

Markscheme

May 2023

Economics

Higher 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 decimal places 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) List **two** functions of the International Monetary Fund (IMF) (Text A, paragraph 2). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is limited understanding.</i>	1
	<p>Any one from:</p> <ul style="list-style-type: none"> • improves global monetary cooperation • promotes/oversee/monitor financial/monetary/macroeconomic stability • monitors/surveillance economic/financial policies/monetary systems • provides advice to countries in BOP/financial difficulties/on economic policies • provides funds/loans/debt relief to countries in BOP/financial difficulties • provides economic forecasts/analyses • stabilize/monitor exchange rates • provide capacity building • technical assistance/financial services • promote international monetary cooperation • facilitate expansion/balanced growth of international trade • establish multilateral system of payments. 	
2	<i>There is clear understanding.</i>	2
	<p>Any two from:</p> <ul style="list-style-type: none"> • improves global monetary cooperation • promotes/oversee/monitor financial/monetary/macroeconomic stability • monitors/surveillance economic/financial policies/monetary systems • provides advice to countries in BOP/financial difficulties/on economic policies • provides funds/loans/debt relief to countries in BOP/financial difficulties • provides economic forecasts/analyses • stabilize/monitor exchange rates • provide capacity building • technical assistance/financial services • promote international monetary cooperation • facilitate expansion/balanced growth of international trade • establish multilateral system of payments. 	

- (ii) Define the term *remittances* indicated in bold in the text (**Text A**, 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 money sent into or out of the country.	
2	<i>Accurate definition.</i>	2
	An understanding that it is the transfer of money/funds [1] from foreign/overseas workers to (individuals/households) their home country [1] .	

- (b) (i) Using information from **Table 1** and **Table 2**, calculate the value of Mexico's gross domestic product (GDP) (in US\$) in 2019. **[2]**

10267 x 128

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

1 314 176 million **or** 1 314 176 000 000 **or** 1.31 trillion **or** 1314.18 billion
or accept scientific notation 1.314176×10^{12}

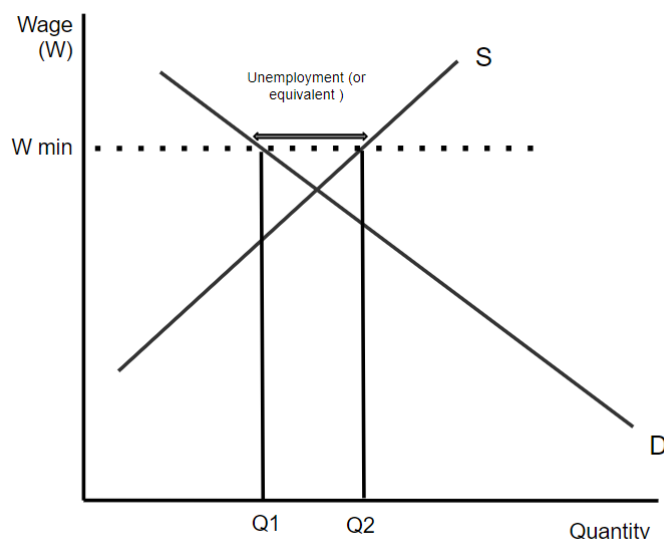
*An answer of 1 314 176 without workings or without units, is sufficient for **[1]***

- (ii) Sketch a minimum wage diagram to show the possible effect of a minimum wage on unemployment in Mexico (**Text A**, paragraph 4).

[3]

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, but incorrect labelling.</i>	1
	For an incorrectly labelled diagram, with a minimum wage line.	
2	<i>There is a correct diagram, but incomplete labelling.</i>	2
	For a diagram, with a minimum wage line, but the effect on unemployment is not shown OR the diagram is not correctly labelled.	
3	<i>There is a correct diagram AND correct labelling</i>	3
	For a correctly labelled diagram, with a minimum wage line, and the effect on unemployment is shown.	

Candidates who incorrectly label diagrams can be awarded a maximum of [2]



The vertical axis may be (real) wage (rate) or price of labour. The horizontal axis may be Quantity, Q, Q of labour or labour or number of workers, employment. All abbreviations are acceptable.

The unemployment/excess supply of labour/surplus can be illustrated by referring to Q_1Q_2 , $NsNd$, $QsQd$, or by annotating the diagram (for example showing the surplus). A title is not necessary.

