

Markscheme

May 2024

Economics

Higher level and 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 or within the question, 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 per question (not per part) for each type of error.

1. (a) (i) Define the term *recession* indicated in bold in the text (**Text A**, 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 when economic activity slows down. | |
| 2 | <i>Accurate definition</i> | 2 |
| | An understanding that it is when the growth rate is negative for at least two / consecutive quarters OR real GDP falls for at least two / consecutive quarters. | |

(ii) Define the term *portfolio investment* indicated in bold in the data (**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: one of the following: <ul style="list-style-type: none"> • the buying of financial assets / shares and bonds OR using savings • to gain a profit/return/interest • in the financial account of the balance of payments. | |
| 2 | <i>Accurate definition</i> | 2 |
| | An understanding that it is: two of the following: <ul style="list-style-type: none"> • the buying of financial assets / shares and bonds OR using savings • to gain a profit/return/interest • in the financial account of the balance of payments. | |

(b) A pharmaceutical good is priced at UK£5 per unit and the exported quantity is 1000 units. The price decreases to UK£4.

(i) Using the price elasticity of demand figure for pharmaceuticals exported from the UK (**Text A**, paragraph 6), calculate the revenue earned in UK£ after the price change. [3]

% change in price = -20 (%) OR -0.2

$$PED = -0.6 = \frac{x}{-20}$$

x = (+)12 (%) OR 0.12 [1]

Any valid working (correct %Δ P or %Δ Qd or valid use of PED formula) should be rewarded with [1]

New quantity demanded = 1.12 × 1000 = 1120 [1]
OFR applies

Final revenue = 1120 × 4 = 4480 [1]
OFR applies

An answer of 4480 without working is sufficient for [2].

For full marks to be awarded, the response must provide valid working.

(b) (ii) Using information from **Table 2**, calculate the balance of trade in goods (UK£ billion) for the UK in 2021. [2]

X + 127 – 12 – 19 = - 60 [1]
X = -156

-156 OR deficit of 156 [1]

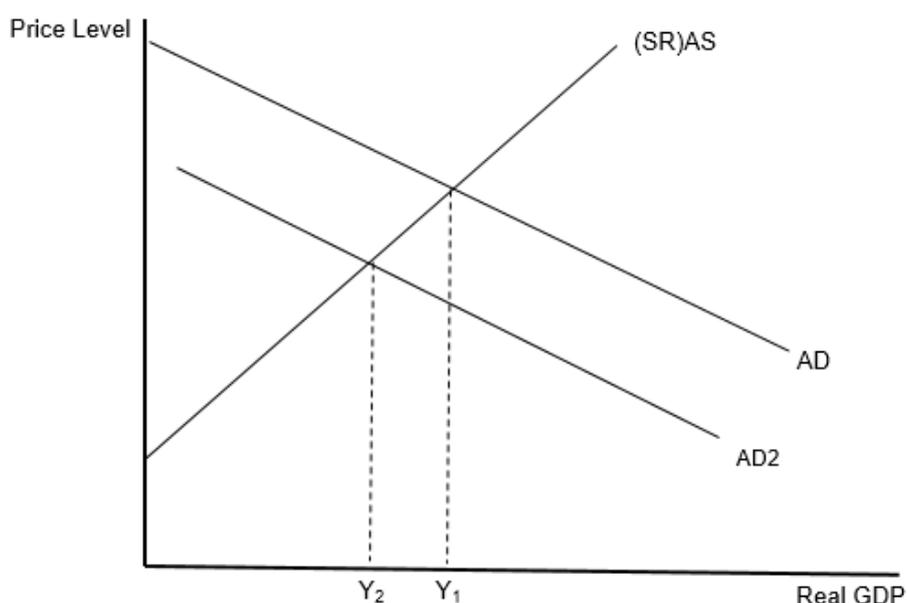
Any valid working should be rewarded with [1]
An answer of 156 without working or the minus sign is sufficient for [1].

- (c) Using an AD/AS diagram, explain the likely effect on the UK’s real GDP of higher interest rates (**Text A**, paragraph 2).

