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**Economics**  
**Standard level**  
**Paper 1**

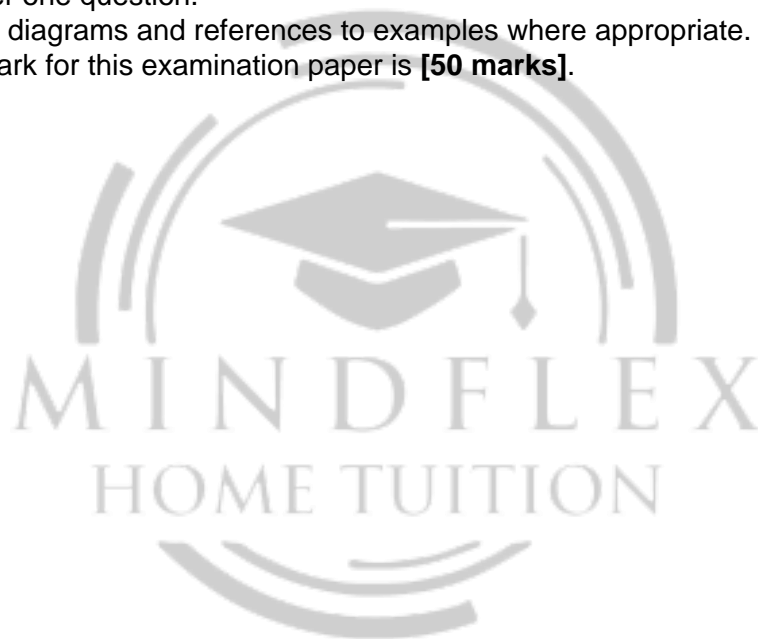
Wednesday 31 October 2018 (afternoon)

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.
- 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

1. (a) Explain how the price mechanism reallocates resources when there is an increase in demand for a good or service. [10]
- (b) To what extent is advertising the most effective way of increasing the consumption of merit goods? [15]
2. (a) Explain **two** reasons why a government might impose an indirect tax on a good. [10]
- (b) Evaluate the impact that an increase in indirect tax might have on consumers and producers. [15]



## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how an economic recession can lead to an increase in absolute poverty. [10]
- (b) Evaluate the view that government policies to promote equity will always have a negative effect on efficiency. [15]
4. (a) Explain how an increase in leakages can affect the size of the circular flow of income. [10]
- (b) To what extent is the use of national income statistics an effective way of comparing the standard of living between countries? [15]
- 



# Markscheme

November 2018

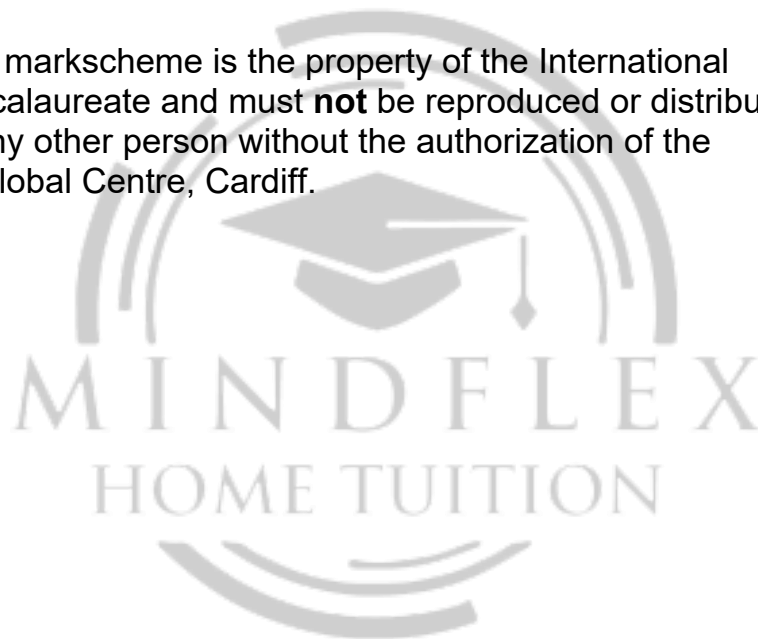
  
Economics

Standard level

Paper 1

11 pages

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

## Section A

### Microeconomics

1. (a) Explain how the price mechanism reallocates resources when there is an increase in demand for a good or service.

[10]

Answers **may** include:

- definitions of price mechanism, resources, demand
- diagram to show how an increase in demand leads to a reallocation of resources
- explanation of how the signalling and incentive functions of price lead to a reallocation of resources when demand increases for a good or service
- examples of goods and services where the price mechanism has reallocated resources because of an increase in demand.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	7–8
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	9–10
	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) To what extent is advertising the most effective way of increasing the consumption of merit goods?

[15]

Answers **may** include:

- definition of merit good
- diagram showing positive externalities to illustrate how advertising can be used to deal with the market failure associated with merit goods
- explanation of the positive externalities associated with merit goods and how advertising can increase the demand and consumption of merit goods
- examples of the advertising of merit goods to increase consumption
- synthesis or evaluation (to what extent).

Evaluation **may** include: the cost of advertising, the effectiveness of advertising and reference to alternative ways to increase the consumption of merit goods.

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

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	6–9
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	10–12
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
	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.	

2. (a) Explain **two** reasons why a government might impose an indirect tax on a good. **[10]**

Answers **may** include:

- definition of indirect tax
- diagram to show the impact of an indirect tax on a good
- explanation that governments impose indirect taxes on goods to raise revenue, reduce consumption of demerit goods and reduce the negative externalities of production
- examples of situations where governments impose indirect tax.

**NB** Candidates who only explain one reason should not be awarded marks beyond level 2.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	7–8
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	9–10
	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) Evaluate the impact that an increase in indirect tax might have on consumers and producers.

[15]

Answers **may** include:

- definition of indirect tax
- diagram to show the impact of an indirect tax on consumers and producers
- explanation that indirect tax increases the price consumers have to pay for goods and services and reduces the revenue producers receive from selling goods and services
- examples of how indirect taxes affect consumers and producers
- synthesis or evaluation.

**Evaluation may include:** the relative impact may depend on PED and PES, indirect tax might benefit consumers if it is imposed on demerit goods, tax revenue raised can be used to benefit consumers and producers through government spending.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	6–9
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	10–12
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
	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.	