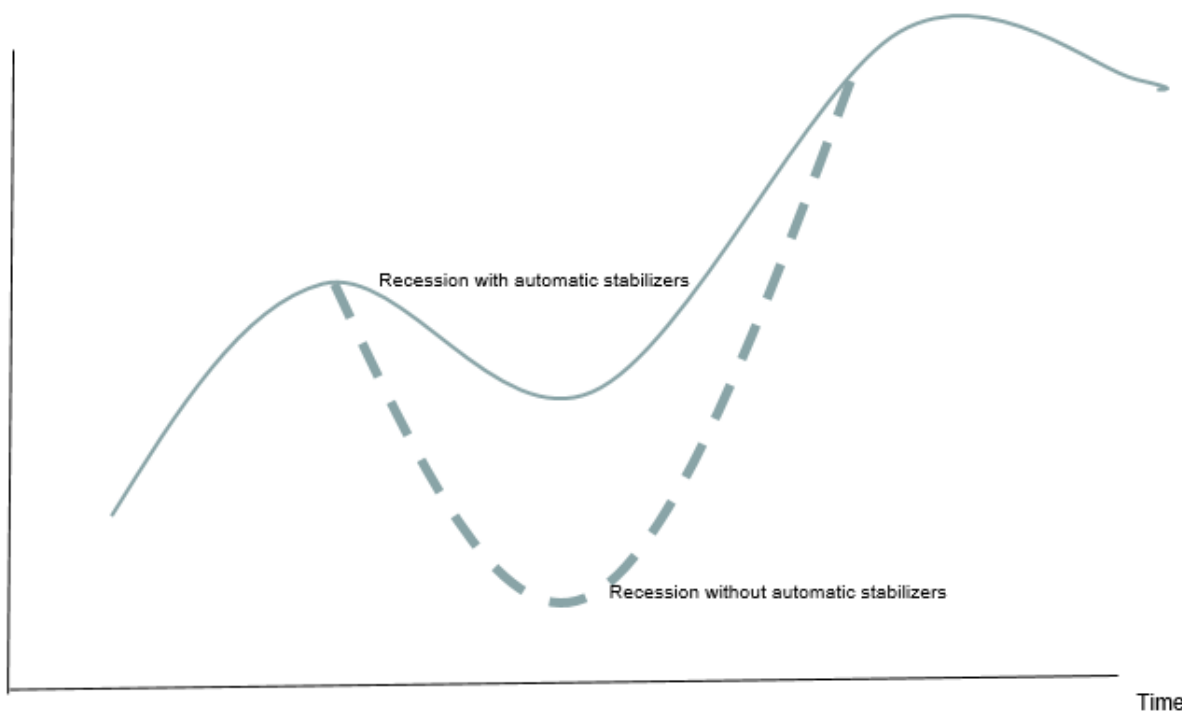
Alternatively, a diagram may show two minimum wage lines. If labelled appropriately, it can be fully rewarded.

- (c) Using a business cycle diagram, explain how automatic stabilizers will affect the decrease in real GDP that occurs during a recession (**Text A**, 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 OR an accurate written response.</i>	1–2
	For constructing a standard business cycle [1] Showing impact of automatic stabilizer [1] OR an explanation that in a recession there will (automatically) be lower tax revenue or higher unemployment benefits / transfer payments increase [1] which will result in real GDP being higher than it would otherwise have been [1].	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For constructing standard business cycle [1] Showing impact of automatic stabilizer [1] AND an explanation that in a recession there will (automatically) be lower tax revenue or higher unemployment benefits / transfer payments increase [1] which will result in real GDP being higher than it would otherwise have been [1].	

Real
GDP



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

The horizontal axis may be time or years. The vertical axis may be real GDP or economic activity. The peaks and troughs etc. do not need to be labelled. All abbreviations are acceptable. A title is not necessary.

