting pressure on government to impose anti-dumping tariffs.
- 4 In recent years, anti-dumping tariffs on clean energy products have increased. In 2011 China was found to be subsidizing and dumping wind towers on the US market. In retaliation, the US imposed an anti-dumping tariff of between 45% and 71%. In addition, a similar tariff was imposed on Vietnamese wind tower imports.
- 5 In the solar industry in 2012, a group of seven US solar panel manufacturers sought protection from cheap Chinese imports. After investigating claims of dumping, the US imposed anti-dumping tariffs ranging from 24% to 36% on Chinese solar panel producers.
- 6 The Coalition for Affordable Solar Energy (CASE), which represents importers, installers and solar power generators, supports the President's strategy to address climate change by making imports of environmental goods more affordable and giving consumers choice. However, the National Association of Manufacturers (NAM), representing domestic producers of clean energy products, are hostile, claiming that the strategy "runs a serious risk of punishing Americans with higher energy bills, fewer jobs, and a weaker economy, while delivering negligible benefits to the environment".

(This question continues on the following page)

(Question 1 continued)

- 7 Similar trade issues have arisen between China and the European Union (EU). In 2011, solar panels made up 6.5% of China's exports to Europe at a value of around US\$27 billion. In 2012, Belgian solar panel manufacturers claimed that these products were being dumped in the EU market. In June 2013, the EU announced that it would impose anti-dumping tariffs of up to 47% on Chinese solar products. In retaliation China threatened to impose a tariff on EU wine, arguing that EU farm subsidies had resulted in European countries dumping wine in China. After these Chinese threats of retaliatory trade measures the EU reduced the solar panel tariff to 12%.

[Source: adapted from <http://cato.org/>, 20 August 2013; <http://thehill.com/blogs>, accessed 20 August 2013; <http://economist-pick-research.hktdc.com>, accessed 20 August 2013 and <http://bbc.co.uk/news>, accessed 6 October 2013]

* Asia-Pacific Economic Cooperation (APEC): member economies are Australia, Brunei Darussalam, Canada, Chile, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, People's Republic of China, Peru, Republic of Korea, Russia, Singapore, Thailand, The Philippines, The United States and Vietnam

- (a) (i) State **two** functions of the World Trade Organization (WTO) (paragraph 1). [2]
- (ii) Define the term *dumping* indicated in bold in the text (paragraph 2). [2]
- (b) Using an international trade diagram, explain the effects on individual APEC "member economies" of removing a quota on the market for clean energy products (paragraph 2). [4]
- (c) Using a demand and supply diagram, explain how a tariff on solar panels would affect the market for solar power electricity (paragraph 2). [4]
- (d) Using information from the text/data and your knowledge of economics, discuss the arguments for and against free trade in the global market for clean energy products. [8]

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

Gulf banks debating currency peg to US dollars

- 1 Qatar's central bank suggests some Gulf States* should consider moving from a **fixed exchange rate**, with their currencies pegged to the US dollar, to a floating exchange rate system. Bankers and economists throughout the region are debating this issue.
- 2 Qatar's central bank governor said the country planned no change to its peg to the dollar, with the exchange rate now fixed at QAR3.64/US\$1. However, "with increasing integration in international trade, services, and asset markets, a higher degree of exchange rate flexibility may become more desirable" he said. Qatar is battling against higher rates of inflation in 2013. Inflation is at the highest level since 2009.
- 3 Saudi Arabia and the United Arab Emirates (UAE) have pegged their currencies to the dollar for decades. They have been able to do this because their inflation rates have been low and stable, and they have had substantial oil export revenues giving them large reserves of foreign currency.
- 4 As a result there has been no need to change official exchange rates, said the chief economist at National Bank of Abu Dhabi: "Fixing the currency gives stability and visibility for business contracts". There are good arguments for pegging the currency to the US dollar. However, it can result in imported inflation from other economies. In 2007, the US was cutting interest rates. This meant that, in order to maintain the fixed exchange rate, the UAE also had to cut its interest rates. This was at a time when the UAE was booming and experiencing high inflation.
- 5 Currently there is no pressure on the pegged rate and if necessary a central bank can revalue or devalue its currency when required. It is commonly agreed that the best time to change a fixed currency regime is when there is no pressure.
- 6 A senior economist at a commercial bank agrees that the UAE should consider dropping its currency peg to the US dollar and moving to a floating exchange rate for the dirham (the UAE currency). He says that the US dollar's weakness relative to other currencies was a positive stimulus for **economic growth**. However, growth in the UAE is already quite strong and so having its currency pegged to a weak currency could harm the economy by leading to higher inflation.