## Section B

### Macroeconomics

3. (a) Explain how an economic recession can lead to an increase in absolute poverty. **[10]**

Answers **may** include:

- definitions of economic recession, absolute poverty
- diagram to show a fall in AD
- explanation that a recession can lead to a fall in GDP, an increase in unemployment and falling incomes leading to a rise in absolute poverty
- examples of how a recession has increased absolute poverty.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	7–8
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	9–10
	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) Evaluate the view that government policies to promote equity will always have a negative effect on efficiency.

[15]

Answers **may** include:

- definitions of equity and efficiency
- diagrams to show the government policies used to improve equity
- explanation of how the government policies used to promote equity might have a negative effect on economic efficiency
- examples of where governments have used policies to promote equity and reduced efficiency
- synthesis or evaluation.

**Evaluation may include:** The advantages of government policies used to promote efficiency. For example, government expenditure on health and education might improve the efficiency of the labour force and reducing tax on low income households might improve their incentive to work.

### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	6–9
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	10–12
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
	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.	

4. (a) Explain how an increase in leakages can affect the size of the circular flow of income.

[10]

Answers **may** include:

- definitions of leakages, circular flow of income
- diagram of the circular flow of income
- explanation that when leakages increase money flows in the circular flow of income will fall and reduce the size of the circular flow of income
- examples of where an increase in leakages have reduced national income.

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	7–8
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	9–10
	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) To what extent is the use of national income statistics an effective way of comparing the standard of living between countries?

[15]

*Answers may include:*

- definitions of national income and standard of living
- diagram: a diagram is not required for this question
- explanation of how national income statistics are an effective way of making comparisons between countries
- examples of how national income statistics have been used to compare countries
- synthesis or evaluation (to what extent).

*Evaluation may include:* consideration of the limitations of national income statistics to compare living standards such as: different methods of calculation, the impact of different types of output on living standards, environmental factors, crime levels, political instability, the exchange rate and income distribution.

**NB** Definitions, theory, and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

*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.*



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### Assessment Criteria

#### Part (b) 15 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	6–9
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4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
	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.	



**Economics**  
**Standard level**  
**Paper 2**

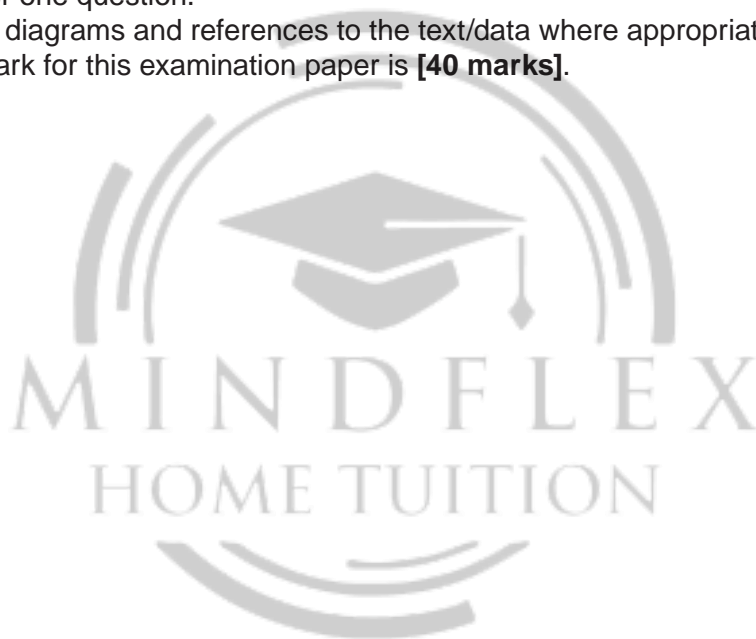
Thursday 1 November 2018 (morning)

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.
- 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]**.



## Section A

Answer **one** question from this section.

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

### South Africa's grain millers oppose corn tariff

- ❶ A battle is taking place between South African corn farmers and the corn millers who process corn. Grain South Africa (Grain SA) is the organization that represents the interests of corn farmers. It has asked the country's International Trade Administration Commission (ITAC) to protect local corn farmers from low global corn prices by imposing a tariff on corn imports.
- ❷ South Africa's corn millers are opposing the request by Grain SA to implement the tariff on corn imports. The corn millers argue that a tariff will cause a burden for consumers and cattle farmers. In South Africa, corn is an essential food and also a source of feed for livestock.
- ❸ According to Reuters news service, South Africa is "Africa's largest corn producer and is relied upon by neighboring Sub-Saharan nations to [reinforce] their own corn supplies and feed their people." A drought in South Africa has dramatically increased the price of corn. In addition, the reduced supply has prompted the need for imports. "South Africa [has traditionally been] a net exporter of corn ... [but] for the second year in a row, [the economy] will become a net importer of corn." The need to import corn has shocked both the corn farmers and the government.
- ❹ The United States (US) is the world's largest corn producer. An unusually large harvest has increased US supply and more than halved the price of US corn to its current price of US\$145 a ton. However, in South Africa, because of the drought, prices for domestically produced corn have more than doubled to reach an all-time high of US\$348 a ton. The low import prices of US corn have made it very difficult for South African corn farmers to earn sufficient income to survive the drought, which is why they have asked ITAC for protection.
- ❺ However, a spokesperson for the corn millers said "we are strongly opposed to any attempt to apply a tariff. Why do we need protection for a commodity in which we are so self-sufficient?" However, Grain SA have claimed that corn farmers cannot compete with the big corn-exporting countries, such as the US and Mexico, because their governments are subsidizing corn farmers. According to Grain SA, South African farmers get almost no assistance. This is why they have requested that ITAC implement the tariff to protect corn farmers from these unfair trade practices.
- ❻ According to economists, South Africa will probably need to import about 970 000 tons of corn this year and a further 3.8 million tons in the following 12 months. To make matters worse, the rand (South Africa's currency) has experienced a sharp **depreciation** against the US dollar. Combined, the need to import corn and the depreciation are likely to negatively impact South Africa's **current account**.

[Source: adapted from "Grain Millers Oppose South African Corn-Import Tariff Review," by Tshepiso Mokheba and Andre Janse Van Vuuren, <http://www.bloomberg.com/news/articles/2016-02-21/grain-millers-oppose-south-african-corn-import-tariff-review>, accessed 28 August 2016, used with permission of Bloomberg L.P. Copyright©2017. All rights reserved, and "South Africa's corn crop dilemma and the likely fixes: Braun," by Karen Braun, 8 April 2016, [reuters.com](http://www.reuters.com/article/us-safrica-maize-braun-corn-idUSKCN0X51QY), © 2016 reuters.com, <http://www.reuters.com/article/us-safrica-maize-braun-corn-idUSKCN0X51QY>. All rights reserved.]