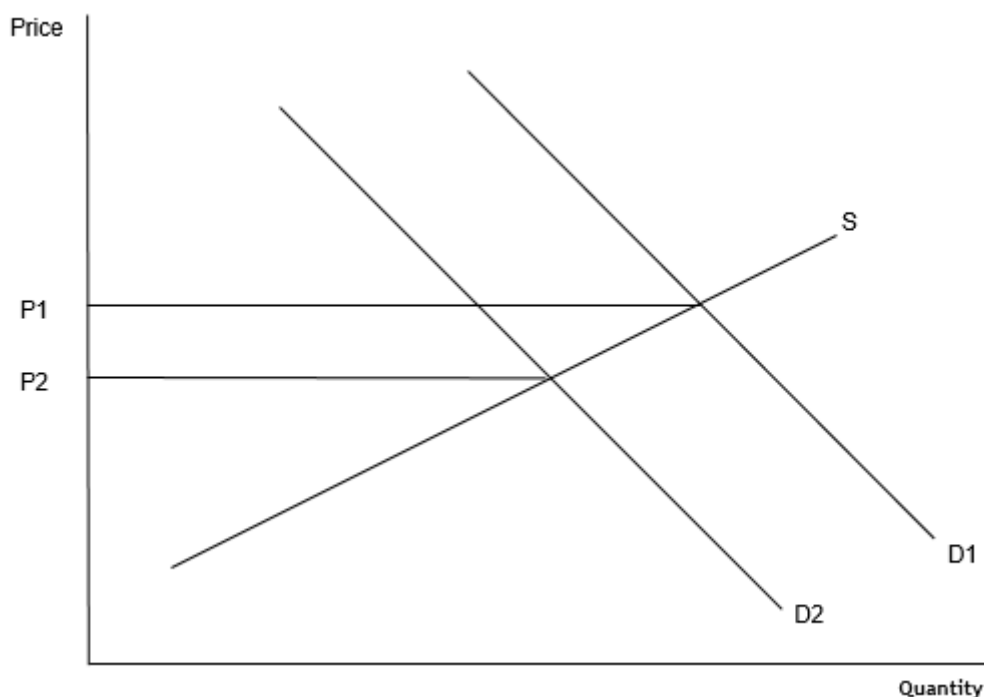
Alternatively, the diagram may **also** show the peaks being dampened and/or the trend line.

- (d) Using a demand and supply diagram, explain why the price of oil will probably continue to fall (**Text A**, 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 OR an accurate written response.</i>	1–2
	For a correct demand and supply diagram with appropriate labelling, with demand shifting left and the price falling OR an explanation that as there is an increase in alternative energy sources/substitutes [1], the demand for the substitute (oil) will decrease [1].	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct demand and supply diagram with appropriate labelling, with demand shifting left and the price falling AND an explanation that as there is an increase in alternative energy sources/substitutes [1], the demand for the substitute (oil) will decrease [1].	

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



The vertical axis may be price or *P*. The horizontal axis may be quantity or *Q*. A title is not necessary.

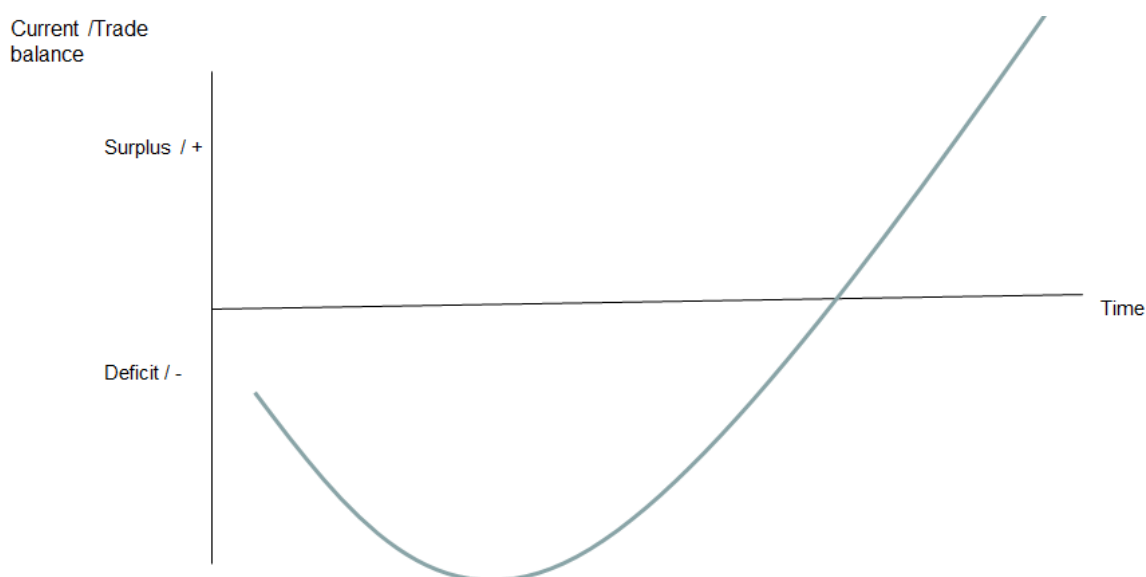
- (e) Using a J-curve diagram, explain the likely reason why the change in the exchange rate for the peso initially caused the deficit on the balance of trade to widen and then eventually led to a surplus (**Text A**, paragraph 5).

