

# Markscheme

**May 2022**

**Economics**

**Standard level**

**Paper 2**

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**Notes for examiners:**

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

**2. Whenever relevant, carry over marks must be awarded. If a candidate makes an error in calculation, but then uses the incorrect figure appropriately and accurately in later question parts, then the candidate may be fully rewarded. This is the “own-figure rule” and you should put OFR on the script where you are rewarding this.**

**3. A candidate may be penalized for not rounding correctly, failing to give answers correct to 2 dp or, in some cases, for not including the appropriate units. However, a candidate may only be penalized ONCE for each type of error across all subparts of (b) questions.**

1. (a) (i) Define the term *foreign direct investment (FDI)* indicated in bold in the text (**Text A**, 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> The idea that it is investment between countries.	1
2	<i>Accurate definition.</i> For an understanding that it is any <b>two</b> of the following: <ul style="list-style-type: none"> <li>• long-term investment in another country</li> <li>• investment by a multinational corporation (MNC)</li> <li>• investment in another country representing at least 10% ownership</li> <li>• investment in productive facilities in another country.</li> </ul>	2

- (ii) Define the term *unemployment rate* indicated in bold in the text (**Text A**, 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 includes/refers to people without a job.	1
2	<i>Accurate definition.</i> An understanding that it is the proportion/percentage of the labour force which does not hold a job (is unemployed).  A formula for the unemployment rate is sufficient for L2. eg $\text{unemployment rate} = \left( \frac{\text{number of unemployed}}{\text{labour force}} \right) \times 100(\%)$	2

- (b) (i) Using information from **Table 1**, calculate North Macedonia’s annual rates of inflation between 2016 and 2019. **[2]**

Inflation in 2017:  
 $[(110.9 - 109.4)/109.4] \times 100 = 1.37\%$

Inflation in 2018:  
 $[(112.5 - 110.9)/110.9] \times 100 = 1.44\%$

Inflation in 2019:  
 $[(113.4 - 112.5)/112.5] \times 100 = 0.8\%$

*Award [1] for any valid working but incorrect inflation rates calculated or for figures rounded to less than 2 dp or figures without the % sign.*

*Award [2] for correct inflation rates (with or without workings).*

- (ii) Using your answer to part (b)(i), identify the year disinflation sets in. **[1]**

*Award [1] for identifying 2019 as the year disinflation sets in (“after 2018” or “between 2018 and 2019” are also valid answers).*

*OFR applies.*

- (iii) Using information from **Text A**, paragraph 4, calculate North Macedonia’s balance of trade in 2018. **[2]**

7.57 – 9.56  
*Any valid working should be rewarded with [1]*

= –(US)\$1.99 billion

*An answer of –(US)\$1.99 billion, (US)\$1.99 billion, –1.99, 1.99 or a deficit of 1.99 without workings is sufficient for [1].*

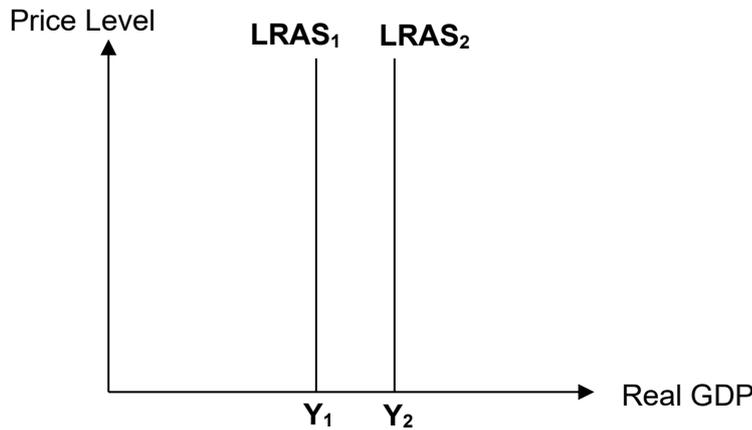
- (c) Using an AD/AS diagram, explain the likely impact of North Macedonia's supply-side policies on its full employment level of output (**Text B**, paragraph 2).