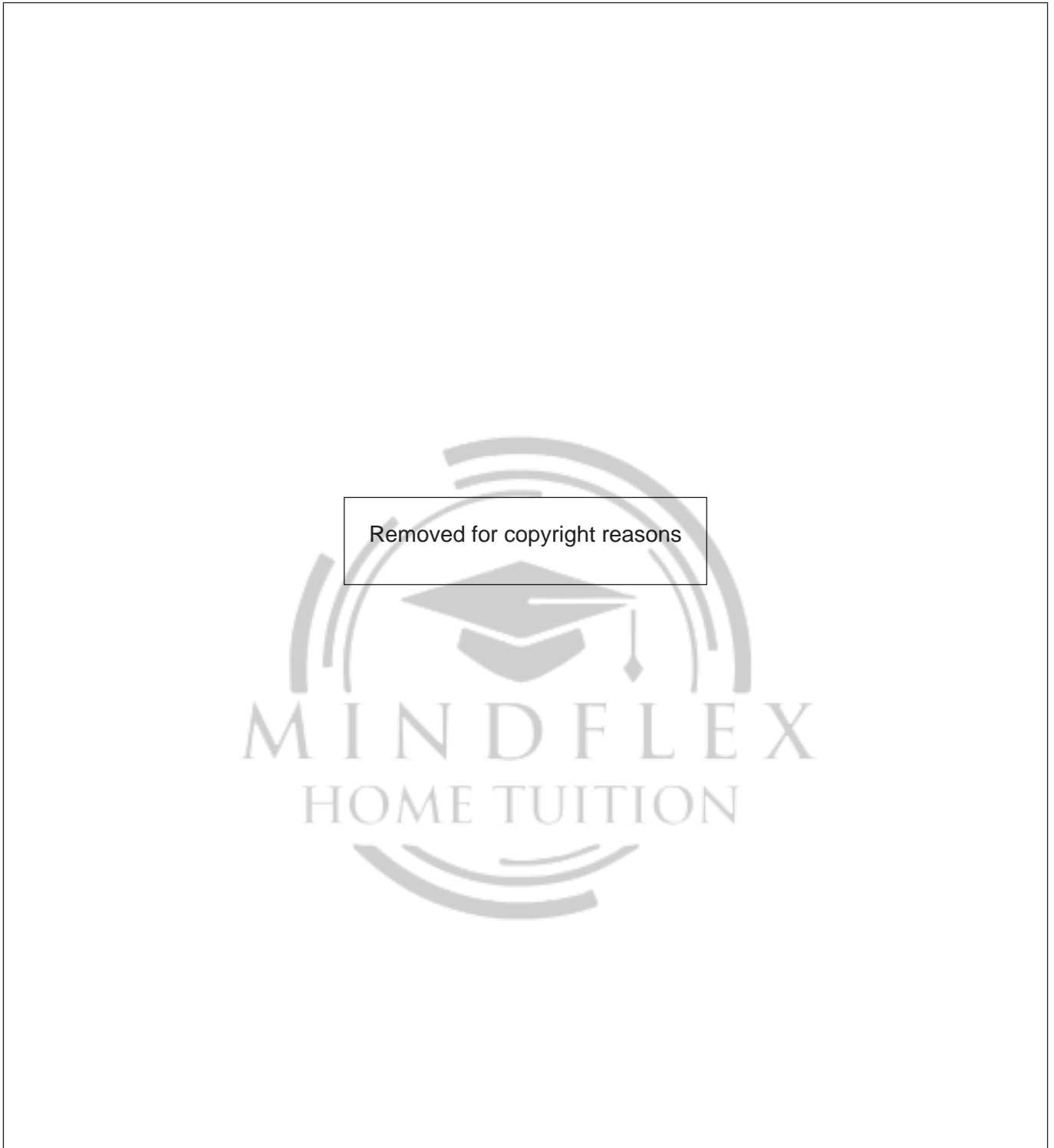
**(This question continues on the following page)**

**(Question 1 continued)**

- (a) (i) Define the term *depreciation* indicated in bold in the text (paragraph ③). [2]
- (ii) Define the term *current account* indicated in bold in the text (paragraph ④). [2]
- (b) Using an exchange rate diagram, explain how “the need to import corn” will affect the value of the South African rand (paragraph ⑤). [4]
- (c) Using a demand and supply diagram, explain the effect of government subsidies on the US corn market (paragraph ⑥). [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the economic impacts of trade protection in the South African corn market. [8]



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



**(This question continues on the following page)**

**(Question 2 continued)**

- (a) (i) Define the term *inflation* indicated in bold in the text (paragraph 6). [2]
- (ii) Define the term *devaluation* indicated in bold in the text (paragraph 7). [2]
- (b) Using an exchange rate diagram, explain how the central bank could “use its foreign reserves” to restore the value of the Nigerian naira (paragraph 5). [4]
- (c) Using an AD/AS diagram, explain how a decision to “tighten monetary policy” might be harmful to the economy (paragraph 7). [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the likely effects of Nigeria’s change from a fixed exchange rate system to a managed exchange rate system. [8]



## Section B

Answer **one** question from this section.

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



(This question continues on the following page)

**(Question 3 continued)**

- (a) (i) Define the term *entrepreneurship* indicated in bold in the text (paragraph ④). [2]
- (ii) Define the term *economic growth* indicated in bold in the text (paragraph ⑤). [2]
- (b) Using an externalities diagram, explain how “deforestation caused by harvesting timber” has caused a market failure in Guatemala (paragraph ②). [4]
- (c) Using a production possibilities curve (PPC) diagram, explain the likely effect of the “Feed the Future” project on Guatemala’s economy (paragraph ③). [4]
- (d) Using information from the text/data and your knowledge of economics, discuss the extent to which domestic factors, such as education and health, the use of appropriate technology, access to micro-credit and the empowerment of women, may contribute to economic development in Guatemala. [8]



