Markscheme

Specimen paper

Economics

Standard level
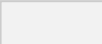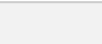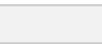
Paper 2

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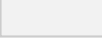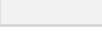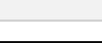
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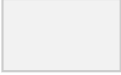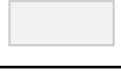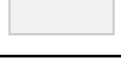
The following are the annotations available to use when marking responses.

Annotation	Explanation
AE	Attempts Evaluation
AQ	Answers the Question
BOD	Benefit of Doubt
CKS	Clear Knowledge Shown
✖	Cross — Incorrect Point
EE	Effective Evaluation
GA	Good Analysis
GD	Good Definition
GDIG	Good Diagram
GEXA	Good Example

GEXP	Good Explanation
GUT	Good Use of Text
	Highlight tool
ILM	Incorrect Labelling
IR	Irrelevant
	Inappropriate Use
	Lacks Depth
	Lacks Logical Structure
L0	Level 0
L1	Level 1
L2	Level 2
L3	Level 3

	Not Answered Question
	No Examples
	No Use of Text
	Num 1 + 1; Split Criteria Mark
	Num 1 + 2; Split Criteria Mark
	Num 2 + 1; Split Criteria Mark
	Num 2 + 2; Split Criteria Mark
	On-page comment text box (for adding specific comments)
	Poor Diagram
	Question mark — Unclear

[ ]	Apply to blank pages	
[ ]	Theory is Clearly Explained	
[ ]	Theory is Not Clearly Explained	
[ ]	Tick — Correct Point (colourable)	
[ ]	Too Vague	
[ ]	Underline tool	
[ ]	Unbalanced Response	

You **must** make sure you have looked at all pages. Please put the [ ] annotation on any blank page, to indicate that you have seen it.

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

1. (a) (i) Define the term *economic growth* indicated in bold (Text A, paragraph ❷). **[2]**

Level	Descriptor	Marks
0	*The work does not reach a standard described by the descriptors below.*	**0**
1	*Vague definition.*	**1**
	The idea that it is a growing economy (or an increase in GDP).	
2	*Accurate definition.*	**2**
	An explanation that it is one of the following: · an increase in the value of output adjusted for inflation · an increase in real GDP · an increase in full employment output · growth in production possibilities.	

(ii) Define the term *current account* indicated in bold (Text A, paragraph ❷). **[2]**

Level	Descriptor	Marks
0	*The work does not reach a standard described by the descriptors below.*	**0**
1	*Vague definition.*	**1**

	The idea that it is a measure of money coming into (exports), and going out of (imports), a country from international trade.	
2	*Accurate definition.*	**2**
	An explanation that it is a statement of the flow of funds from trade in goods and services, plus other income flows (and transfers).	

(b) (i) Using information from Text A, paragraph ❶, and Table 1, calculate the GDP in US$ PPP for Nigeria for 2015. **[3]**

Population = 173 million

GDP per capita = $6100

Any valid working is sufficient for [1].

GDP = 173 million × 6100 = $1 055 300 million

An answer of 1 055 300 million OR $1 055 300 million OR $1055 billion OR $1.055 trillion without working is sufficient for [2].

(ii) Using information from Table 1, calculate the real central bank interest rate for 2015. **[2]**

Central bank interest rate = 10.15 %

Inflation rate = 9 %

Any valid working is sufficient for [1].

Real central bank interest rate = 10.15 % − 9 % = 1.15 %

An answer of 1.15 OR 1.15 % without working is sufficient for [1].

(c) Using a market failure diagram, explain how the "two oil spills in 2008" could represent a negative externality (Text B, paragraph ❶). **[4]**

Level	Descriptor	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 market failure diagram, showing an MSC curve above the MPC curve and an indicated welfare loss area or externality OR for an explanation that the oil spill would create costs that would not be paid by the oil company and that there would thus be a negative externality of production, since MSC was greater than MSB.	

2	*There is a correct diagram **AND** an accurate written response.*	**3–4**
	For drawing a correctly labelled market failure diagram, showing an MSC curve above the MPC curve and an indicated welfare loss area or externality **AND** for an explanation that the oil spill would create costs that would not be paid by the oil company and that there would thus be a negative externality of production, since MSC was greater than MSB.	