[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 an AD/AS diagram with a LRAS (no AD or SRAS required) shifting to the right and an increase in full employment level of output <b>OR</b> for explaining that North Macedonia's supply-side policies would lead to an increase in efficiency (productivity) and/or increase in the quantity/quality of resources/factors of production. This would lead to an increase in full employment level of output (potential output).	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an AD/AS diagram with a LRAS (no AD or SRAS required) shifting to the right and an increase in full employment level of output <b>AND</b> for explaining that North Macedonia's supply-side policies would lead to an increase in efficiency (productivity) and/or increase in the quantity/quality of resources/factors of production. This would lead to an increase in full employment level of output (potential output).	

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

For AD/AS, the vertical axis may be Average (General) Price Level, or Price Level. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. Any abbreviation of the previous terms is acceptable. A Keynesian AS is acceptable. A title is not necessary.



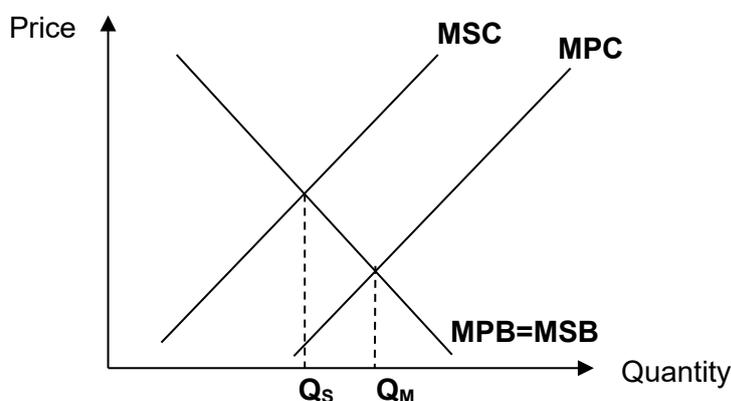
(d) Using an externalities diagram, explain how dependence on coal could be a source of market failure (**Text B**, paragraph 3).

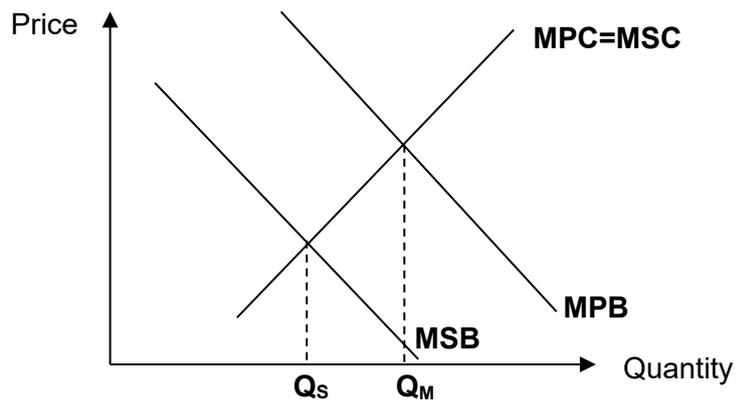
[4]

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 a market failure diagram showing negative externalities of production or consumption, with MSC greater than MPC or MSB below MPB, and a socially efficient (optimum) level of output lower than the (market) equilibrium level of output <b>OR</b> for explaining that the burning of coal leads to environmental degradation (pollution), resulting in any <b>one</b> of the following: <ul style="list-style-type: none"> <li>• a misallocation of resources</li> <li>• a situation where the market is operating at a level where <math>MSC &gt; MSB</math></li> <li>• a situation where the market is operating at a level that is not socially efficient (<math>MSB \neq MSC</math>)</li> <li>• a situation where there is a welfare loss.</li> </ul>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a market failure diagram showing negative externalities of production or consumption, with MSC greater than MPC or MSB below MPB, and a socially efficient (optimum) level of output lower than the (market) equilibrium level of output <b>AND</b> for explaining that the burning of coal leads to environmental degradation (pollution), thus resulting in any <b>one</b> of the following: <ul style="list-style-type: none"> <li>• a misallocation of resources</li> <li>• a situation where the market is operating at a level where <math>MSC &gt; MSB</math></li> <li>• a situation where the market is operating at a level that is not socially efficient (<math>MSB \neq MSC</math>)</li> <li>• a situation where there is a welfare loss.</li> </ul>	

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

The y axis may be labelled price or P and/or costs and/or benefits, and the x axis labelled quantity or Q. A title is not necessary.