[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 correctly labelled AD/AS diagram, showing the AD curve shifting downwards (leftwards) and showing a fall in real GDP OR for an explanation that the rise in interest rates will increase the cost of borrowing and/or increase the return to saving, which leads to less consumption/investment and therefore reduces AD which decreases real GDP. | |
| 2 | There is a correct diagram AND an accurate written response. | 3–4 |
| | For a correctly labelled AD/AS diagram, showing the AD curve shifting downwards (leftwards) and showing a fall in real GDP AND for an explanation that the rise in interest rates will increase the cost of borrowing and/or increase the return to saving, which leads to less consumption/investment and therefore reduces AD which decreases real GDP. | |

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



For an AD/AS diagram, the vertical axis may be Average (General) Price Level or CPI. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. All abbreviations are acceptable. A Keynesian AS is acceptable. A title is not necessary.

An alternative valid approach would be to explain that the rise in interest rates would increase costs for firms that have borrowed causing (SR)AS to shift left/upwards and causing real GDP to fall. If explained correctly, with a matching diagram, this can be fully rewarded.

The explanation may alternatively refer to the effect of higher interest rates on the exchange rate (an appreciation) which will cause a decrease in (net) exports and thus a decrease in aggregate demand

AND/OR

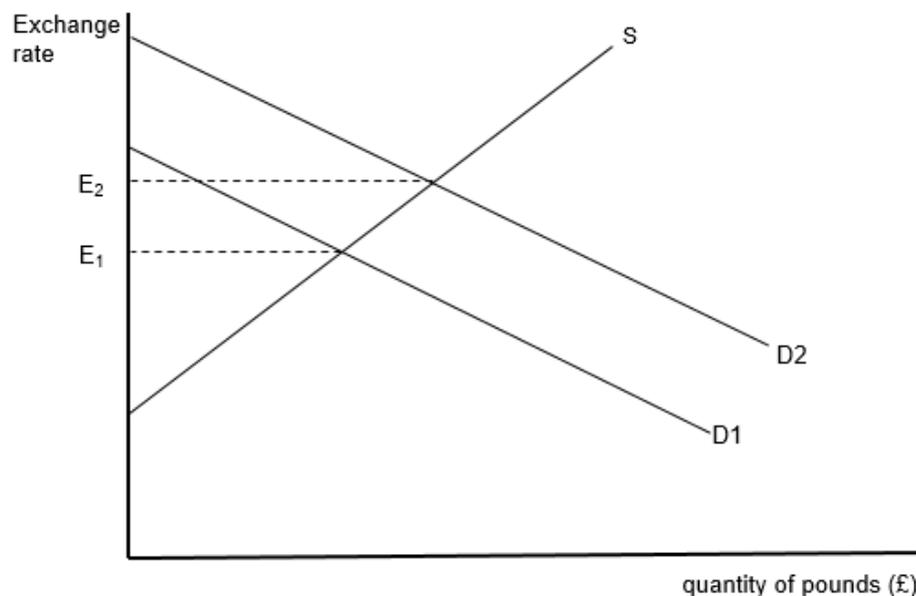
an increase in (SR)AS (due to lower import prices). The effect on real GDP is indeterminate. This approach can be fully rewarded if explained and drawn correctly.

- (d) Using an exchange rate diagram, explain the likely effect on the exchange rate for the pound (UK£) of increased international demand for “green” goods produced in the UK (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 OR an accurate written response. | 1–2 |
| | For a correctly labelled exchange rate diagram, showing demand shifting right and the exchange rate increasing OR for an explanation that increased spending on UK exports (or more purchasing of pounds to pay for the goods) would result in the demand for the pound increasing. This would lead to a rise in the exchange rate/appreciation. | |
| 2 | There is a correct diagram AND an accurate written response. | 3–4 |
| | For a correctly labelled exchange rate diagram, showing demand shifting right and the exchange rate increasing AND for an explanation that increased spending on UK exports (or more purchasing of pounds to pay for the goods) would result in the demand for the pound increasing. This would lead to a rise in the exchange rate /appreciation. | |