[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 OR an accurate written response.</i>	1–2
	For a correct J curve diagram with appropriate labelling, with the curve declining and then rising OR an explanation that in the short run, the sum of PEDs for exports and imports was less than one / inelastic (or the Marshall-Lerner condition was not fulfilled) so the deficit widens [1] but in the long run the M-L condition is met so it leads to a surplus [1] .	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct J curve diagram with appropriate labelling, with the curve declining and then rising AND an explanation that in the short run, the sum of PEDs for exports and imports was less than one / inelastic (or the Marshall-Lerner condition was not fulfilled) so the deficit widens [1] but in the long run the M-L condition is met so it leads to a surplus [1] .	

NB An alternative correct explanation could be that, in the short run, contracts cannot be rewritten (or similar) and therefore the volumes of exports and imports do not adjust completely to the new prices leading to increased deficit **[1]**, but in the long run, the consumers adjust more, leading to an improvement/surplus in the balance of trade **[1]**.

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



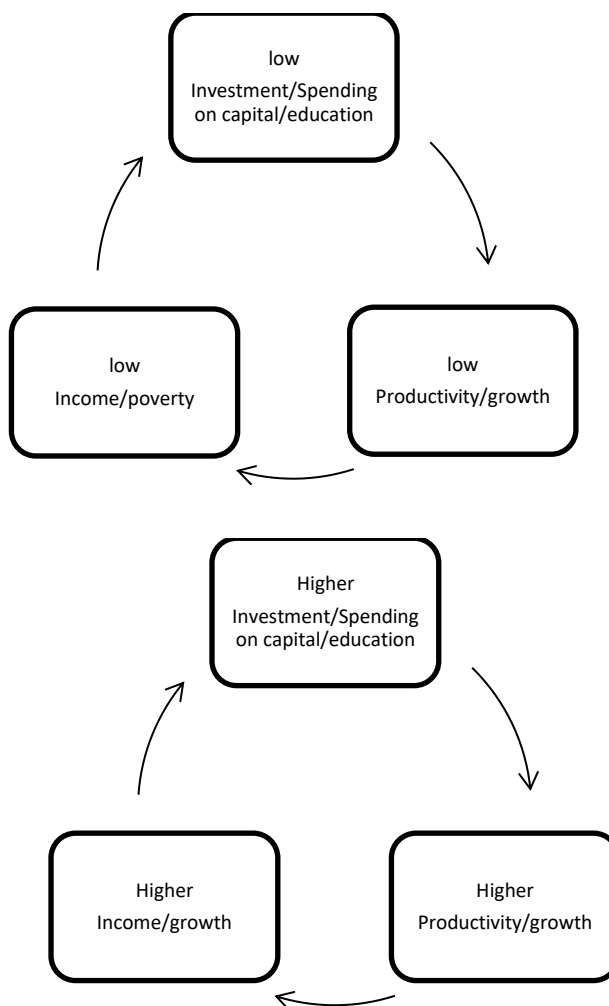
The horizontal axis may be time or years or months. The vertical axis may be current/trade balance or current/trade account /X-M All abbreviations are acceptable. A title is not necessary.

- (f) Using a poverty cycle diagram, explain how the Expanding Rural Finance Project raises incomes in rural areas (**Text C**).

[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 OR an accurate written response.</i>	1–2
	For a correct poverty cycle diagram, beginning and ending with low income/poverty. OR an explanation that the increased access to finance/banking means that there will be more investment/spending on capital/education [1], which will break the cycle and result in higher income/less poverty [1].	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct poverty cycle diagram, beginning and ending with low income/poverty. AND an explanation that the increased access to finance/banking means that there will be more investment/spending on capital/education [1], which will break the cycle and result in higher income/less poverty [1].	

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



- (g) Using information from the text/data and your knowledge of economics, discuss the costs **and** benefits for Mexico of participation in the free trade agreement with the US and Canada.

[15]

Level		Marks
0	<ul style="list-style-type: none"> The work does not meet a standard described by the descriptors below. 	0
1	<ul style="list-style-type: none"> 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. 	1–3
2	<ul style="list-style-type: none"> 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. 	4–6
3	<ul style="list-style-type: none"> 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. 	7–9
4	<ul style="list-style-type: none"> 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. 	10–12
5	<ul style="list-style-type: none"> 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. 	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.

Answers **may** include:

- a definition of a free trade agreement/area
- a tariff diagram
- an AD/AS diagram
- a PPC diagram
- a diagram showing comparative advantage for two different goods
- a diagram showing a subsidy for US corn producers.