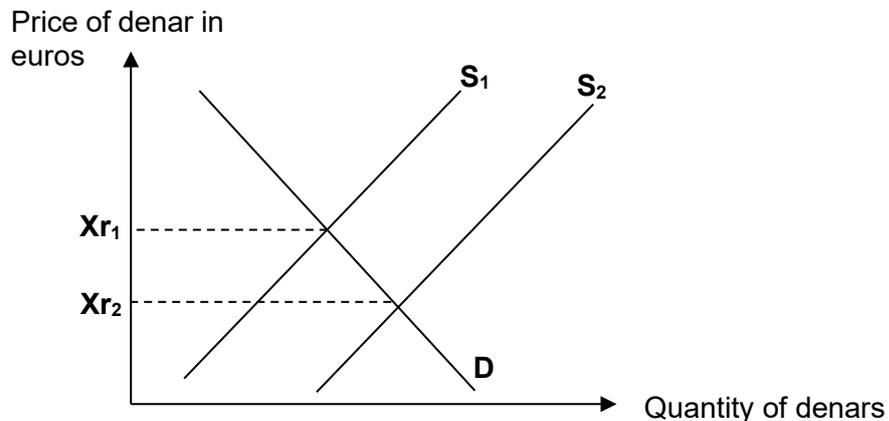
- (e) Using an exchange rate diagram, explain how the central bank of North Macedonia is preventing an appreciation of the denar against the euro (Text B, paragraph 4).

[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 an exchange rate diagram showing a shift of the supply curve to the right and a fall in the value of the denar <b>OR</b> an explanation that the central bank sells the denar (while buying foreign reserves/currencies) resulting in the supply/amount of denar on the international market increasing.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an exchange rate diagram showing a shift of the supply curve to the right and a fall in the value of the denar <b>AND</b> an explanation that the central bank sells the denar (while buying foreign reserves/currencies) resulting in the supply/amount of denar on the international market increasing.	

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

For an exchange rate diagram, the vertical axis may be exchange rate, price of the denar in euro (other currency), euro (other currency)/denar or euro (other currency) per denar. The horizontal axis should be quantity, or quantity of denars. A title is not necessary.



Candidates may show the initial increase in demand for the denar leading to an appreciation, followed by the increase in supply due to intervention. If correctly drawn and explained, such an approach should be fully rewarded.

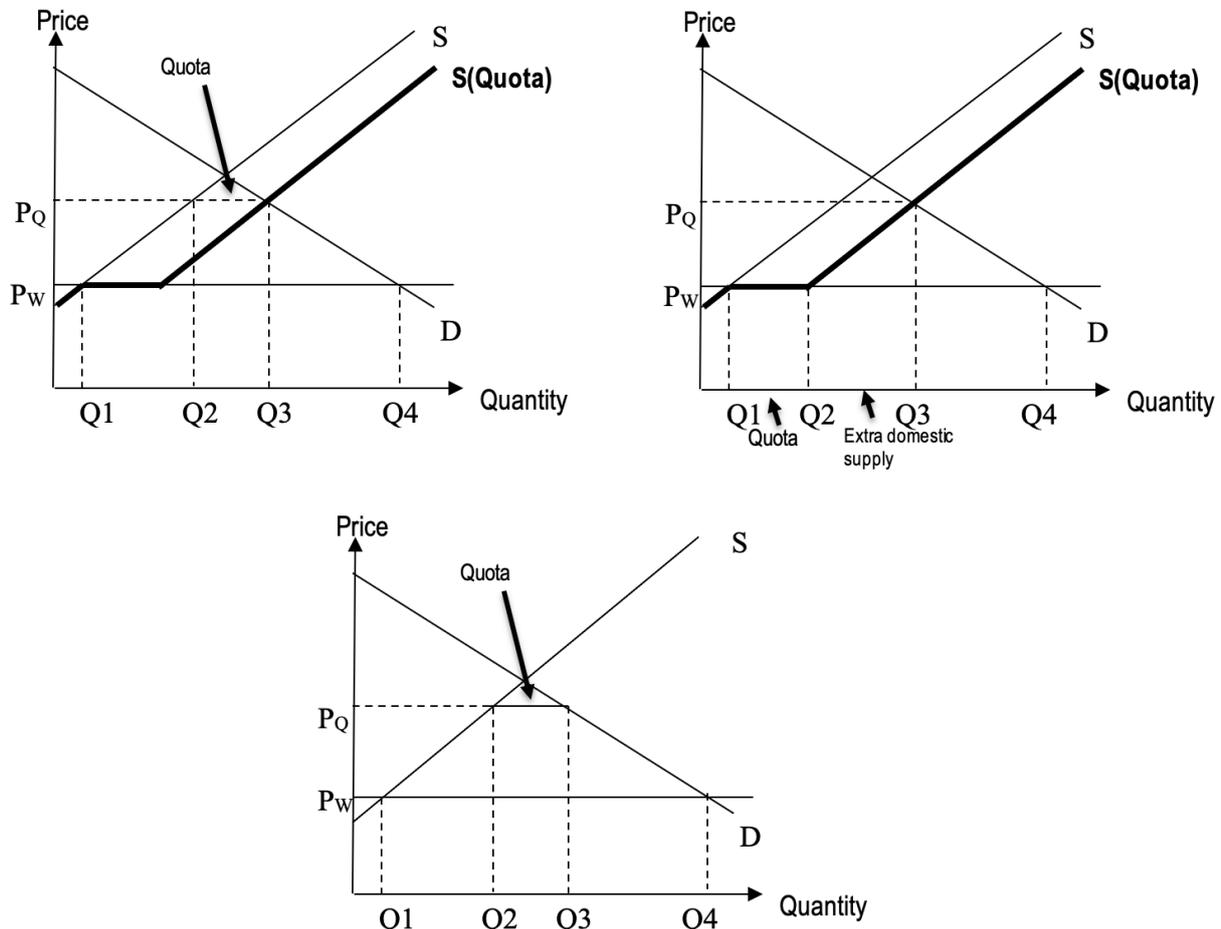
(f) Using an international trade diagram, explain the likely impact of the removal of import quotas on North Macedonia's production of wine (**Text C**).