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

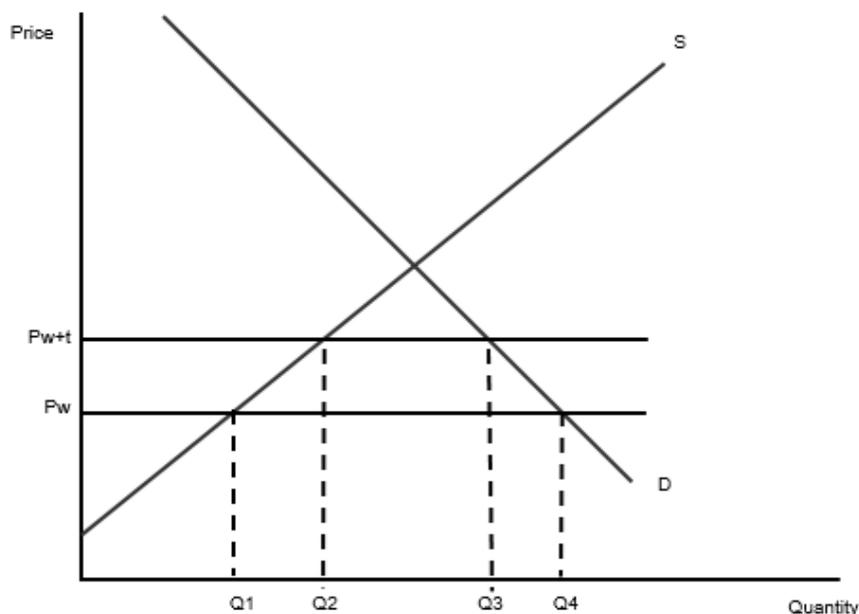


The vertical axis may be exchange rate, price/value of pound (£) in another currency, other currency/pound (£) or other currency per pound (£). The horizontal axis may be quantity or quantity of pounds (£). All abbreviations are acceptable. A title is not necessary.

- (e) Using an international trade diagram, explain how imports of agricultural goods to the UK are likely to change as a result of the free trade agreements with Australia and New Zealand (**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 OR an accurate written response.</i> | 1–2 |
| | For a correctly labelled international trade diagram, showing the world supply/price + tariff line moving down and an increase in imports (which may be annotated on the diagram or referenced in the explanation) OR for an explanation that lower tariffs on agricultural goods will lower their price reducing the level of domestic output and/or increasing the quantity demanded, causing an increase in imports. | |
| 2 | <i>There is a correct diagram AND an accurate written response.</i> | 3–4 |
| | For a correctly labelled international trade diagram, showing the world supply/price + tariff line moving down and an increase in imports (which may be annotated on the diagram or referenced in the explanation) AND for an explanation that lower tariffs on agricultural goods will lower their price reducing the level of domestic output and/or increasing the quantity demanded, causing an increase in imports. | |

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 *Sw*, or *S_{world}* or *S_{Australia/NZ}* or *P_w* or any similar label indicating the horizontal line is the world or Australian/NZ price/supply. Domestic can be omitted on the other curves. A title is not necessary.

Some candidates may draw two *Sw* + tariff lines to reflect that tariffs are only reduced, not eliminated. If the lines are correctly drawn and explained, this approach can be fully rewarded.

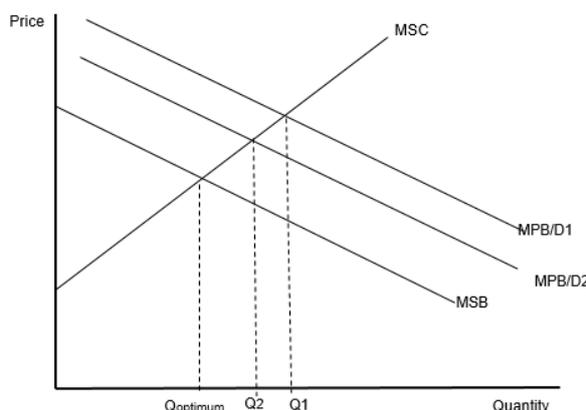
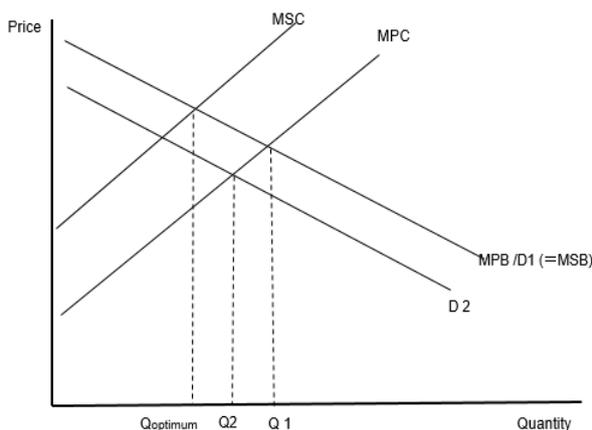
- (f) Using an externalities diagram, explain why the output of fossil fuels moves closer to the social optimum when subsidies are provided for the production of solar panels (**Text C**). [4]