(d) Using an AD/AS diagram and information from Text C, explain the likely cause of the increasing inflation rate. **[4]**

Level	Descriptor	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 AD/AS diagram, showing a shift of the SRAS curve to the left (or a shift of the AD curve to the right) and an increase in the average price level **OR** for an explanation that increases in the costs of production may have led to increased costs for firms, causing cost-push inflation in the economy (or increased AD in the economy, caused by an increase in [X–M], may have caused demand-pull inflation).	
2	*There is a correct diagram **AND** an accurate written response.*	**3–4**
	For drawing a correctly labelled AD/AS diagram, showing a shift of the SRAS curve to the left (or a shift of the AD curve to the right) and an increase in the average price level **AND** for an explanation that increases in the costs of production may have led to increased costs for firms, causing cost-push inflation in the economy (or increased AD in the economy, caused by an increase in [X–M], may have caused demand-pull inflation).	

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. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. A title is not necessary.

(e) Using an exchange rate diagram, explain how the increase in the interest rate by the Nigerian central bank might prevent the continued fall in the value of the naira (Text C). **[4]**

Level	Descriptor	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 exchange rate diagram, showing a shift of the demand curve for the naira to the right and an increase in the exchange rate **OR** for an explanation that an increase in the interest rate will lead to a greater demand for saving in Nigerian financial institutions, from abroad. This will require naira to do it, leading to an increased demand for the naira and thus an increase in the exchange rate.	
2	*There is a correct diagram **AND** an accurate written response.*	**3–4**
	For drawing a correctly labelled exchange rate diagram, showing a shift of the demand curve for the naira to the right and an increase in the exchange rate **AND** for an explanation that an increase in the interest rate will lead to a greater demand for saving in Nigerian financial institutions, from abroad. This will require naira to do it, leading to an increased demand for the naira and thus an increase in the 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 naira in other currencies, or other currency per naira. The horizontal axis should be quantity or quantity of naira. A title is not necessary.

(f) Using a Lorenz curve diagram, explain what happened to income inequality in Nigeria between 2010 and 2014 (Table 2). **[4]**

Level	Descriptor	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 Lorenz curve diagram, showing the line of equality and two Lorenz curves, labelled by year **OR** for an explanation that the increasing value of the Gini coefficient means that income inequality in Nigeria worsened between 2010 and 2014, causing an outward shift in the Lorenz curve.	
2	*There is a correct diagram **AND** an accurate written response.*	**3–4**
	For drawing a correctly labelled Lorenz curve diagram, showing the line of equality and two Lorenz curves, labelled by year **AND** for an explanation that the increasing value of the Gini coefficient means that income inequality in Nigeria worsened between 2010 and 2014, causing an outward shift in the Lorenz curve.	

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

For the Lorenz curve, the vertical axis should be cumulative percentage of income (or wealth). The horizontal axis should be cumulative percentage of the

population. A title is not necessary.

(g) Using information from the text/data and your knowledge of economics, discuss methods that the Nigerian government might employ to achieve economic growth and/or economic development. **[15]**

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

Marks	Level descriptor
0	· The work does not reach a standard described by the descriptors below.
1–3	· The response indicates little understanding of the specific demands of the question. · Economic theory is stated but it is not relevant. · Economic terms are stated but they are not relevant. · The response contains no evidence of synthesis or evaluation. · The response contains no use of text/data.
4–6	· The response indicates some understanding of the specific demands of the question. · Relevant economic theory is described. · Some relevant economic terms are included. · The response contains evidence of superficial synthesis or evaluation. · The response contains limited use of text/data.
7–9	· The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. · Relevant economic theory is partly explained. · Some relevant economic terms are used appropriately. · Where appropriate, relevant diagram(s) are included. · The response contains evidence of appropriate synthesis or evaluation but lacks balance. · The response includes some relevant information from the text/data.
10–12	· The specific demands of the question are understood and addressed. · Relevant economic theory is explained. · Relevant economic terms are used appropriately. · Where appropriate, relevant diagram(s) are included and explained. · The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. · The use of information from the text/data is generally appropriate, relevant, and applied correctly.
13–15	· The specific demands of the question are understood and addressed. · Relevant economic theory is fully explained. · Relevant economic terms are used appropriately throughout the response. · Where appropriate, relevant diagram(s) are included and fully explained. · The response contains evidence of effective and balanced synthesis or evaluation. · The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.

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:*
• an explanation of the differences between economic growth and economic development
• an explanation of the link between growth and development
• an explanation of the sources of economic growth
• an explanation of the sources of economic development.

Possible supply side policies to improve the quality/quantity of factors of production

Interventionist policies:
• improvements in education (Text A, paragraph ❺), however:
    • with the falls in public revenue/finances owing to falling oil revenues, this may be difficult to fund (Text A, paragraph ❶)
    • there seems to be no recent improvement in literacy rates (Table 2)
    • government debt and external debt are both increasing (Table 2)
• improvements in infrastructure, however, this is harmed by the problems in the North East (Text A, paragraph ❹) and also the funding problems relating to falling oil revenues (Text A, paragraph ❶)
• reducing interest rates to encourage investment, however, the need to keep the interest rate high to combat the falling value of the naira goes against this (Text C).