[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
	For a correctly labelled trade diagram, showing a removal of the quota and a decrease in the quantity supplied by domestic producers <b>OR</b> for an explanation that a removal of the quota will result in a decrease in domestic production due to either <ul style="list-style-type: none"> <li>• in an increase in imports</li> <li>• a decrease in the (domestic) price.</li> </ul>	
2	There is a correct diagram <b>AND</b> an accurate written response.	3-4
	For a correctly labelled trade diagram, showing a removal of the quota and a decrease in the quantity supplied by domestic producers <b>AND</b> for an explanation that a removal of the quota will result in a decrease in domestic production due to either <ul style="list-style-type: none"> <li>• in an increase in imports</li> <li>• a decrease in the (domestic) price.</li> </ul>	

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

The use of P and Q on the axes is sufficient for an international trade diagram. The world price line may be labelled as S(World),  $S_w$ , S(EU),  $P_{world}$ ,  $P_w$ ,  $P_{EU}$  or any similar label indicating the horizontal line is the world (EU) price/supply. A title is not necessary.



- (g) Using information from the texts/data and your knowledge of economics, discuss the likely economic effects on North Macedonia of its entry into the European Union (EU) Common Market.

[15]

Level		Marks
0	<ul style="list-style-type: none"> <li>The work does not meet a standard described by the descriptors below.</li> </ul>	0
1	<ul style="list-style-type: none"> <li>The response indicates little understanding of the specific demands of the question.</li> <li>Economic theory is stated but it is not relevant.</li> <li>Economic terms are stated but they are not relevant.</li> <li>The response contains no evidence of synthesis or evaluation.</li> <li>The response contains no use of text/data.</li> </ul>	1–3
2	<ul style="list-style-type: none"> <li>The response indicates some understanding of the specific demands of the question.</li> <li>Relevant economic theory is described.</li> <li>Some relevant economic terms are included.</li> <li>The response contains evidence of superficial synthesis or evaluation.</li> <li>The response contains limited use of text/data.</li> </ul>	4–6
3	<ul style="list-style-type: none"> <li>The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>Relevant economic theory is partly explained.</li> <li>Some relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included.</li> <li>The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>The response includes some relevant information from the text/data.</li> </ul>	7–9
4	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is explained.</li> <li>Relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included and explained.</li> <li>The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>The use of information from the text/data is generally appropriate, relevant, and applied correctly.</li> </ul>	10–12
5	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is fully explained.</li> <li>Relevant economic terms are used appropriately throughout the response.</li> <li>Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.</li> </ul>	13–15