Possible costs of participation in an FTA:

- trade diversion (Text B, paragraph 1 or 4)
- inequality between the manufacturing north (urban areas) and the agricultural south (rural areas) probably widening (Text B, paragraph 2; Text C)
- some sectors cannot compete with (subsidized) imports leading to job losses (Text B, paragraphs 2 or 3)
- US/Canadian companies setting up factories in Mexico may lead to exploitation of workers and/or the environment (Text B, paragraph 2 or 3)
- profits from the factories will be sent back to the US/Canada leading to an outflow on the current account, which is already in deficit (Text A paragraph 5; Text B, paragraph 2 or 3; Table 1)
- rules will prevent Mexico from getting the cheapest inputs (Text B, paragraph 4)
- informal sector unlikely to gain from free trade (Text C, paragraph 1).

Possible benefits of participation in an FTA:

- trade creation, which may improve the growth rate of GDP (Text A, paragraph 1; Text B, paragraph 1 or 3; Table 1)
- lower tariffs on imports and stimulus to efficiency lead to higher productivity and lower prices (Text B, paragraph 2)
- Mexico can gain a surplus on the Balance of Trade (Text A, paragraph 5; Table 1)
- more inward FDI (Text B, paragraph 2; Table 1)
- higher wages (above the minimum wages) for those working in manufacturing firms that export to US/Canada (Text B, paragraph 4)
- changes in HDI and Gini coefficient indicate an improvement in the standard of living and less inequality, which may be due to the FTA (Table 2)
- rules to protect the environment leading to more sustainable growth and development (Text B, paragraph 1 or 4)
- Mexico is able to increase exports of goods other than oil to reduce dependence on oil (diversification is enabled) (Text A, paragraph 3).

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

2. (a) (i) Define the term *profit* indicated in bold in the text (**Text D**, paragraph 2). [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 money left over after costs.	
2	<i>Accurate definition</i>	2
	An understanding that it is (total) revenue – (total) costs or the income of entrepreneurs (the return to entrepreneurship).	

- (ii) Define the term *property rights* indicated in bold in the text (**Text F**, 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
	An understanding that it is the authority/legal right to own property/land [1] OR to determine how that property/land is used [1] .	
2	<i>Accurate definition.</i>	2
	An understanding that it is the authority/legal right to own property/land [1] AND to determine how that property/land is used [1] .	

- (b) (i) Using information from **Table 5**, calculate net factor income from abroad (in US\$) for Indonesia in 2019. [2]

$$1085 - 1119 = -34$$

Any valid working should be rewarded with [1]

–34 billion **or** –34 000 million

*An answer of -34 billion **or** -34 000 million without workings or without units, is sufficient for [1]. (An answer of -34 without the appropriate unit is considered incorrect.)*

If the negative sign is missing or not otherwise indicated, but the workings approach is correct, a maximum of [1] should be awarded.

- (ii) Sketch an AD/AS diagram, to show how the change in the balance of trade in goods from 2010 to 2019 is likely to have affected real GDP (**Table 3**).

[3]

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, but incorrect labelling.</i>	1
	For an incorrectly labelled diagram, with a correct shift in the AD curve, but the change in real GDP is not shown.	
2	<i>There is a correct diagram, but incomplete labelling.</i>	2
	For a diagram, with a correct shift in the AD curve but the change in real GDP is not shown OR there is incorrect labelling.	
3	<i>There is a correct diagram AND complete labelling.</i>	3
	For a correctly labelled diagram, with a correct shift in the AD curve and the change in real GDP shown.	



For an AD/AS diagram, 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 intersections can be shown as Q_1 and Q_2 or similar. All abbreviations are acceptable. A title is not necessary.

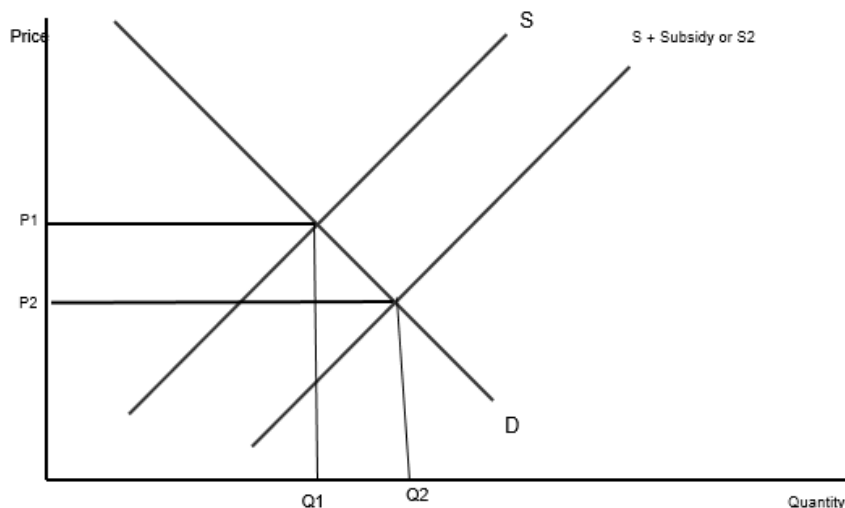
Candidates who incorrectly label diagrams can be awarded a maximum of [2].