[Source: Albawaba extract: Republished with permission from Albawaba, <http://www.albawaba.com/business/qatars-currency-peg-here-stay-514355>, 'Qatar's currency peg here to stay', 18 August 2013, permission conveyed through Copyright Clearance Center, Inc. Extracts from *The National*, Abu Dhabi: <http://www.thenational.ae/business/industry-insights/finance/uae-should-drop-dirhams-peg-to-us-dollar-says-economist#ixzz2cfjYpl71>, 22 November 2011 <http://www.thenational.ae/business/industry-insights/economics/gulf-banks-debating-currency-peg-to-us-dollar#ixzz2cfivZBbz>, 7 June 2013]

* Gulf States: include Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

(This question continues on the following page)

(Question 2 continued)

- (a) (i) Define the term *fixed exchange rate* indicated in bold in the text (paragraph 1). [2]
- (ii) Define the term *economic growth* indicated in bold in the text (paragraph 6). [2]
- (b) Using an exchange rate diagram, explain how the United Arab Emirates (UAE) could maintain a fixed value of its dirham to the US dollar if there were upward pressure on the dirham. [4]
- (c) Distinguish between a devaluation and a depreciation of a currency. [4]
- (d) Using information from the text/data and your knowledge of economics, discuss the view that some Gulf States "should consider moving from a fixed exchange rate" to "a floating exchange rate system" (paragraph 1). [8]

Section B

Answer **one** question from this section.

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

Democratic Republic of Congo – development affected by conflict

- 1 The Democratic Republic of the Congo (DRC) is a nation with many natural resources. It is slowly recovering after decades of decline. Corruption since independence in 1960, combined with political instability and conflict that began in the mid 1990s, has dramatically affected national output and government revenue.
- 2 Much economic activity occurs in the **informal sector**. However, activity in the mining sector, the source of most export income, has boosted the government's fiscal position and **gross domestic product (GDP)** growth in recent years. Mining companies are exploiting the large reserves of copper, diamonds and gold, in particular Chinese companies. In 2012, 53% of DRC exports went to China.
- 3 The greatest challenge confronting the DRC is conflict. The conflict is due to rival groups fighting to control the country's resources. Five million people have died. More than 90% of those who died were indirect victims of violence – in other words these were people made homeless by violence who then died due to diarrhoea, malaria and pneumonia. The Human Development Index (HDI) value for the DRC was 0.304 in 2012, which was the lowest ranking in the world.
- 4 However, there is hope. The DRC provides 80% of the minerals used to make satellites and mobile phones (cell phones) and it has the agricultural potential to feed the rest of Africa. It has also averaged more than 6% annual growth in GDP since 2004 and the World Bank has forecast economic growth of 9.6% in 2012, with even higher growth in 2013.
- 5 To add to the DRC's challenges there has been more forest clearance in the Congo Basin since 2010, much of it for palm-oil plantations. Annual rates of deforestation in the Congo Basin have doubled since 1990, according to a new study. This study lists population growth, migration, economic development and global demand for natural resources as the major pressures on the forests.

[Source: adapted from <https://cia.gov/library/publications>, accessed 28 July 2013; <http://cifor.org/mediamultimedia>, accessed 28 July 2013; <http://newsscientist.com>, accessed 28 July 2013 and <http://www.spyghana.com>, accessed 28 July 2013]

(This question continues on the following page)

(Question 3 continued)

- (a) (i) Define the term *informal sector* indicated in bold in the text (paragraph 2). [2]
- (ii) Define the term *gross domestic product (GDP)* indicated in bold in the text (paragraph 2). [2]
- (b) Explain why the Human Development Index (HDI) is considered to be a useful indicator of economic development (paragraph 3). [4]
- (c) Using an externalities diagram, explain how the establishment of palm-oil plantations could lead to market failure in the Democratic Republic of the Congo (DRC) (paragraph 3). [4]
- (d) Using information from the text/data and your knowledge of economics, discuss the extent to which economic growth has led to economic development in the Democratic Republic of the Congo (DRC). [8]