*Command term*

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

*Responses may include:*

- The impact on the unemployment rate may be mixed:
  - it could be argued that the inflows of FDI (Text A, paragraph 2; Table 2) and greater exports to the EU could lead to job creation.
  - The lower wages may attract EU firms which may help reduce the high unemployment rate (Text A, paragraph 6; Table 2).
  - Jobs may be lost in the agricultural sector (Text C) which still employs 16% of the population (Text A, paragraph 5).
  - Funds from the EU have helped increase access to education and workers’ training which could help reduce the skills mismatch (text B, paragraph 4) and hence reduce the high (structural) unemployment rate (Text A, paragraph 6).
- The impact on economic growth:
  - the increase in trade could close the current account (balance of trade) deficit (Table 2, answer to b(ii)), lead to increase in AD and hence actual growth.
  - more trade may raise efficiency in North Macedonia through increased competition, economies of scale from larger markets, and improved resource allocation
  - it could be argued that trade may not increase significantly since North Macedonia is already enjoying free trade with the EU over most goods and services (Text C).
  - as North Macedonia currently suffers a deficit in the balance of trade (Text A, paragraph 4, answer to b(ii)) and a current account deficit (Table 2), the removal of quotas may worsen its balance of trade position and could lead to a fall in AD.
  - the various supply-side policies needed to meet the requirements for EU membership have allowed potential growth and kept the inflation rate low (Table 1).
  - the net FDI inflow throughout the 4-year period (Table 2) reflects potential growth.
- Access to seaports would be easier since North Macedonia is landlocked (Text A, paragraph 1). This would further attract investment.
- The free movement of labour which comes with the common market may worsen the emigration problem and contribute to a ‘brain drain’ problem (Text A, paragraph 6).
- The EU is providing North Macedonia with financial assistance to finance supply-side policies, which will allow them to become more globally competitive (Text B, paragraph 1).
- Increased trade with the EU has allowed for diversification (Text B, paragraph 4) and the growth of the manufacturing sector (Text A, paragraph 5).
- Once North Macedonia no longer receives financial assistance from the EU, it may have difficulties financing government expenditure.
- The removal of quotas may have some impact on the local agricultural sector (Text C) which could worsen the incidence of poverty (Text A, paragraph 6) and lead to over-reliance on other countries for food security since North Macedonia is already a net importer of food (Text C).
- As a member of the EU common market, North Macedonia will continue to have unrestricted access to imported capital goods, enhancing productivity and potential growth (Text A, paragraph 4).

- North Macedonia will have to adopt EU external tariffs which may negatively impact its trade position with non-members (3 neighbouring countries are not part of the common market - Text A, paragraph 1).
- The repatriation of foreign firms' profits (Text A, paragraph 3) may lead to a worsening of the balance of payments and a shortage of financial capital.
- There could be a loss of sovereignty as North Macedonia will need to give unrestricted access to EU firms which have already invested in essential services (Text A, paragraph 3)
- Compliance with EU standards for environmental protection could lead to less pollution and an improved quality of life (Text B, paragraph 3).
- Greater competition due to exposure to foreign firms may lead to innovation.

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

2. (a) (i) Define the term *gross domestic product (GDP)* indicated in bold in the text (**Text D**, paragraph 1).

[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 the output (amount of goods and services) produced in an economy.	
2	<i>Accurate definition.</i>	2
	An understanding that it is the value of all (final) goods and services produced within an economy (over a period of time, usually a year or a quarter). <b>NB</b> "over time" is not necessary for [2].	

- (ii) List **two** dimensions of the Inequality-adjusted Human Development Index (IHDI) (**Text D**, paragraph 3).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague response.</i>	1
	<p><b>One</b> of the following dimensions:</p> <ul style="list-style-type: none"> <li>• Long and healthy life</li> <li>• Knowledge</li> <li>• A decent standard of living.</li> </ul> <p><b>OR</b></p> <p><b>two</b> vague dimensions (eg health, education, income)</p> <p><b>OR</b></p> <p><b>two</b> indicators:</p> <ul style="list-style-type: none"> <li>• Life expectancy at birth</li> <li>• Mean years of schooling and/or expected years of schooling</li> <li>• GNI per capita (PPP \$).</li> </ul>	
2	<i>Accurate response.</i>	2
	<p><b>Two</b> of the following dimensions:</p> <ul style="list-style-type: none"> <li>• Long and healthy life</li> <li>• Knowledge</li> <li>• A decent standard of living.</li> </ul>	

- (b) (i) Using the information in **Table 3**, calculate the change in Sierra Leone’s current account balance from 2017 to 2018.