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

### Burundi

- ❶ Burundi is a small landlocked African country. Densely populated, it has a population of approximately 10.6 million inhabitants. The economy is dominated by subsistence agriculture, which employs 90% of the population, though cultivatable land is extremely scarce. More than a decade of conflict led to the destruction of much of the country's physical, social and human capital. However, substantial improvements have occurred since the conflict ended in 2006, thanks largely to the success of measures implemented to reduce the excessive control of the military.
- ❷ Even though Burundi is enjoying its first decade of sustained economic growth, poverty remains widespread. Burundi's ranking on the Human Development Index (HDI) increased by 2.5% per year between 2005 and 2013 as education and health outcomes have significantly improved over the period, yet the country still ranks low at 180th out of 187 countries in 2013. Per capita gross national income more than doubled between 2005 (US\$130) and 2013 (US\$280).
- ❸ Burundi is making the transition from a post-conflict economy to a stable and growing economy. Economic reforms and institution building are ongoing. After significant improvements to achieve peace and security, the country's development program is shifting gradually towards modernizing public finance. However, the government has limited "fiscal space" because tax collection is very hard to carry out and tax receipts are low.
- ❹ With its limited resources, the government is attempting to strengthen basic social services and upgrade infrastructure and institutions, particularly in the energy, mining, and agricultural sectors. This has been accompanied by increasing participation of the private sector. The goal now is to grow a more stable, competitive and diversified economy with enhanced opportunities for employment and improved standards of living.
- ❺ Over the last decade, annual economic growth in Burundi has been between 4% and 5%. Inflation continues to decline reaching 3.9% in July 2016, down from 24% in March 2012, reflecting a careful **monetary policy** helped by a recent decrease in the prices of imports, especially oil, which is an essential commodity.
- ❻ Burundi's main exports are agricultural; coffee and tea account for 90% of foreign exchange earnings, and exports are a relatively small share of Gross Domestic Product (GDP).

[Source: adapted from "The World Bank in Burundi: Overview," The World Bank, <http://www.worldbank.org/en/country/burundi/overview>. Licensed under a Creative Commons Attribution-ShareAlike 3.0 Unported license. <https://creativecommons.org/licenses/by-sa/3.0/>]

(This question continues on the following page)



**(Question 4 continued)**

- (a) (i) List **two** components of the Human Development Index (HDI) (paragraph ②). [2]
- (ii) Define the term *monetary policy* indicated in bold in the text (paragraph ⑤). [2]
- (b) Using a production possibilities curve (PPC) diagram, explain the effect on economic growth of the “destruction of much of the country’s physical, social and human capital” (paragraph ①). [4]
- (c) Using an AD/AS diagram, explain why the “decrease in the prices of imports, especially oil” might reduce inflationary pressure (paragraph ⑥). [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the challenges to economic growth and economic development faced by Burundi. [8]



# Markscheme

**November 2018**

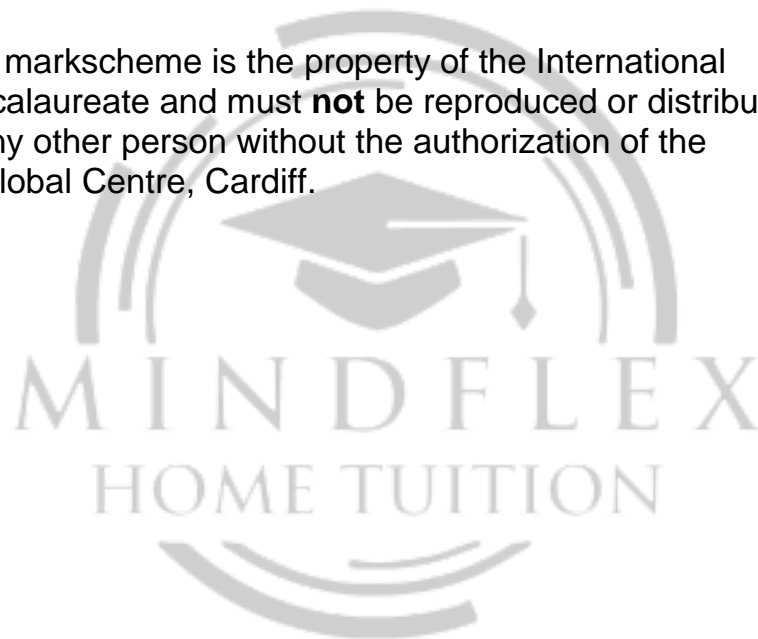


**Economics**

**Standard level**

**Paper 2**

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

### Section A

1. (a) (i) Define the term *depreciation* indicated in bold in the text (paragraph ⑥). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that a currency is worth less <b>or</b> the idea that the exchange rate falls	
2	<i>Accurate definition.</i>	2
	An explanation that it is a decrease in the value (price) of one currency (in terms of another currency) plus <b>one</b> of the following: <ul style="list-style-type: none"><li>• in a floating exchange rate system</li><li>• as a result of a movement in market forces.</li></ul>	

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is a measure of money coming into, and going out of, a country from international trade.	
2	<i>Accurate definition.</i>	2
	An explanation that it is a measure of (the net flow of funds from) trade in goods and services (exports and imports), income and transfers.	

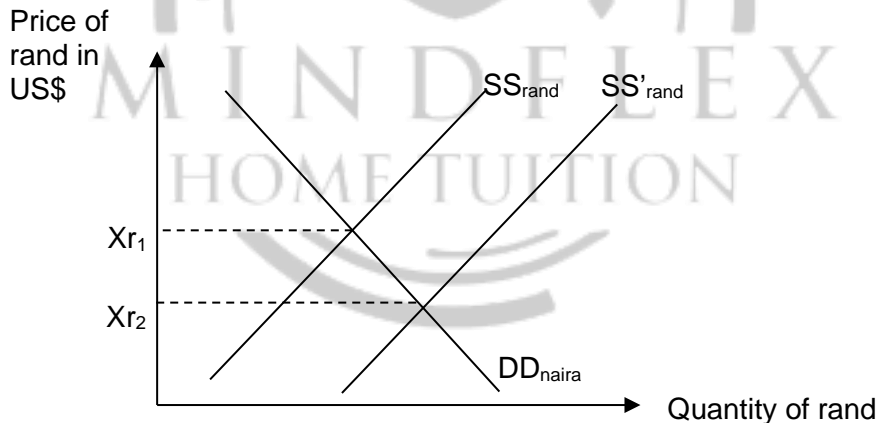
- (b) Using an exchange rate diagram, explain how “the need to import corn” will affect the value of the South African rand (paragraph ⑤).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i>	1–2
	For drawing an exchange rate diagram showing an increase in supply of the rand and a fall in the exchange rate <b>or</b> for an explanation that the increase in imports of corn would result in selling the rand (to buy US dollars), thus increasing the supply of the rand and lowering its exchange rate.	
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i>	3–4
	For drawing an exchange rate diagram showing an increase in supply of the rand and a fall in the exchange rate <b>and</b> for an explanation that the increase in imports of corn would result in selling the rand (to buy US dollars), thus increasing the supply of the rand and lowering its exchange rate.	