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

World Bank to invest in African hydroelectric project

- 1 The World Bank has said it will invest US\$340 million into a new hydroelectric project for Burundi, Rwanda and Tanzania as part of its new low-carbon energy policy. Under the new leadership of United States (US) appointed Jim Yong Kim, the bank wants to use its loans to cut carbon dioxide and methane emissions that accelerate changes in the earth's climate.
- 2 Lack of access to electricity harms development in the region. Only 4% of the population in Burundi has access to electricity. Corresponding numbers for Rwanda and Tanzania are 13% and 15%.
- 3 In July, the World Bank supported new lending guidelines for power projects that limit investment in coal-fired power plants and increase **concessional long-term loans** for hydroelectric power. This policy is controversial for two reasons. Firstly, coal-fired power generation has traditionally been the cheapest electricity source for poor countries. Secondly, not all US politicians believe that emissions cause changes to the climate and the US provides most of the World Bank's funds.
- 4 The director of the bank's department for sustainable development in Africa said that the hydroelectric project will produce cheaper electricity at around US\$0.06 per megawatt-hour. The current sources cost US\$0.23 per megawatt-hour. In addition, all three countries will benefit from jobs created by construction and installation activity associated with the power plant.
- 5 The hydroelectric project will provide electricity in an area of Africa where only a tiny fraction of the population have power. According to the director, "this project provides a reliable power supply, reduces electricity costs, promotes renewable energy, will boost economic growth and help end **absolute poverty**".
- 6 "Besides reliable power sources helping to cut business costs, giving customers more access to services and fuelling manufacturing growth, studies have linked installation of a village light source to child intelligence as it allows more study and reading, especially with parents in the evening", he said. "There is also security: putting lights in a school means girls are more likely to attend, improving literacy rates and increasing production possibilities. These kinds of projects are transformational."
- 7 In 2011, the World Bank helped to provide electricity to an additional 1.4 million people in African countries, to construct and repair 6640 kilometres of roads and to improve water supplies for more than 8 million people.

[Source: World Bank: <http://go.worldbank.org/C09SUA7BK0>]

(This question continues on the following page)

(Question 4 continued)

- (a) (i) Define the term *concessional long-term loans* indicated in bold in the text (paragraph ③). [2]
- (ii) Define the term *absolute poverty* indicated in bold in the text (paragraph ③). [2]
- (b) Using an AD/AS diagram, explain how the new hydroelectric project will create jobs in the region (paragraph ④). [4]
- (c) Using a production possibilities curve (PPC) diagram, explain how “improving literacy rates” will increase production possibilities (paragraph ⑤). [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the role of the World Bank in promoting economic development in Africa. [8]

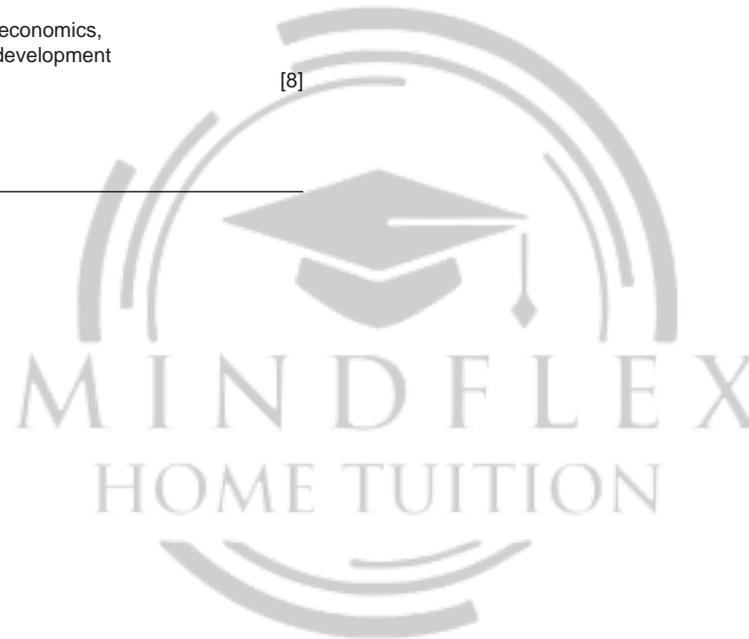
Markscheme

November 2015

Economics

Standard level

Paper 2



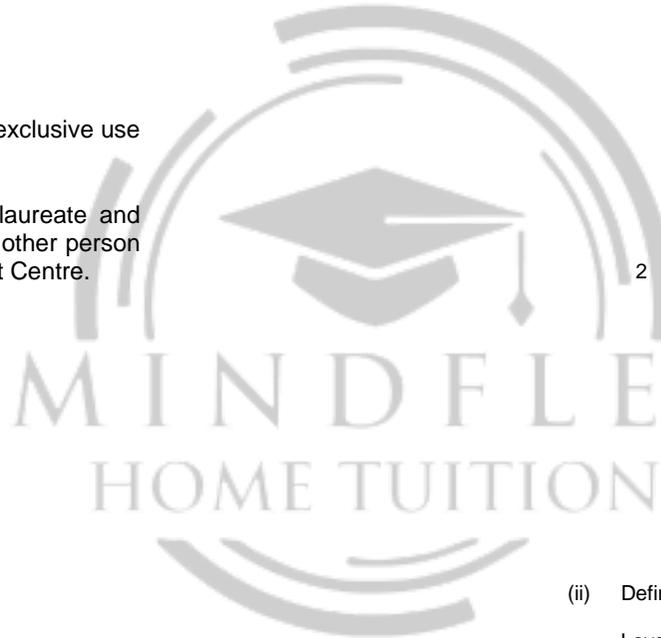
Use the paper-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