[3]

Current account balance in 2017 = 974 – 1796 – 101 + 400 = –523 [1]

Current account balance in 2018 = 714 – 1603 – 112 + 324 = –677 [1]

Change = (–677 – (–523)) = –(US)\$154 million [1]

*An answer of –(US)\$154 million or “a wider deficit (US)\$154 million” without workings is sufficient for [1].*

*OFR applies provided at least one of the current account balances is correct.*

- (ii) Using the information in **Table 3**, calculate Sierra Leone’s rate of economic growth between 2017 and 2018.

[2]

$(3617 - 3497) / 3497 \times 100\%$  [1]

*Any valid working should be rewarded with [1]*

= 3.43% [1]

*Award [1] for the correct economic growth rate without workings or without the % sign or for a figure rounded to less than 2 dp.*

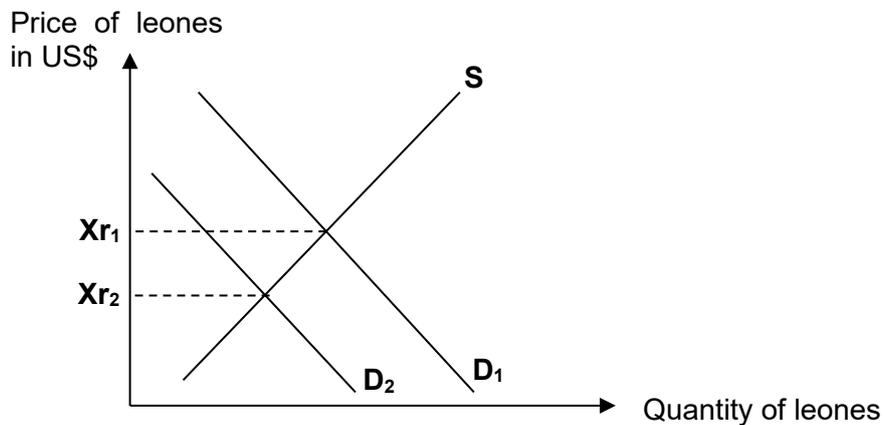
(c) Using an exchange rate diagram, explain how the fall in export revenue contributed to the depreciation of the leone (**Text D**, paragraph 4).

[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 an exchange rate diagram showing a shift of the demand curve to the left and a fall in the value of the leone <b>OR</b> an explanation that a fall in export revenue implies that foreigners would need to purchase less leone to pay for the country’s exports, decreasing the demand for the leone and leading to fall in the exchange rate (depreciation).	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an exchange rate diagram showing a shift of the demand curve to the left and a fall in the value of the leone <b>AND</b> an explanation that a fall in export revenue implies that foreigners would need to purchase less leone to pay for the country’s exports, decreasing the demand for the leone and leading to fall in the exchange rate (depreciation).	

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

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



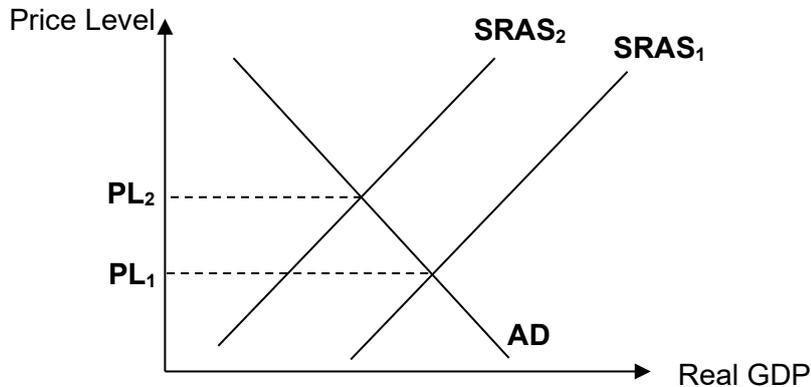
- (d) Using an AD/AS diagram, explain how the increase in the price of fuel might have contributed to inflation (**Text D**, paragraph 5).