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

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



- (c) Using a demand and supply diagram, explain the effect of government subsidies on the US corn market (paragraph 9).

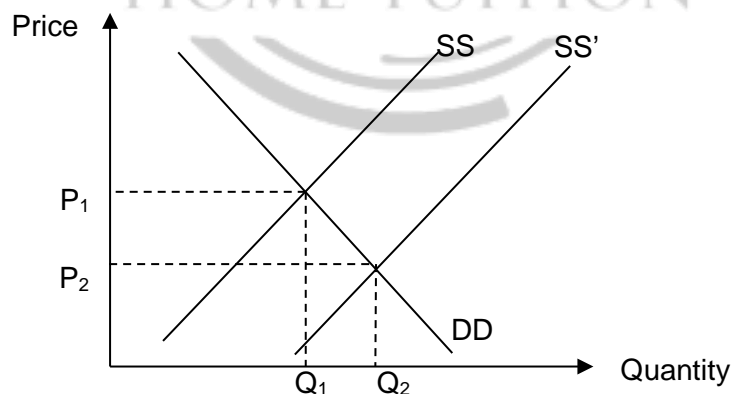
[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i>	1–2
	For drawing a D&S diagram showing a shift of supply to the right, with a decrease in price and an increase in quantity <b>or</b> an explanation that a subsidy will cause a decrease in the costs of production of US corn farmers, therefore leading to an increase in supply, resulting in a lower price and an increased quantity.	
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i>	3–4
	For drawing a D&S diagram showing a shift of supply to the right, with a decrease in price and an increase in quantity <b>and</b> an explanation that a subsidy will cause a decrease in the costs of production of US corn farmers, therefore leading to an increase in supply, resulting in a lower price and an increased quantity.	

Candidates may include a World Supply Curve/Line and should not be penalized for doing so. It may be positioned in such a way as to impede imports or to promote exports. Both are valid approaches. So long as the explanation and diagram explain why the domestic supply line shifts right and the correct effects on the price and the quantity of corn produced in the USA, the answer can receive full marks.

Candidates who incorrectly label diagrams can be awarded 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) Evaluate the economic impacts of trade protection in the South African corn market. [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 meet 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. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

**Responses may include:**

- a definition of trade protection
- an international trade diagram to explain impact of requested tariff on consumers, producers and importers (paragraph ①).

**Advantages:**

- US subsidies distort the functioning of the free market and can result in an inefficient allocation of resources.
- Helps to protect South African corn farmers from unfair practices since US subsidies artificially lower the price of US corn imported into South Africa (paragraph ⑤).
- It would prevent a deterioration of South Africa’s current account balance since import expenditure falls as the result of decreased corn imports and the depreciation of currency (paragraph ⑥).
- Tariff allows domestic corn farmers to maintain higher revenues / incomes to help them to survive the drought (paragraph ⑤).
- Corn farmers can compete with subsidized US corn that has caused the global glut and subsequent low prices.
- May only be a short-term measure.
- A source of tax revenue for the South African government.
- Agriculture is a strategic industry.

**Disadvantages:**

- Domestic supply of corn in South Africa is likely very price inelastic so the tariff would not increase domestic production significantly.
- Tariff will increase input costs for millers and food-related businesses requiring corn as an input (paragraph ②).

- Impact of rising corn prices on low income households when corn is an essential food (paragraph ②).
- Tariff will cause rising input costs for livestock producers further increasing food prices (paragraph ②).
- Corn is likely to be a major input to food manufacturing hence tariff could cause decrease in SRAS due to rising input costs and thus cause cost-push inflation and lower real GDP.
- Price of South African food exported to other countries will rise in trading partner countries.
- Trading partners might retaliate by imposing their own protectionist measures.
- The corn industry is not an infant industry (paragraph ⑤).
- The depreciation of Rand is already reversing the low price of imports.





2. (a) (i) Define the term ***inflation*** indicated in bold in the text (paragraph 6). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it is an increase in prices in the economy.	1
2	<i>Accurate definition.</i> An explanation that it is a sustained increase in the average (general) price level in the economy. For 2 marks there must be some indication of time eg sustained, persistent, continuous.	2

- (ii) Define ***devaluation*** indicated in bold in the text (paragraph 7). [2]

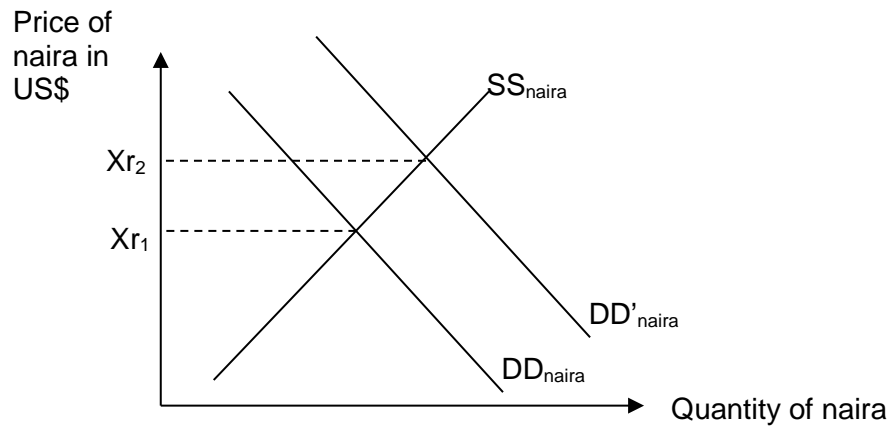
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that a currency is worth less <b>or</b> the idea that the exchange rate falls	1
2	<i>Accurate definition.</i> An explanation that it is a decrease in the value (price) of one currency (in terms of another currency) plus <b>one</b> of the following: <ul style="list-style-type: none"> <li>• in a fixed exchange rate system</li> <li>• as a result of government or central bank intervention.</li> </ul>	2