Section A

1.	(a)	(i)	State two functions of the World Trade Organization (WTO) (paragraph ❶).	[2]
			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> A limited understanding demonstrated by listing one of the following functions of the WTO: <ul style="list-style-type: none">• to set and enforce rules for international trade• to provide a forum for negotiating trade liberalization• to monitor further trade liberalization• to resolve trade disputes• to increase the transparency of decision-making processes• to cooperate with other major international economic institutions involved in global economic management• to help developing countries benefit fully from the global trading system.	1
			2 <i>There is clear understanding.</i> A clear understanding demonstrated by listing two of the following functions of the WTO for its member countries: <ul style="list-style-type: none">• to set and enforce rules for international trade• to provide a forum for negotiating trade liberalization• to monitor further trade liberalization• to resolve trade disputes• to increase the transparency of decision-making processes• to cooperate with other major international economic institutions involved in global economic management• to help developing countries benefit fully from the global trading system.	2
		(ii)	Define the term <i>dumping</i> indicated in bold in the text (paragraph ❷).	[2]
			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 the cheap selling of a good in another country.	1
			2 <i>Accurate definition.</i> An explanation that it is when producers export a product to another country at a price that is either below its cost of production or below the price charged in its home market.	2

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(b) Using an international trade diagram, explain the effects on individual APEC "member economies" of removing a quota on the market for clean energy products (paragraph 2). [4]

Level

0 *The work does not reach a standard described by the descriptors below.*

1 *There is a correct diagram or an accurate written response.*

For drawing a correctly labelled quota diagram showing a decrease in the domestic quantity supplied, a fall in price to the level of the world price and an increase in quantity demanded or for explaining that removing a quota will result in an increase in the supply of imported clean energy products and a fall in price (and an increase in quantity demanded).

2 *There is a correct diagram and an accurate written response.*

For drawing a correctly labelled quota diagram showing a decrease in the domestic quantity supplied, a fall in price to the level of the world price and an increase in quantity demanded and for explaining that removing a quota will result in an increase in the supply of imported clean energy products and a fall in price (and an increase in quantity demanded).

Marks

0

1-2

3-4

(c) Using a demand and supply diagram, explain how a tariff on solar panels would affect the market for solar power electricity (paragraph 3). [4]

Level

0 *The work does not reach a standard described by the descriptors below.*

1 *There is a correct diagram or an accurate written response.*

For drawing a correctly labelled demand and supply diagram showing a shift of the supply curve to the left, an increase in price and a decrease in quantity or for an explanation that a tariff on the market for solar panels would increase the costs of production for solar power electricity causing a decrease in supply, an increase in the price for solar power electricity, and a decrease in the quantity.

2 *There is a correct diagram and an accurate written response.*

For drawing a correctly labelled demand and supply diagram showing a shift of the supply curve to the left, an increase in price and a decrease in quantity and for an explanation that a tariff on the market for solar panels would increase the costs of production for solar power electricity causing a decrease in supply, an increase in the price for solar power electricity, and a decrease in the quantity.

Marks

0

1-2

3-4

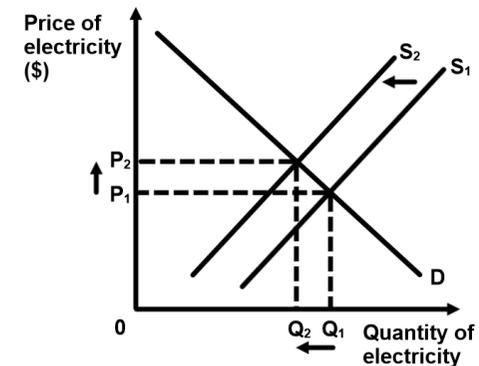
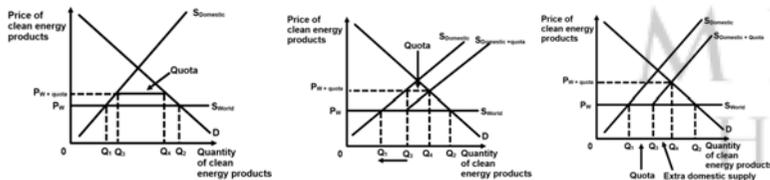
Candidates who incorrectly label diagrams can be rewarded with a maximum of [3].