- (c) Using a demand and supply diagram, explain the effect of a subsidy on the market for palm oil based biodiesel (**Text D**, 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 OR an accurate written response.</i>	1–2
	For a correct demand and supply diagram with appropriate labelling, with supply shifting right and the price falling while the quantity increases. OR an explanation that as the subsidy reduces costs for firms [1], the supply increases, causing the price to fall and the quantity to increase [1].	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct demand and supply diagram with appropriate labelling, with supply shifting right and the price falling while the quantity increases. AND an explanation that as the subsidy reduces costs for firms [1], the supply increases, causing the price to fall and the quantity to increase [1].	

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



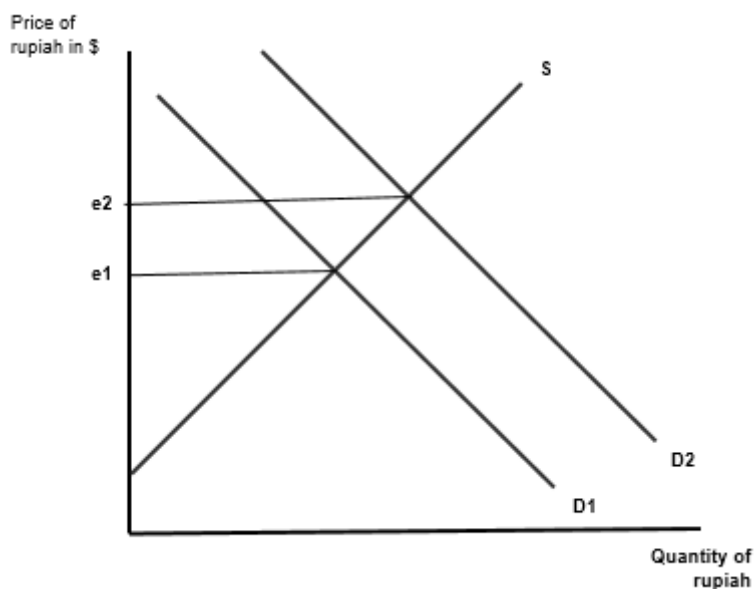
The vertical axis may be price or *P*. The horizontal axis may be quantity or *Q*.
A title is not necessary.

- (d) Using an exchange rate diagram, explain how a rise in palm oil prices may cause an appreciation of the Indonesian rupiah (**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 OR an accurate written response.</i>	1–2
	For a correct exchange rate diagram with appropriate labelling, with the demand curve shifting right and the equilibrium price of the rupiah rising. OR an explanation that as the price of palm oil has increased foreign buyers will need more rupiah/exports revenue increases [1] leading to an increase in demand (leading to an appreciation) [1] .	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct exchange rate diagram with appropriate labelling, with the demand curve shifting right and the equilibrium price of the rupiah rising. AND an explanation that as the price of palm oil has increased foreign buyers will need more rupiah/exports revenue increases [1] leading to an increase in demand (leading to an appreciation) [1] .	