| 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 correctly labelled externalities diagram, showing the demand/MPB curve shifting left and the quantity of fossil fuels moving from the market quantity (closer) to the optimum OR for an explanation that the solar panel subsidy/increased use of solar panels will decrease the demand for fossil fuels. The use of fossil fuels has negative externalities, but a lower demand for them will move the output/quantity towards the socially optimum output. | |
| 2 | <i>There is a correct diagram AND an accurate written response.</i> | 3–4 |
| | For a correctly labelled externalities diagram, showing the demand/MPB curve shifting left and the quantity of fossil fuels moving from the market quantity (closer) to the optimum AND for an explanation that the solar panel subsidy/increased use of solar panels will decrease the demand for fossil fuels. The use of fossil fuels has negative externalities, but a lower demand for them will move the output/quantity towards the socially optimum output. | |

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

N.B. There are two alternative diagrams, which allow the externality from the use of fossil fuels to be either a consumption externality or a production externality.

A diagram which shows the MPB/D curve shifting left to the extent that the final quantity equals the optimum quantity may be fully rewarded.



The vertical axis may be labelled price or P and/or costs and/or benefits. The horizontal axis may be quantity or Q or output. No title is required.

An alternative approach may be for the answer to consider first the market for solar panels, with a diagram showing a positive externality and the effects of a subsidy, with the output of solar panels increasing. If correctly explained and if the answer then links the outcome to the use of fossil fuels declining, this approach may be fully rewarded.

Another alternative approach is to consider that some fossil fuel producers may switch to manufacturing solar panels, which would reduce the supply/MPC curve in the fossil fuel market. If correctly explained and shown on the diagram, this approach may be fully rewarded.

- (g) Using information from the text/data and your knowledge of economics, discuss the likely effects of the exchange rate trend from 2011 to 2022 (shown in **Figure 1**) on the UK balance of payments and the UK economy. **[15]**

| Marks | Level descriptor |
|-------|---|
| 0 | <ul style="list-style-type: none"> The work does not meet a standard described by the descriptors below. |
| 1–3 | <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 or are used incorrectly. The response contains no evidence of synthesis or evaluation. The response contains no use of text/data or it is merely copied. |
| 4–6 | <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 relevant but superficial synthesis or evaluation. The response contains limited use of text/data. |
| 7–9 | <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. |
| 10–12 | <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. |
| 13–15 | <ul style="list-style-type: none"> The specific demands of the question are thoroughly 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.

Answers may include:

- terminology: depreciation, exchange rate
- an AD/AS diagram
- an exchange rate diagram
- an outline of the movements shown in **Figure 1**

N.B. It should be noted that diagrams that have already been given in answers to parts (c), (d), (e) or (f), and then referred to in part (g), should be rewarded.

Effect on the balance of payments:

- theoretically, the deficits on the trade balance and the current balance should be reduced due to lower export prices and higher import prices leading to higher export revenue and lower import expenditure (**Text A**, paragraphs 3, 5, 6).
- however, according to **Table 2**, the deficits have widened.
- the depreciation has probably attracted inward FDI due to the improved competitiveness of exports (**Text A**, paragraph 5 and **Table 2**).
- the depreciation may also result in increased inflows of portfolio investment (as UK stocks and bonds become cheaper to foreigners (**Text A**, paragraph 5). This would provide funds for UK investment, increasing output.
- the depreciation may deplete the reserves, which are currently low (**Table 2**) if the central bank attempts to reduce the downward pressure on the currency.