Market based policies:
    • reducing direct taxes, however, in most developing countries, tax revenue is not a significant revenue for the government and it is likely that Nigeria is no different.

Possible policies to improve the institutional framework
• Improve governance, however:
    • problems with public finances and corruption are likely to hamper this (Text A, paragraph ❷ and paragraph ❸)
• improve security (Text A, paragraph ❸)
• reduce corruption (Text A, paragraph ❸).

Possible other strategies
• Export-led growth, however:
    • there are problems with over reliance on one product, *ie* oil (Text A, paragraph ❷).
• Import-substitution.
• Micro finance.
• Diversification.
• FDI, however:
    • there are possible problems associated with this (Text B).

Any reasonable discussion.

2. (a) (i) Define the term *demand* indicated in bold (Text D, paragraph ❷). **[2]**

Level	Descriptor	Marks
0	*The work does not reach a standard described by the descriptors below.*	**0**
1	*Vague definition.*	**1**
	For any **one** of the following • the willingness to purchase a good or service (product) • the ability to purchase a good or service (product).	
2	*Accurate definition.*	**2**
	For **both** of the following • the willingness to purchase a good or service (product) • the ability to purchase a good or service (product).	

(ii) Define the term *minimum price* indicated in bold (Text E, paragraph ❶). **[2]**

Level	Descriptor	Marks
0	*The work does not reach a standard described by the descriptors below.*	**0**
1	*Vague definition.*	**1**
	For any **one** of the following • a legal price (or price set by the government) • above the equilibrium price • a price below which producers are not allowed to charge.	
2	*Accurate definition.*	**2**
	For any **two** of the following • a legal price (or price set by the government) • above the equilibrium price • a price below which producers are not allowed to charge.	

(b) (i) Using information from Table 3, calculate the value of one Mexican peso in US dollars for 2014 and 2016. **[2]**

2014: 1 peso = $\dfrac{1}{15.84}$ = $0.06 **OR** 6.36 cents

2016: 1 peso = $\dfrac{1}{}$

$$\frac{18.34} = \$0.05 \text{ } \textbf{OR } 5.45 \text{ cents}$$

Award [1] for each correct calculation.

(ii) Using information from Table 3, calculate the nominal GDP growth rate for Mexico for 2016. **[3]**

GDP (real growth rate) = 2.1 %

Inflation rate = 2.7 %

Any valid working is sufficient for [1].

Nominal GDP growth rate = 2.1 % + 2.7 % = 4.8 %

*An answer of 4.8 **OR** 4.8 % without working is sufficient for [2].*

(c) Using an appropriate diagram, explain the type of unemployment being created in Chicago (Text F). **[4]**

Level	Descriptor	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 for the labour market in Chicago, showing a fall in demand for labour **OR** for an explanation that the unemployment in Chicago is an example of structural unemployment, since there has been a change in the structure of the industry.	
2	*There is a correct diagram **AND** an accurate written response.*	**3–4**
	For drawing a correctly labelled diagram for the labour market in Chicago, showing a fall in demand for labour **AND** for an explanation that the unemployment in Chicago is an example of structural unemployment, since there has been a change in the structure of the biscuit industry.	

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

For a labour market diagram, the vertical axis may be price of labour, or simply wage. The horizontal axis may be number of workers or quantity of workers. A title is not necessary.

Candidates may draw a product diagram showing a decrease in the US supply of biscuits leading to a fall in output which suggests a fall in the demand for labour or a fall in the level of employment. If this is correctly explained and structural unemployment is identified as the type of unemployment, then full marks may be awarded.

(d) Using an AD/AS diagram, explain the possible effects of currency depreciation on inflation (Text D,

paragraph ❷). **[4]**

Level	Descriptor	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 AD/AS diagram, showing a shift of the AD curve to the right and an increase in the average price level *OR* for an explanation that currency depreciation will make exports cheaper and imports more expensive, possibly leading to an increase in [X–M] and so increased AD, leading to inflation.	
2	*There is a correct diagram AND an accurate written response.*	**3–4**
	For drawing a correctly labelled AD/AS diagram, showing a shift of the AD curve to the right and an increase in the average price level *AND* for an explanation that currency depreciation will make exports cheaper and imports more expensive, possibly leading to an increase in [X–M] and so increased AD, leading to inflation.	