- (b) Using an exchange rate diagram, explain how the central bank could “use its foreign reserves” to restore the value of the naira (paragraph 8). [4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i> An exchange rate diagram showing a shift in the demand curve to the right and an increase in the value of the naira <b>or</b> an explanation that the central bank (uses its reserves to) buy the naira thus bringing about an appreciation of its currency to restore its minimum value.	1–2
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i> An exchange rate diagram showing a shift in the demand curve to the right and an increase in the value of the naira <b>and</b> an explanation that the central bank (uses its reserves to) buy the naira thus bringing about an appreciation of its currency to restore its minimum value.	3–4

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

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



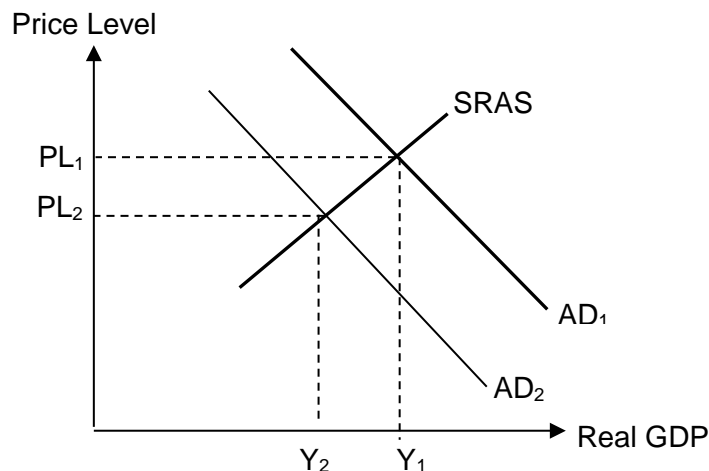
- (c) Using an AD/AS diagram, explain how a decision to “tighten monetary policy” might be harmful to the economy (paragraph ⑦).

[4]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram <b>or</b> an accurate written response.	1–2
	AD/AS diagram showing a shift of the AD curve to the left and a decrease in real GDP <b>or</b> an explanation that higher interest rates or a reduced (rate of growth of the) money supply would reduce consumption and/or investment therefore causing a fall in AD and a fall in real GDP (increase in unemployment).	
2	There is a correct diagram <b>and</b> an accurate written response.	3–4
	AD/AS diagram showing a shift of the AD curve to the left and a decrease in real GDP <b>and</b> an explanation that higher interest rates or a reduced (rate of growth of the) money supply would reduce consumption and/or investment therefore causing a fall in AD and a fall in real GDP (increase in unemployment).	

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

For AD/AS, the vertical axis may be “average (general) price level”, “APL” or “price level”. For the horizontal axis, “real output”, “real national output”, “real income”, “real national income”, “real GDP” or “real Y”. Any abbreviations are acceptable. A title is not necessary. “AS” is a valid label for the SRAS curve.



- (d) Evaluate the likely effects of Nigeria's change from a fixed exchange rate system to a managed exchange rate system.

[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 meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

#### Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

#### Responses **may** include:

- definitions of fixed and managed exchange rate systems.

#### Strengths:

- Will not need to use foreign currency reserves as much, which have fallen, to control the exchange rate (paragraph ①).
- The lower exchange rate should improve the balance of trade and so increase aggregate demand, helping to combat the negative economic growth (paragraph ②).
- The lower exchange rate may attract foreign investment.
- Interest rates will be free for use in other policies.
- Could reduce levels of speculation.
- Lower export prices and higher import prices may increase AD and cause economic growth (paragraph ③).
- Could encourage import substitution (paragraph ⑦) and help to diversify the Nigerian economy.

#### Limitations:

- There may still be some need to use reserves to maintain the “managed float” (paragraph ⑤).
- The fall in the value of the naira will raise the prices of imported necessity goods, negatively affecting poverty.
- Increased uncertainty and harder to plan ahead which may limit the inflow of FDI.
- The falling value of the naira may cause cost-push inflation/imported inflation (paragraph ⑥).
- There may be a need for a tighter monetary policy to deal with the higher inflation. This would increase the exchange rate and undo many of the benefits (paragraph ⑦).

*To reach level 3, students must be aware of the particular situation in the Nigerian economy, not just present a discussion of changing from a fixed exchange rate to a floating exchange rate in general.*



### Section B

3. (a) (i) Define the term **entrepreneurship** indicated in bold in the text (paragraph 4). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	For stating <b>one</b> activity/function/characteristic of an entrepreneur: <ul style="list-style-type: none"> <li>• starting up a business</li> <li>• employing/organizing/managing resources or factors of production</li> <li>• one of the resources or factors of production</li> <li>• profit-driven</li> <li>• taking risks</li> <li>• introduces innovation.</li> </ul>	
2	<i>Accurate definition.</i>	2
	For stating <b>two</b> activities/function/characteristics of an entrepreneur: <ul style="list-style-type: none"> <li>• starting up a business</li> <li>• employing/organizing/managing resources or factors of production</li> <li>• one of the resources or factors of production</li> <li>• profit-driven</li> <li>• taking risks</li> <li>• introduces innovation.</li> </ul>	

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

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is a growing economy (or an increase in GDP).	
2	<i>Accurate definition.</i>	2
	An explanation that it is one of the following: <ul style="list-style-type: none"> <li>• an increase in output (over time)</li> <li>• an increase in real GDP</li> <li>• an increase in potential output.</li> </ul>	

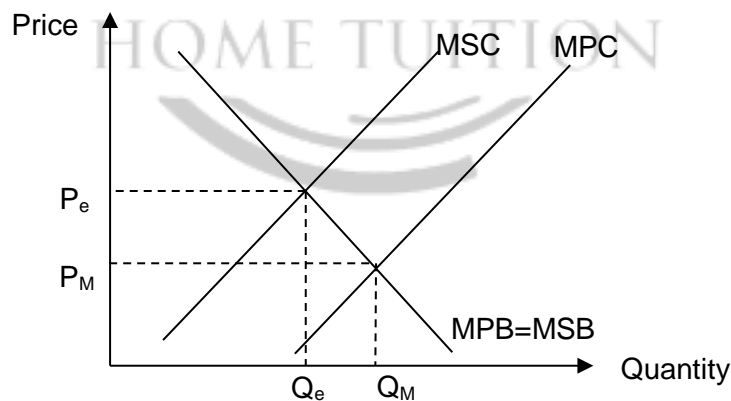
- (b) Using an externalities diagram, explain how “Deforestation caused by harvesting timber” has caused a market failure in Guatemala (paragraph 2).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i>	1–2
	For drawing a market failure diagram showing negative externalities of production, with MSC greater than MPC and a socially efficient (optimum) level of output lower than the equilibrium level of output <b>or</b> for explaining that harvesting of timber might impose costs on third parties (soil erosion) which are not reflected in the market price, thus creating a market failure or leading to over-allocation of resources (results in a welfare loss).	
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i>	3–4
	For drawing a market failure diagram showing negative externalities of production, with MSC greater than MPC and a socially efficient (optimum) level of output lower than the equilibrium level of output <b>and</b> for explaining that harvesting of timber might impose costs on third parties (soil erosion) which are not reflected in the market price, thus creating a market failure or leading to over-allocation of resources (results in a welfare loss).	