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

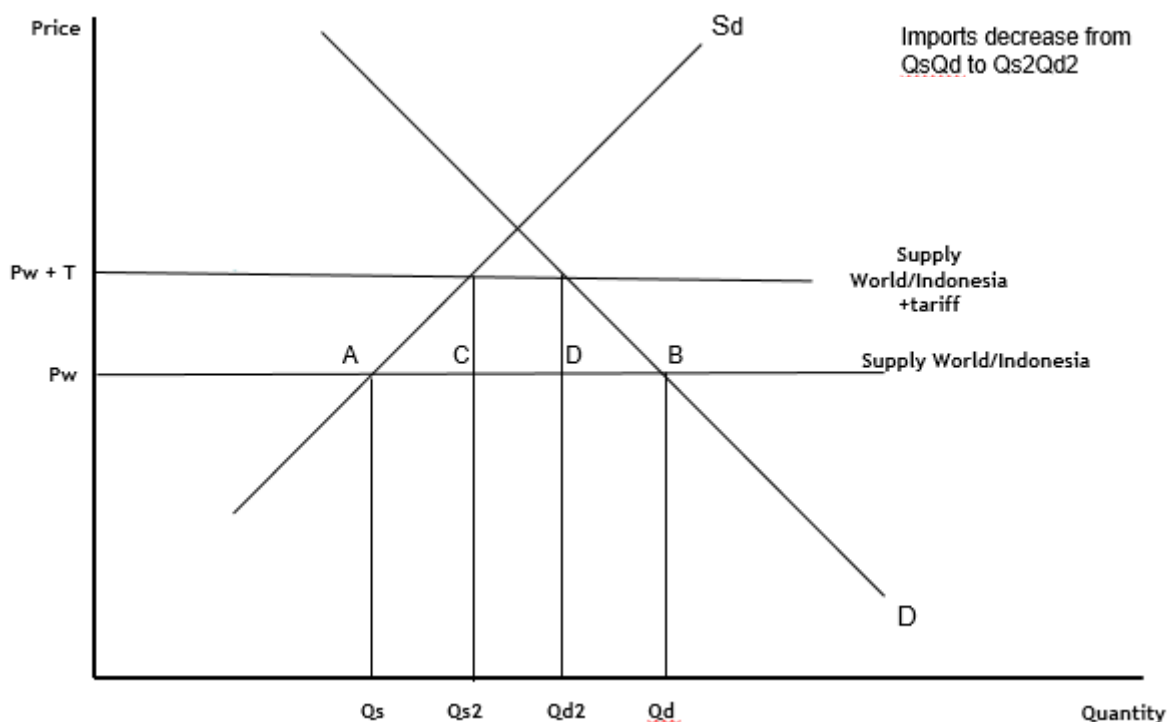


The vertical axis may be exchange rate, price/value of rupiah in another currency, other currency/rupiah or other currency per rupiah. The horizontal axis may be quantity or quantity of rupiah. All abbreviations are acceptable. A title is not necessary.

- (e) Using an international trade diagram, explain the effect of the EU tariff on the imports of palm oil based biodiesel from Indonesia (**Text D**, paragraph 5). **[4]**

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram OR an accurate written response.	1–2
	For a correct tariff diagram with appropriate labelling, showing a shift upwards of the world supply curve and a fall in imports to the EU. OR an explanation that the tariff causes higher prices, causing a decrease in imports [1] as quantity demanded decreases or domestic quantity supplied increases or reference to diagram for example Q1-Q2 to Q3-Q4 [1] .	
2	There is a correct diagram AND an accurate written response.	3–4
	For a correct tariff diagram with appropriate labelling, showing a shift upwards of the world supply curve and a fall in imports to the EU. AND an explanation that the tariff causes higher prices, causing a decrease in imports [1] as quantity demanded decreases or domestic quantity supplied increases or reference to diagram for example Q1-Q2 to Q3-Q4 [1] .	

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



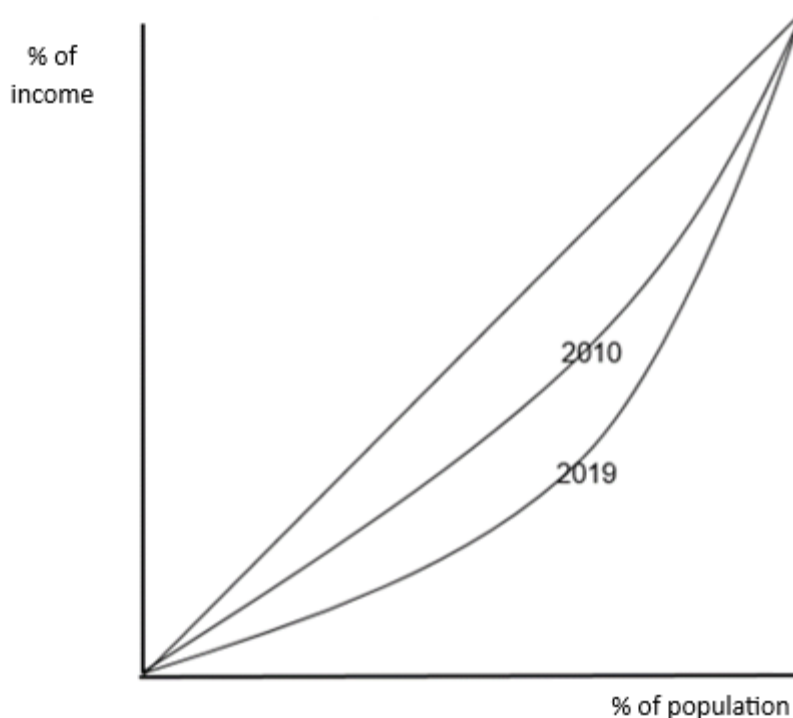
The use of P and Q on the axes is sufficient for an international trade diagram. The world supply curve must be labelled S_w , S_{world} , $S_{Indonesia}$, P_w , P_{world} , $P_{Indonesia}$, or any similar label indicating the horizontal line is world (Indonesia) price/supply. A title is not necessary.