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. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. A title is not necessary.

Candidates may explain that the increased price of imports from the depreciation may cause a shift of SRAS to the left and cost push inflation. If the diagram is correct and the explanation is full, this should be fully rewarded.

(e) Using an exchange rate diagram, explain **one** measure that the Mexican government might take to prevent the "substantial depreciation of the Mexican peso" (Text D, paragraph ❶). **[4]**

Level	Descriptor	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 exchange rate diagram, showing a shift of the demand curve for the peso to the right and an increase in the exchange rate *OR* for an explanation that either: • the government could raise interest rates, leading to an increased demand for saving from abroad and thus increased demand for the peso, increasing the exchange rate • the government could buy pesos, using foreign reserves, thus increasing demand for the peso, increasing the exchange rate.	
2	*There is a correct diagram AND an accurate written response.*	**3–4**

| | For drawing a correctly labelled exchange rate diagram, showing a shift of the demand curve for the peso to the right and an increase in the exchange rate **AND** for an explanation that either:
• the government could raise interest rates, leading to an increased demand for saving from abroad and thus increased demand for the peso, increasing the exchange rate
• the government could buy pesos, using foreign reserves, thus increasing demand for the peso, increasing the 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 peso in other currencies, or other currency per peso. The horizontal axis should be quantity or quantity of peso. A title is not necessary.

(f) Using a poverty cycle diagram, explain how the net increase in foreign direct investment (FDI) in Mexico between 2010 and 2015 might lead to an improvement in economic development (Table 3). **[4]**

Level	Descriptor	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 an appropriate poverty cycle diagram, including investment **OR** for an explanation that FDI might fill the saving/investment gap, which could break the poverty cycle and reverse the flow of events, leading to economic development.	
2	*There is a correct diagram **AND** an accurate written response.*	**3–4**
	For drawing an appropriate poverty cycle diagram, including investment **AND** for an explanation that FDI might fill the saving/investment gap, which could break the poverty cycle and reverse the flow of events, leading to economic development.	

(g) Using information from the text/data and your knowledge of economics, discuss possible economic outcomes for economic growth and economic development that might arise from Mexico's current international trade prospects. **[15]**

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

Marks	Level descriptor
0	• The work does not reach a standard described by the descriptors below.

1–3	・The response indicates little understanding of the specific demands of the question. ・Economic theory is stated but it is not relevant. ・Economic terms are stated but they are not relevant. ・The response contains no evidence of synthesis or evaluation. ・The response contains no use of text/data.
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13–15	・The specific demands of the question are understood and addressed. ・Relevant economic theory is fully explained. ・Relevant economic terms are used appropriately throughout the response. ・Where appropriate, relevant diagram(s) are included and fully explained. ・The response contains evidence of effective and balanced synthesis or evaluation. ・The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.

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・an explanation of the differences between economic growth and economic development
・an explanation of the link between growth and development
・an explanation of the sources of economic growth

・an explanation of the sources of economic development.

The current international trade prospects:
・Substantial depreciation of the peso and increased external competitiveness (Text D, paragraph ❶) should lead to an improvement in [X–M] and thus an increase in AD and so economic growth. However:
  ・if demand is inelastic or if PED < 1, then the [X–M] may not improve and, since oil has inelastic demand, this may apply to Mexico (Text D, paragraph ❸)
  ・economic growth may not necessarily lead to economic development.
・Freely floating exchange rate (Text D, paragraph ❷) means that the current account deficits and depreciation of the peso should be self-righting in the long run. However:
  ・external factors normally interfere with the theoretical movements of the market. ・Monetary and fiscal policy responses to currency depreciation (Text D, paragraph ❸) mean that there will be contractionary policies that will lead to a reduction in economic growth in the short run.
  ・Decline in the volume of oil production (Text D, paragraph ❸) will impact exports and thus government revenue, meaning that there may be a reduction in government spending, which could harm both economic growth and also economic development.
・Slowdown in global trade (Text D, paragraph ❺) could harm economic growth and so development.
  ・Large tariffs and protectionism (Text E, paragraph ❹) may lead to problems with exports and so another reason for a fall in [X–M] and slower economic growth.
・Persistent current account deficit (Table 3) may have an impact on economic growth and development as the government will have to fund the deficit through reserves and borrowing, harming their ability to invest in other areas.
・Increasing external debt (Table 3) suggests a lack of sovereignty and the threats to government spending made above.
・Increasing FDI inflows (Table 3) suggest the lack of sovereignty again and all the advantages and disadvantages that come with FDI.

Any reasonable discussion.