Effect on employment and growth:

- the depreciation of the exchange rate makes export prices lower in foreign currency terms (and import prices higher in local currency) which may increase AD and consequently GDP (**Text A**, paragraph 3) demonstrated by the fall in unemployment (**Table 1**).
- however, the UK’s market share for many exports is falling (**Text A**, paragraph 4) indicating that trade has grown more rapidly in other countries.
- the departure from the EU implies that the UK may not benefit significantly from the fall in export prices (**Text B**, paragraph 1).
- however, the newly negotiated free trade agreements may increase the markets for lower priced exports (**Text B**, paragraph 1).
- the depreciation may do little to improve employment and economic growth as the relative prices of are of not of much significance in determining export revenues (**Text A**, paragraph 6). Changes in the income of trading partners and the quality of exports would have a more significant impact on growth and unemployment (**Text A**, paragraph 7).
- the depreciation could help increase UK exports of “green” goods, contributing to the success of the net zero strategy (**Text C**).

Effect on inflation:

- the depreciation will increase import prices, which will add to inflationary pressures (**Text A**, paragraphs 2 and 3)
- the increase in prices of inputs, such as oil, will also tend to raise export prices (**Text A**, paragraph 5).

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

2. (a) (i) Define the term *remittances* 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 an inflow/money sent from overseas. | |
| 2 | <i>Accurate definition</i> | 2 |
| | An understanding that it is the transfer of money/incomes by foreign workers back to their home country. | |

- (ii) Define the term *expansionary fiscal policy* indicated in bold in the text (**Text D**, 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 when the government spends more/taxes less OR uses spending/taxation to change economic variables OR when the government increases aggregate demand. | |
| 2 | <i>Accurate definition</i> | 2 |
| | An understanding that it is when taxation /government spending is used to increase aggregate demand/output/employment. | |

- (b) (i) Using information from **Table 5**, calculate the value of imports of goods and services (₱HP billion) into the Philippines in 2022. [2]

$$14\,600 + 3780 + 3700 + 5400 + y = 19\,700 \quad [1]$$

$$y = 19700 - 27480$$

$$-7780 \text{ OR } \text{imports/M} = 7780 \quad [1]$$

An answer of 7780 without working is sufficient for [1].

For full marks to be awarded, the response must provide valid working. Any valid working (such as setting up the initial equation correctly, but with one item carelessly entered OR making an arithmetical error when solving the equation) is sufficient for [1].

- (ii) Using information from **Table 5**, calculate the value of net income from abroad (₱HP billion) in the Philippines in 2022. [1]

A middle-income household in the Philippines earned ₱HP 4000 weekly in 2021. Its weekly income increased to ₱HP 4200 in 2022. Its weekly demand for rice decreased from 4 kilograms (kg) to 3.9 kg between 2021 and 2022.

(iii) Calculate the income elasticity of demand for rice for this household. [2]

$$\begin{aligned} \text{\% change in income} &= 200/4000 \times 100 = 5\% && \text{OR } 0.05 \\ \text{\% change in demand for rice} &= -0.1/4 \times 100 = -2.5\% && \text{OR } -0.025 \end{aligned} \quad [1]$$

$$\begin{aligned} \text{YED} &= -2.5/5 \text{ OR } -0.025/0.05 \\ &= -0.5 \end{aligned} \quad [1]$$

Any valid working (correct %Δ Qd OR %Δ Y OR valid use of YED formula) is sufficient for [1]

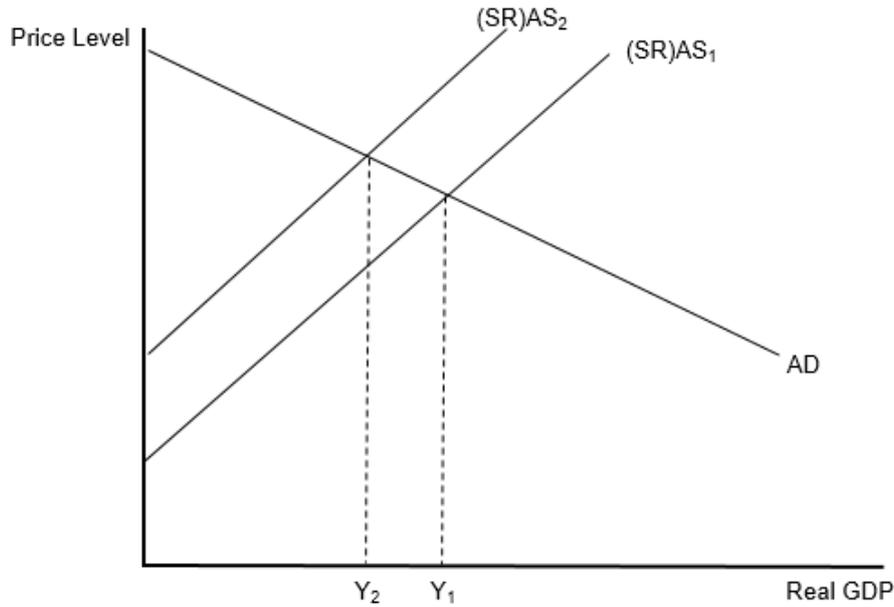
An answer of 0.5, with or without working, is sufficient for [1]

For full marks to be awarded, the response must provide valid working.