[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 an AD/AS diagram showing a shift of the SRAS to the left and an increase in the (average) price level <b>OR</b> an explanation that an increase in the price of fuel would increase the cost of production of goods, leading to (cost-push) inflation (upward pressure on prices).	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an AD/AS diagram showing a shift of the SRAS to the left and an increase in the (average) price level <b>AND</b> an explanation that an increase in the price of fuel would increase the cost of production of goods, leading to (cost-push) inflation (upward pressure on prices).	

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

For AD/AS, the vertical axis may be Average (General) Price Level, or Price Level. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. The SRAS curve may be labelled AS. Any abbreviation of the previous terms is acceptable. A title is not necessary.



(e) Using a poverty cycle diagram, explain how the provision of free primary and secondary education may help households break the poverty cycle (**Text E**, 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
	<p>For drawing an appropriate poverty cycle diagram showing a linked combination of factors that perpetuate poverty, starting/ending with 'low income' and including 'low investment' or 'low (human or physical) capital' <b>OR</b> an explanation that either:</p> <ul style="list-style-type: none"> <li>• The money not required for school fees may be spent on necessities (medicine/food) which could lead to higher productivity and higher income for households</li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• The money not required for school fees may be spent on farming equipment which make household members more productive</li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• More children will attend school, and this should increase human capital, leading to higher labour productivity and higher income for households.</li> </ul>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	<p>For drawing an appropriate poverty cycle diagram showing a linked combination of factors that perpetuate poverty, starting/ending with 'low income' and including 'low investment' or 'low (human or physical) capital' <b>AND</b> an explanation that either:</p> <ul style="list-style-type: none"> <li>• The money not required for school fees may be spent on necessities (medicine/food) which could lead to higher productivity and higher income for households</li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• The money not required for school fees may be spent on farming equipment which make household members more productive</li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• More children will attend school, and this would increase human capital, leading to higher labour productivity and higher income for households.</li> </ul>	

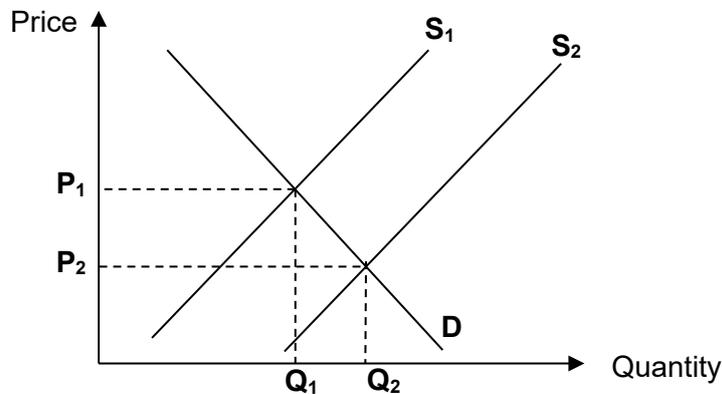
- (f) Using a demand and supply diagram, explain how modern farming practices could affect the market for rice (**Text E**, paragraph 3).

[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 a demand and supply 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 modern farming practices could increase productivity/efficiency (improvements in technology) and hence increase supply, resulting in a lower price and/or a higher quantity.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a demand and supply 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 modern farming practices could increase productivity/efficiency (improvements in technology) and hence increase supply, resulting in a lower price and/or a higher quantity.	

Candidates who label diagrams incorrectly 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.



- (g) Using information from the texts/data and your knowledge of economics, evaluate the impact of government intervention in promoting economic growth and economic development in Sierra Leone.