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

An alternative correct answer is for the candidate to show a diagram with a tariff being imposed on solar panels, increasing the price of solar panels and then explaining that the increase in the price of solar panels is an increase in costs in the solar power electricity market, which would lead to a fall in supply (output) and an increase in price.

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

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



- (d) Using information from the text/data and your knowledge of economics, discuss the arguments for and against free trade in the global market for clean energy products. [8]

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> <i>There is basic knowledge/understanding.</i>	1-2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> <i>There is clear knowledge/understanding.</i> <i>There is some attempt at application/analysis.</i>	3-5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> <i>There is clear knowledge/understanding.</i> <i>There is effective application/analysis.</i> <i>There is synthesis/evaluation, supported by appropriate theory and evidence.</i>	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 free trade.

Arguments for free trade:

- lower prices and more choice for consumers (paragraph ④)
- competition from imports encourages domestic producer efficiency and innovation
- possibilities of economies of scale
- specialization would allow continued growth in the global trade in clean energy products (paragraph ①)
- free trade prevents trade wars (paragraph ⑦)
- free trade prevents retaliatory tariffs on unrelated goods and services (paragraph ⑦)
- low priced clean energy products replace energy sources that produce negative externalities thus addressing climate change (paragraph ⑥)
- low priced clean energy products creates demand in associated markets (solar power generators and installers)
- anti-dumping measures for solar panels have a negative impact on associated markets such as solar power generators and installers (paragraph ⑥)
- supports growth of emerging economies such as Vietnam and China (US\$27 billion in exports of solar panels to the EU) (paragraph ⑦)

Arguments against free trade:

- anti-dumping measures discourage dumping and create fair trade (paragraph ④)
- protect emerging industries (paragraph ④)
- protects employment in domestic industries competing with imports (paragraph ⑦)
- protects domestic industries from low cost labour in China and Vietnam
- protect quality of clean energy products from cheap and lower quality imports (paragraph ⑦).

2. (a) (i) Define the term **fixed exchange rate** indicated in bold in the text (paragraph ①). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> <i>The idea that a country's currency is fixed by the government (central bank).</i>	1
2 <i>Accurate definition.</i> <i>An explanation that a currency's value is fixed against any one of the following:</i> <ul style="list-style-type: none"> • the value of another currency • a basket of other currencies • gold. 	2

- (ii) Define the term **economic growth** indicated in bold in the text (paragraph ⑥). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> <i>The idea that it is an increase in GDP (output).</i>	1
2 <i>Accurate definition.</i> <i>An explanation that it is the growth in the value of real output (over time) or an explanation that it is growth in real GDP (real output).</i>	2

- (b) Using an exchange rate diagram, explain how the United Arab Emirates (UAE) could maintain a fixed value of its dirham to the US dollar if there were upward pressure on the dirham.

[4]

Level

0 *The work does not reach a standard described by the descriptors below.*

- 1 *There is a correct diagram or an accurate written response.*

For drawing a correctly labelled currency diagram showing a fixed exchange rate value, an equilibrium above the fixed value and an increase in the supply curve to return the currency to the fixed value **or** for explaining that if the currency goes above its fixed value, the central bank (government/UAE) will have to intervene and sell its currency (buy foreign currency) to restore the fixed value of the currency.

- 2 *There is a correct diagram and an accurate written response.*

For drawing a correctly labelled currency diagram showing a fixed exchange rate value, an equilibrium above the fixed value and an increase in the supply curve to return the currency to the fixed value **and** for explaining that if the currency goes above its fixed value, the central bank (government/UAE) will have to intervene and sell its currency (buy foreign currency) to restore the fixed value of the currency.

Marks

0

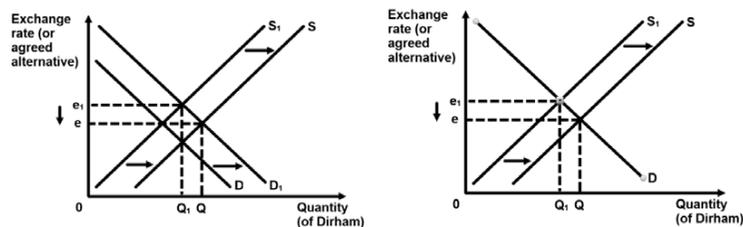
1-2

3-4

An alternative correct answer is for the diagram to show a decrease in demand for the dirham to return the currency to its fixed value, with an explanation that the central bank can lower interest rates, making financial investments in the UAE less attractive, thus causing a fall in the demand for the dirham. If correctly explained a diagram showing a decrease in demand should be fully rewarded with a maximum of [4].