- (f) Using a Lorenz curve diagram, explain how the distribution of income changed in Indonesia between 2010 and 2019 (**Table 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 OR an accurate written response.</i>	1–2
	For a correct Lorenz curve diagram with appropriate labelling, with 2 curves showing a shift away from the line of (perfect/absolute) equality. OR an explanation that an increase in the Gini coefficient implies that (the distribution of income) it has become more unequal [1] , shifting the Lorenz curve outward/to the right [1] .	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct Lorenz curve diagram with appropriate labelling, with 2 curves showing a shift away from the line of (perfect/absolute) equality. AND an explanation that an increase in the Gini coefficient implies that (the distribution of income) it has become more unequal [1] , shifting the Lorenz curve outward/to the right [1] .	

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



For the vertical axis, the label may be cumulative percentage of income or percentage of income (GDP and GNI are valid alternatives to income but wealth is not acceptable). For the horizontal axis, the label may be cumulative percentage of population/households or percentage of population/households. All abbreviations are acceptable. The diagonal line need not be labelled. A title is not necessary.

- (g) Using information from the texts/data and your knowledge of economics, discuss whether there is a conflict between meeting Sustainable Development Goal 12, (responsible consumption and production), and the objective of economic growth in Indonesia.

[15]

Level		Marks
0	<ul style="list-style-type: none"> The work does not meet a standard described by the descriptors below. 	0
1	<ul style="list-style-type: none"> 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. 	1–3
2	<ul style="list-style-type: none"> 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. 	4–6
3	<ul style="list-style-type: none"> 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. 	7–9
4	<ul style="list-style-type: none"> 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. 	10–12
5	<ul style="list-style-type: none"> 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. 	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.

Answers **may** include:

- definition of growth
- definition of consumption
- definition of production
- definition of responsible/sustainable
- an externalities diagram
- a PPC diagram
- an AD/AS diagram.

*Ways in which Indonesia is **not** meeting the SDG because of growth (ie there is a conflict):*

- negative production externalities of palm oil production (Text E, paragraph 1 or 2)
- negative consumption externalities of using palm oil based diesel (Text D, paragraph 3 or 5)
- planning production/government expenditure is difficult, because exporting a commodity with low PED and PES leads to volatile prices and uncertainty (Text D, paragraph 4)
- exports may not be sustained if importing countries become more concerned about environmental damage (Text D, paragraph 5)
- small-scale farmers use resources inefficiently/unsustainably (Text F)
- small-scale farmers' lack of property rights leads to disputes and uncertainty (Text F, paragraph 1)
- inequality has not been lessened and has increased (Table 3)
- deforestation still occurring, even if reducing
- illegal clearing of land due to lack of property rights
- still poor production techniques in small scale farming-only very recently extended ISPO certification scheme
- demand still rising for palm oil in many product areas.

*Ways in which Indonesia **is** meeting the SDG while achieving growth (i.e. there is not a conflict):*

- manufacturing palm oil based diesel, which will be better for the environment (Text D, paragraph 3)
- palm oil production provides jobs and has probably contributed to the sustained growth and the lower absolute poverty levels (Text D, paragraph 1; Table 4)
- palm oil production provides export revenue which will be useful for buying capital imports etc for production of secondary goods, rather than relying on primary exports (Text D, paragraph 2; Table 3)
- the tax revenue provides the government with funds, which it can use to improve development and which will help with reducing the widening budget deficit (Text D, paragraph 4, Table 3)
- MNCs' pressure to stop deforestation is successfully exerting pressure on Indonesia (Text E, paragraph 4)
- the establishment of property rights will help both objectives (Text F, paragraph 1)
- Indonesia is extending the IPSO certification system to small-scale farmers, which may encourage both a more sustainable use of resources and economic growth (Text F, paragraph 2).

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