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

The y axis may be labelled price or P or costs or benefits, and the x-axis labelled quantity or Q.



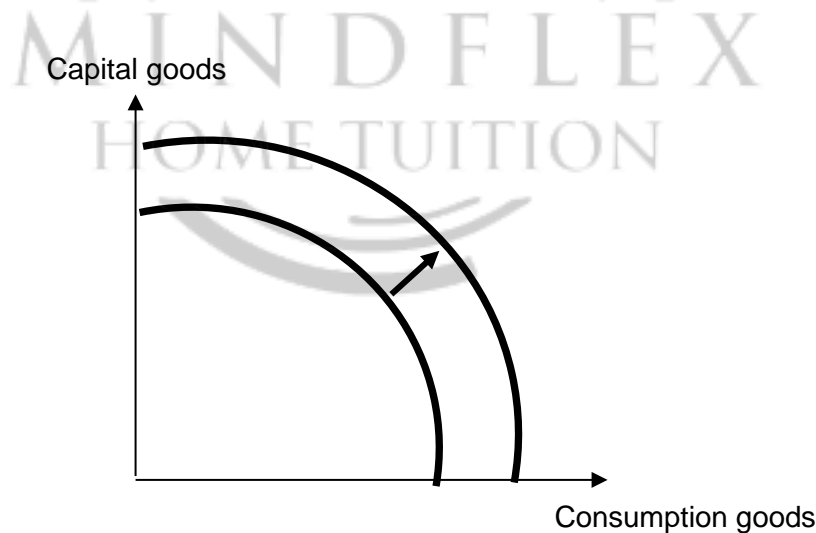
- (c) Using a production possibilities curve (PPC) diagram, explain the likely effect of the “Feed the Future” project on Guatemala’s economy (paragraph ③).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i>	1–2
	For drawing a PPC diagram showing an outward shift of the PPC curve <b>or</b> for explaining that the “Feed the Future” project would increase the quantity and/or quality of factors of production (resources) or lead to an improvement in productivity in the economy, thus increasing production possibilities (potential output).	
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i>	3–4
	For drawing a PPC diagram showing an outward shift of the PPC curve <b>and</b> for explaining that the “Feed the Future” project would increase the quantity and/or quality of factors of production (resources) or lead to an improvement in productivity in the economy, thus increasing production possibilities (potential output).	

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

For a PPC, the axes could be two alternative products, one on each axis, eg Good A & Good B or agricultural goods and industrial goods; or two groups of products, eg Consumer Goods and Producer Goods.



- (d) Discuss the extent to which domestic factors, such as education and health, the use of appropriate technology, access to micro-credit and the empowerment of women, can contribute to economic development in Guatemala.

[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 meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

*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:*

- a definition of economic development
- a diagram and explanation of the poverty trap (poverty cycle).

**Education and health:**

- Increased employment opportunities for young people (paragraph ④).
- Improvements in health and education lead to more productive workforce, raising incomes and increasing the standard of living of the people.
- Micro-credit is often accompanied by provision of basic skills that enable the borrowers to make better use of the loans – Feed the Future project provides training in land management (paragraph ③).
- Training for indigenous farmers to help them adopt better water management practices to promote food security and help break the poverty trap (paragraph ③).
- “The project team will be working with local agricultural schools and youth groups to provide students with a better understanding of water management and conservation practices in order to prepare them for jobs in commercial agriculture” (paragraph ④).

**The use of appropriate technology:**

- Use of agriculture strategies; provide rainwater tanks, improve irrigation systems, spread fertilizer, and practice crop rotation (paragraph ③) to reduce impacts of future droughts and reduce malnutrition.
- Use of appropriate technology to overcome the problems caused by deforestation (paragraph ②).

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- A definition of micro-credit (paragraph ③).
- Micro-credit provides a means of escaping the poverty trap (paragraph ③).
- Micro-credit gives access to poor and indigenous farmers to obtain loans that they are unable to access from financial institutions as a result of having no security to offer (paragraph ③).
- Micro-credit fosters self-reliance and entrepreneurship skills through self-employment (paragraph ④).
- Gives farmers the finance necessary to purchase the technology needed to deal with climate change (paragraph ③).

**The empowerment of women:**

- Micro-credit given to women allows them to improve their physical and social well-being, and gives them the opportunity to raise the standards of living for their children (paragraph ④).
- Micro-credit gives borrowers the opportunity to earn more income from their land (paragraph ④).

*To reach level 3, candidates must be aware of the particular situation in the economy of Guatemala, not just present a discussion of policies to achieve development in general. Candidates need not address all domestic factors mentioned in the question to be awarded a high L2 or L3 mark.*



4. (a) (i) List **two** components of the Human Development Index (HDI) (paragraph ②). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1
	Any <b>one</b> of the following measures: <ul style="list-style-type: none"> <li>• life expectancy (at birth)</li> <li>• mean years of schooling (for those aged 25 years and above)</li> <li>• expected years of schooling (for a child of school entrance age, capped at 18 years of age)</li> <li>• GNI per capita (or GDP per capita).</li> </ul>	
2	<i>The written response is accurate.</i>	2
	Any <b>two</b> of the following measures: <ul style="list-style-type: none"> <li>• life expectancy (at birth)</li> <li>• mean years of schooling (for those aged 25 years and above)</li> <li>• expected years of schooling (for a child of school entrance age, capped at 18 years of age)</li> <li>• GNI per capita (or GDP per capita).</li> </ul>	

- (ii) Define the term **monetary policy** indicated in bold in the text (paragraph ③). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is to do with interest rates or money supply	
2	<i>Accurate definition.</i>	2
	An explanation that it is any <b>two</b> of the following: <ul style="list-style-type: none"> <li>• demand-side policy</li> <li>• enacted by the Central Bank</li> <li>• changes in interest rates</li> <li>• changes in money supply.</li> </ul>	