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

For an exchange rate diagram, the vertical axis may be exchange rate, price of dirham in US\$, US\$/dirham, dirham/US\$, or US dollars per dirham. The horizontal axis should be quantity, or quantity of dirham. A title is not necessary.



N.B. The cause of the increase in the dirham's value may or may not be shown.

- (c) Distinguish between a devaluation and a depreciation of a currency.

[4]

Level

0 *The work does not reach a standard described by the descriptors below.*

- 1 *There is limited understanding.*

A devaluation is the deliberate downward adjustment of the official exchange rate by the central bank (government) to reduce the currency's value in a fixed exchange rate system **or** in contrast, a depreciation is a fall in the value of a currency due to market forces in a floating exchange rate system.

- 2 *There is clear understanding.*

A devaluation is the deliberate downward adjustment of the official exchange rate by the central bank (government) to reduce the currency's value in a fixed exchange rate system **and** in contrast, a depreciation is a fall in the value of a currency due to market forces in a floating exchange rate system.

- (d) Using information from the text/data and your knowledge of economics, discuss the view that some Gulf States "should consider moving from a fixed exchange rate" to "a floating exchange rate system" (paragraph 1).

Marks

0

1-2

3-4

[8]

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

0 *The work does not reach a standard described by the descriptors below.*

- 1 *Few relevant concepts are recognized.*

There is basic knowledge/understanding.

- 2 *Relevant concepts are recognized and developed in reasonable depth.*

There is clear knowledge/understanding.

There is some attempt at application/analysis.

- 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.

Marks

0

1-2

3-5

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 floating exchange rate.

Arguments for fixed exchange rate:

- provide greater predictability and certainty for exporters and importers to calculate earnings (paragraph ❶)
- creates a stable environment for firms to invest and households to consume due to greater exchange rate certainty
- encourages government policies to maintain low inflation which can be caused by fixing the currency – “inflation rates have been low and stable” (paragraph ❷)
- can discourage speculation – assuming sufficient foreign currency reserves to protect the currency.

Arguments against fixed exchange rates:

- loss of domestic monetary policy freedom – if priority is to keep exchange rate fixed then little room to set interest rates to manage AD; was a problem for UAE in 2007 (paragraph ❶) when it had to lower interest rates to maintain peg to US dollar
- when the exchange rate is fixed to a currency that is weak, it can lead to imported inflation when the costs of imported resources rise
- low value of US dollar causes relatively cheaper exports and expensive imports hence potential inflationary gap for UAE (paragraph ❷)
- central bank needs large amounts of foreign reserves to maintain the fixed currency and discourage speculators (paragraph ❸) but this is not a problem (currently) for Saudi Arabia and UAE (paragraph ❹)
- fixing the currency at the most appropriate level is difficult
- can create conflict with trading partners if fixed too low.

Arguments for floating exchange rates:

- allows current account to be self-correcting
- more freedom to set interest rates and domestic monetary policy
- large amounts of foreign reserves are not required (paragraph ❺).

Arguments against floating exchange rates:

- instability and lack of predictability for firms, consumers, importers and exporters – difficult to plan (paragraph ❶)
- governments not required to keep exchange rate fixed, hence there is less incentive for governments to keep inflation in check
- speculative activity can greatly influence the exchange rate.

Any reasonable discussion.

Section B

3.	(a)	(i)	Define the term <i>informal sector</i> indicated in bold in the text (paragraph ❶).	[2]
			Level	Marks
			0	0
			The work does not reach a standard described by the descriptors below.	
			1	1
			Vague definition. The idea that it is unrecorded (illegal/not taxed) economic activity.	
			2	2
			Accurate definition. For explaining that it is economic activity that is unrecorded (illegal/not taxed) plus any one of the following:	
			<ul style="list-style-type: none"> • in national income accounts • by the government (authorities) • a suitable example, eg moonlighting. 	
		(ii)	Define the term <i>gross domestic product (GDP)</i> indicated in bold in the text (paragraph ❷).	[2]
			Level	Marks
			0	0
			The work does not reach a standard described by the descriptors below.	
			1	1
			Vague definition. The idea that it is the output produced in an economy.	
			2	2
			Accurate definition. An explanation that it is the total value of all goods and services produced in an economy (in a given time period).	
			OR	
			An explanation that it is the sum of consumption, investment, government spending and net exports.	

- (b) Explain why the Human Development Index (HDI) is considered to be a useful indicator of economic development (paragraph 9).