[15]

Level		Marks
0	<ul style="list-style-type: none"> <li>The work does not meet a standard described by the descriptors below.</li> </ul>	0
1	<ul style="list-style-type: none"> <li>The response indicates little understanding of the specific demands of the question.</li> <li>Economic theory is stated but it is not relevant.</li> <li>Economic terms are stated but they are not relevant.</li> <li>The response contains no evidence of synthesis or evaluation.</li> <li>The response contains no use of text/data.</li> </ul>	1–3
2	<ul style="list-style-type: none"> <li>The response indicates some understanding of the specific demands of the question.</li> <li>Relevant economic theory is described.</li> <li>Some relevant economic terms are included.</li> <li>The response contains evidence of superficial synthesis or evaluation.</li> <li>The response contains limited use of text/data.</li> </ul>	4–6
3	<ul style="list-style-type: none"> <li>The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>Relevant economic theory is partly explained.</li> <li>Some relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included.</li> <li>The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>The response includes some relevant information from the text/data.</li> </ul>	7–9
4	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is explained.</li> <li>Relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included and explained.</li> <li>The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>The use of information from the text/data is generally appropriate, relevant, and applied correctly.</li> </ul>	10–12
5	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is fully explained.</li> <li>Relevant economic terms are used appropriately throughout the response.</li> <li>Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.</li> </ul>	13–15

*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 economic growth.
- a definition of economic development.
- an explanation of the sources of economic growth and development.
- an explanation of the link between economic growth and development.

**Budget deficit (Text D, paragraph 7)**

- The government has reduced the budget deficit, and this will slow the increase in the government debt, reducing the future debt burden (Text D, paragraph 7).
- The reduction in the budget deficit could mean that there will be less government spending on social welfare negatively impacting economic development.
- The government maintains a budget deficit and this could have an expansionary impact on AD, leading to economic growth since injections (government spending) remain higher than withdrawals (taxes). Economic growth may lead to development.
- The government is still borrowing from banks and this leads to crowding out (Text F, paragraph 1). However, this would not affect foreign investment.

**Removal of fuel subsidy (Text D, paragraph 5)**

- This will have a disproportionate impact on those in poverty who are already adversely affected by the high inflation rate (Text D, paragraph 5).
- This may lead to cost-push inflation.
- It will help reduce government spending and close the budget deficit (Text D, paragraph 7)
- This would help reduce the negative externalities/market failure associated with the burning of fossil fuels and reduce pollution.
- This could lead to higher energy and transportation costs for businesses and may dampen efforts to diversify the economy.

**Provision of healthcare services in tandem with the private sector and NGOs (Text D, paragraph 6)**

- It improves access to, and quality of public health and increases the productivity of workers.
- Reliance on the private sector and NGOs avoids adding to the mounting public debt (Text D, paragraph 7).

**Fight against corruption (Text D, paragraph 8)**

- This will help bring in foreign investment and may make the country more credible in taking loans with multilateral organisations such as the World Bank and the IMF. This would help increase access to foreign aid (Text D, paragraph 8).

**Free primary and secondary education, inclusive of technical education (text E, paragraph 2 and 4)**

- This will help households break the poverty trap as more income can be used to spend on necessities and capital equipment (Text E, paragraph 2).
- This will have an impact on the empowerment of women (Text E, paragraph 2).

- Productivity will increase in the agricultural sector, ensuring food security (Text E, paragraph 3) and reduce the price of rice and other food items (Text E, paragraph 4).
- This will promote diversification (Text E, paragraph 4) and reduce structural unemployment, particularly amongst youths (Text D, paragraph 8).
- This may worsen the budget deficit and increase government debt in the short term (Text D, paragraph 7).

**Improvement in infrastructure**

- This will help attract MNCs (Text F, paragraph 1) and allow for the development of the manufacturing sector (Text E, paragraph 4), which could help achieve diversification. This would reduce volatility in export revenue and promote economic growth (Text D, paragraph 2) and it may help reduce the current account deficit (Table 3).
- This reduces unemployment (Text D, paragraph 8) and prevents rural-urban migration if manufacturing takes place in rural areas.
- This could worsen the budget deficit and increase the government debt (Text D, paragraph 7).

**Tax benefits for foreign investment**

- This would help diversify the economy by developing the tourism sector (Text F, paragraph 2).
- Excessive reliance on foreign investment might lead to a loss of sovereignty as many essential services are provided by MNCs (Text F, paragraph 2).
- MNCs might exploit resources (Text F, paragraph 2) and labour.
- The increase in FDI inflows could help compensate for the current account deficit (Table 3, answer to (b)(i)) through the financial account. MNCs would also provide an export market which would increase the export revenue and reduce the current account deficit. The overall increase in the balance of payments could prevent further depreciation of the currency.
- However, the repayment of profit and interest might widen the deficit on the net income account (Table 3).

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

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