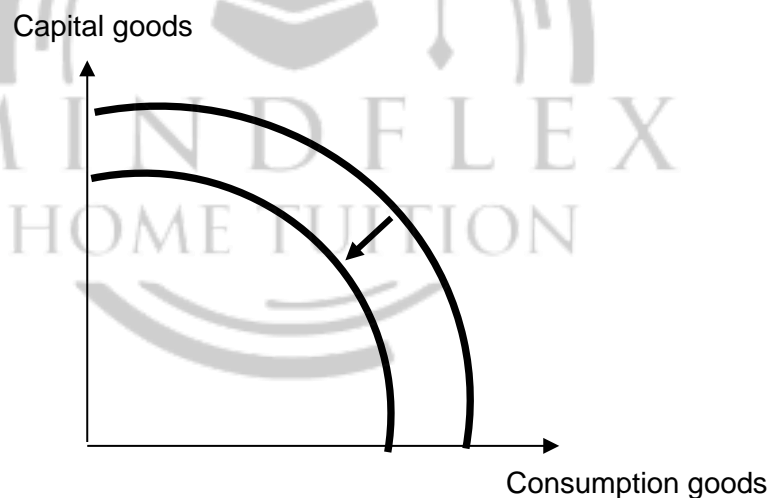
- (b) Using a production possibilities curve (PPC) diagram, explain the effect on economic growth of the “destruction of much of the country’s physical, social and human capital” (paragraph ❶).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i>	1–2
	A PPC diagram showing an inward shift of the PPC <b>or</b> an explanation that the destruction of capital represents a fall in the quantity of factors of production (resources); and that this will then lead to a fall in production possibilities (potential output).	
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i>	3–4
	A PPC diagram showing an inward shift of the PPC <b>and</b> an explanation that the destruction of capital represents a fall in the quantity of factors of production (resources); and that this will then lead to a fall in production possibilities (potential output).	

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 and Good B or Schools and Motor Cars; or two groups of products, eg Consumer Goods and Producer Goods.



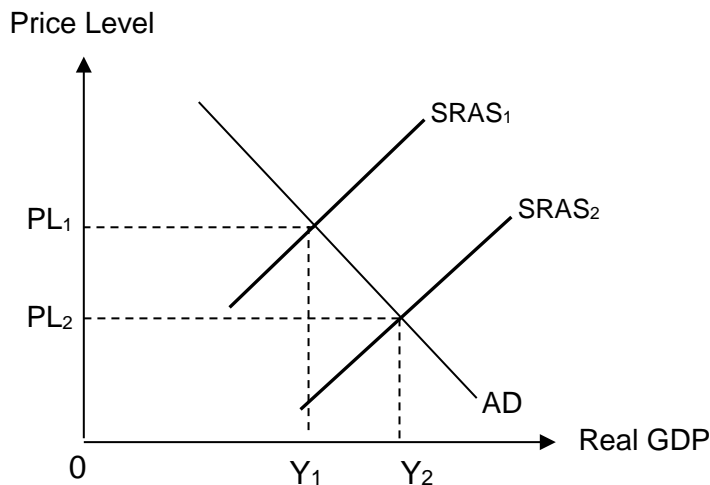
- (c) Using an AD/AS diagram, explain why the “decrease in the prices of imports, especially oil” might reduce inflationary pressure (paragraph 9).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>or</b> an accurate written response.</i>	1–2
	<p>An AD/AS diagram showing a shift of the SRAS curve to the right and a fall in the average price level <b>or</b> an explanation that a fall in the price of imported factors of production will reduce costs for firms, reducing inflationary pressure in the economy.</p> <p>Candidates may also approach this question in this way:</p> <p>An AD/AS diagram showing a shift of the AD curve to the left and a fall in the average price level <b>or</b> an explanation that a fall in the price of imports would increase spending on imports, a component of AD and hence reduce inflationary pressure in the economy</p>	
2	<i>There is a correct diagram <b>and</b> an accurate written response.</i>	3–4
	<p>An AD/AS diagram showing a shift of the SRAS curve to the right and a fall in the average price level <b>and</b> an explanation that a fall in the price of imported factors of production will reduce costs for firms, reducing inflationary pressure in the economy.</p> <p>Candidates may also approach this question in this way:</p> <p>An AD/AS diagram showing a shift of the AD curve to the left and a fall in the average price level <b>and</b> an explanation that a fall in the price of imports would increase spending on imports, a component of AD and hence reduce inflationary pressure in the economy</p>	

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

For AD/AS, the vertical axis may be “average (general) price level”, “APL” or “price level”. For the horizontal axis, “real output”, “real national output”, “real income”, “real national income”, “real GDP” or “real Y”. Any abbreviations are acceptable. A title is not necessary. “AS” is a valid label for the SRAS curve.



- (d) Using information from the text/data and your knowledge of economics, evaluate the challenges to economic growth and economic development faced by Burundi. [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 meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

*Command term*

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Responses **may** include:

- definition of economic growth
- definition of economic development.

**Discussion of factors affecting growth and/or development**

- Landlocked country (paragraph ①) making access to markets difficult, and difficult to access resources.
- High population density (paragraph ①), affecting the quality of life.
- Dependence on subsistence agriculture (paragraph ①) leads to low incomes.
- Scarcity of cultivatable land (paragraph ①) limiting production of agricultural goods.
- Destruction of capital (paragraph ①) during conflict, expensive to rebuild from (limited) public funding.
- Widespread poverty (paragraph ②) and existence of the poverty trap.
- Per capita gross national income is still very low (paragraph ②), despite doubling over eight years.
- Low tax receipts (paragraph ③) limit the ability of the government to finance development objectives.
- Over-specialization (paragraph ④) on a narrow range of (agricultural) exports makes Burundi vulnerable to international price changes.
- Low agricultural export revenue (paragraph ④) with low income elasticities and high levels of global competition implies lower prospects for growth.
- Possibility of debt (increasing) due to public spending and a narrow tax base (paragraph ⑤).
- It is likely that inequality is high, because poverty is widespread, which makes development more difficult to achieve (paragraph ⑥).

- However better prospects for growth because of lower import prices and use of government monetary and other policies (paragraphs ④ and ⑤).

Any reasonable discussion.

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