[4]

Level

Marks

0 *The work does not reach a standard described by the descriptors below.*

0

1 *The written response is limited.*

1-2

Gives all elements of the HDI:

- life expectancy (at birth)
- mean years of schooling **and/or** expected years of schooling
- GNI per capita (PPP US\$)

or

explains that the HDI is a composite index and includes indicators of health, education and income that shows development and so is considered to be a useful indicator of economic development.

2 *The written response is accurate.*

3-4

Gives all elements of the HDI:

- life expectancy (at birth)
- mean years of schooling **and/or** expected years of schooling
- GNI per capita (PPP US\$)

and

explains that the HDI is a composite index and includes indicators of health, education and income that shows development and so is considered to be a useful indicator of economic development.

Candidates who correctly describe one element of the HDI should be awarded [0] out of [2].

Candidates who correctly describe two elements of the HDI should be awarded [1] out of [2].

- (c) Using an externalities diagram, explain how the establishment of palm-oil plantations could lead to market failure in the Democratic Republic of the Congo (DRC) (paragraph 9).

[4]

Level

Marks

0 *The work does not reach a standard described by the descriptors below.*

0

1 *There is a correct diagram **or** an accurate written response.*

1-2

For drawing a correctly labelled diagram showing a negative externality of production with MSC above MPC **or** for explaining that the production of more palm-oil creates external costs (or negative externalities) resulting in any **one** of the following:

- a misallocation of resources
- a situation where the market is operating at a level where $MSC > MSB$ (the product is being over-supplied)
- a situation where the market is operating at a level that is not socially efficient ($MSC \neq MSB$)
- a situation where there is a welfare loss to society.

2 *There is a correct diagram **and** an accurate written response.*

3-4

For drawing a correctly labelled diagram showing a negative externality of production with MSC above MPC **and** for explaining that the production of more palm-oil creates external costs (or negative externalities) resulting in any **one** of the following:

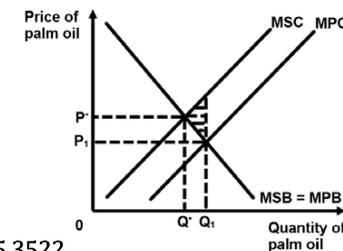
- a misallocation of resources
- a situation where the market is operating at a level where $MSC > MSB$ (the product is being over-supplied)
- a situation where the market is operating at a level that is not socially efficient ($MSC \neq MSB$)
- a situation where there is a welfare loss to society.

Welfare loss does not need to be mentioned. However, if the candidate mentions welfare loss and shades an area that is not correct then full marks cannot be awarded.

There must be two output levels shown for full marks, but there does not need to be two prices shown.

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

The y axis may be labelled price but could be costs or benefits and the x axis labelled quantity.



- (d) Using information from the text/data and your knowledge of economics, discuss the extent to which economic growth has led to economic development in the Democratic Republic of the Congo (DRC). [8]

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> <i>There is basic knowledge/understanding.</i>	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> <i>There is clear knowledge/understanding.</i> <i>There is some attempt at application/analysis.</i>	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> <i>There is clear knowledge/understanding.</i> <i>There is effective application/analysis.</i> <i>There is synthesis/evaluation, supported by appropriate theory and evidence.</i>	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 how growth can lead to development
- discussion of how growth may not lead to development
- recognition that growth has not led to development or has led to minimal development in DRC
 - DRC's HDI value remains the lowest
 - corruption as a barrier to development (paragraph ①)
 - informal sector reduces capacity for government to collect tax (paragraph ②)
 - role of conflict in undermining economic development (paragraph ③)
 - potential for GDP to exceed GNI/GNP meaning profits repatriated by MNCs in mining industry rather than reinvested back into the DRC economy
 - impact of negative externalities of mining and deforestation on development (paragraph ⑤)
- growth has not resulted in sufficient government revenue to improve health care for those displaced by “violence who then died due to diarrhoea, malaria and pneumonia” (paragraph ⑥)
- increased activity in the mining sector may increase government revenues and improve the opportunity for development in the future (paragraph ②).

Any reasonable discussion.

4. (a) (i) Define the term *concessional long-term loans* indicated in bold in the text (paragraph ⑤). [2]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> For stating any one of the following: <ul style="list-style-type: none"> • a form of aid • very low (below market rate) or no rate of interest • repayments are stretched over a long time period (25 to 40 years) • may include a grace period • may be repayable in local currency. 	1
2 <i>Accurate definition.</i> For stating any two of the following: <ul style="list-style-type: none"> • a form of aid • very low (below market rate) or no rate of interest • repayments are stretched over a long time period (25 to 40 years) • may include a grace period • may be repayable in local currency. 	2

- (ii) Define the term *absolute poverty* indicated in bold in the text (paragraph ⑤). [2]

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 finding it difficult to survive.	1
2 <i>Accurate definition.</i> An explanation that it is one of the following: <ul style="list-style-type: none"> • having insufficient income to meet basic human needs • living on less than US\$2 (PPP) a day (or US\$1 or US\$1.25). 	2

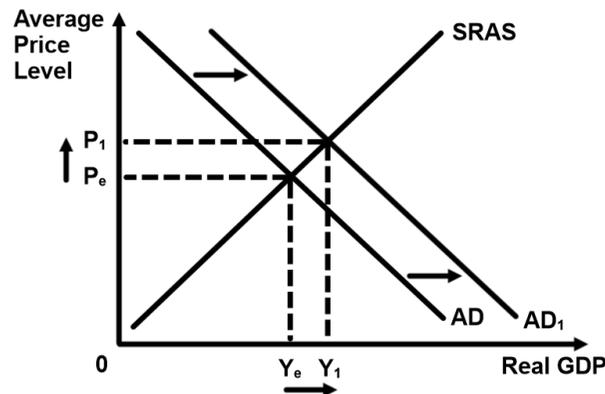
(b) Using an AD/AS diagram, explain how the new hydroelectric project will create jobs in the region (paragraph ④). [4]

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 AD/AS diagram illustrating a shift to the right of the AD curve resulting in a higher level of output or for explaining that the hydroelectric project increases investment in the region, increasing AD, and resulting in higher output and increasing employment.	1-2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled AD/AS diagram illustrating a shift to the right of the AD curve resulting in a higher level of output and for explaining that the hydroelectric project increases investment in the region, increasing AD, and resulting in higher output and increasing employment.	3-4

An alternative correct answer is for the diagram to show a shift of the SRAS curve to the right resulting in a higher level of output and an explanation that the lower price of electricity (paragraphs ④, ⑤ & ⑥) will reduce production costs resulting in higher output and increasing employment.

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

For the vertical axis, the label may be Average (General) Price Level or Price Level. For the horizontal axis, real output, real national output, real income, real national income, real GDP or real Y. A title is not necessary.

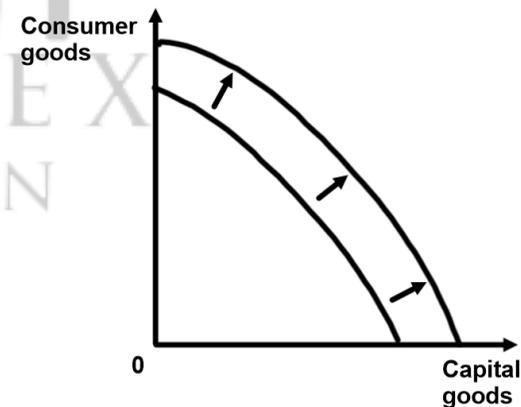


(c) Using a production possibilities curve (PPC) diagram, explain how "improving literacy rates" will increase production possibilities (paragraph ⑥). [4]

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 a shift outward of the production possibilities curve or for an explanation that improving literacy rates will improve the quality of human capital (a factor of production) and therefore increase production possibilities.	1-2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled PPC diagram showing a shift outward of the production possibilities curve and for an explanation that improving literacy rates will improve the quality of human capital (a factor of production) and therefore increase production possibilities.	3-4

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

For a PPC, the axes could be two alternative products, one on each axis, eg Good A & Good B or Schools & 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, evaluate the role of the World Bank in promoting economic development in Africa. **[8]**

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:

- outline of the objective of the World Bank
- description of types of development assistance and/or aid provided by the World Bank.

Strengths:

- creates a basis for development by providing a reliable power supply and reducing electricity costs (paragraph 5)
- provides investment, job creation and growth (paragraph 4)
- provides concessional loans helping poor countries avoid unsustainable debt (paragraph 6)
- the World Bank supports sustainable development "wants to use its loans to cut carbon dioxide and methane emissions" (paragraph 1)
- funds investment in essential infrastructure to promote economic growth (paragraph 7)
- projects support development of human capital (paragraph 8).

Limitations:

- imposing conditions on borrowing can hurt poor countries "the World Bank supported new lending guidelines" (paragraph 9)
- every President of the World Bank Group is appointed by the US giving the US undue influence over policy
- World Bank is dominated by rich countries with strong US influence "US provides most of the World Bank's funds" (paragraph 8)
- priorities of major donors such as the US may not be the priorities of the ELDC
- many World Bank projects actually fail and this project may not achieve the anticipated benefits
- the new project may harm coal exports from neighbouring ELDCs
- every president has been North American which excludes suitable candidates from ELDCs.

Any reasonable evaluation of the relative strengths and limitations of the World Bank in promoting economic development.