(c) Using an AD/AS diagram, explain the likely effect on the Philippines' real GDP as a result of higher global energy prices (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 OR an accurate written response.</i> | 1–2 |
| | For a correctly labelled AD/AS diagram, showing (SR)AS shifting left/upwards causing a fall in real GDP OR for an explanation that higher global energy prices causes an increase in (production) costs, which reduces aggregate supply and leads to a fall in real GDP/output. | |
| 2 | <i>There is a correct diagram AND an accurate written response.</i> | 3–4 |
| | For a correctly labelled AD/AS diagram, showing (SR)AS shifting left/upwards causing a fall in real GDP AND for an explanation that higher global energy prices causes an increase in (production) costs, which reduces (short-run) aggregate supply and leads to a fall in real GDP/output. | |

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



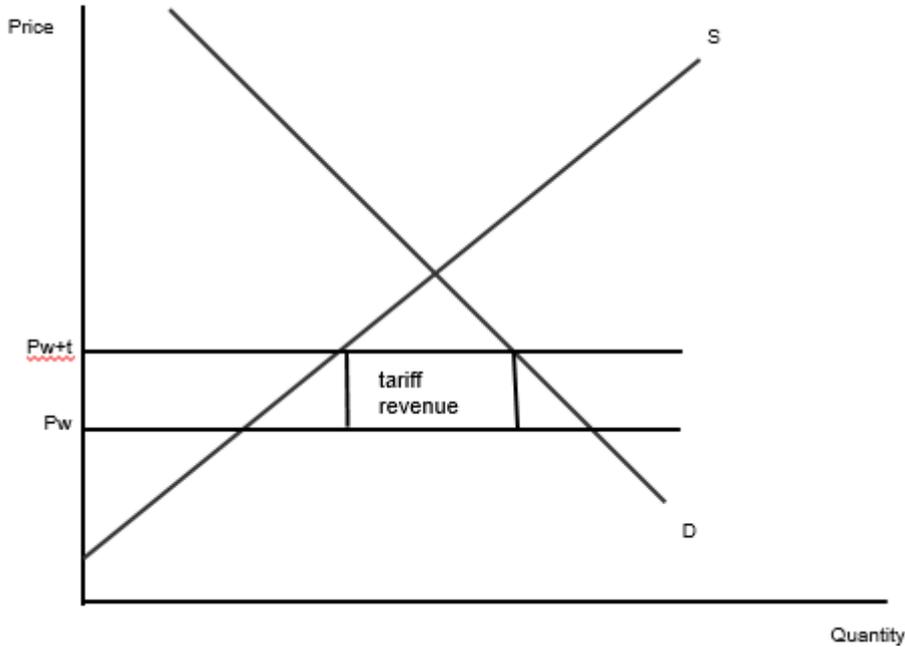
For an AD/AS diagram, the vertical axis may be Average (General) Price Level or Price Level or CPI. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. All abbreviations are acceptable. A Keynesian AS is acceptable. A title is not necessary.

- (d) Using an international trade diagram, explain how the government of the Philippines gains revenue by imposing a tariff on rice imports (**Text D**, 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 OR an accurate written response. | 1–2 |
| | For a correctly labelled international trade diagram, showing the world supply/price line moving up and the tariff revenue gained from imports (which may be shaded or labelled on the diagram or referenced in the explanation) OR for an explanation that the tariff on rice imports will be collected by the government as revenue. | |
| 2 | There is a correct diagram AND an accurate written response. | 3–4 |
| | For a correctly labelled international trade diagram, showing the world supply/price line moving up and the tariff revenue gained from imports (which may be shaded or labelled on the diagram or referenced in the explanation) AND for an explanation that the tariff on rice imports will be collected by the government as revenue. | |

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

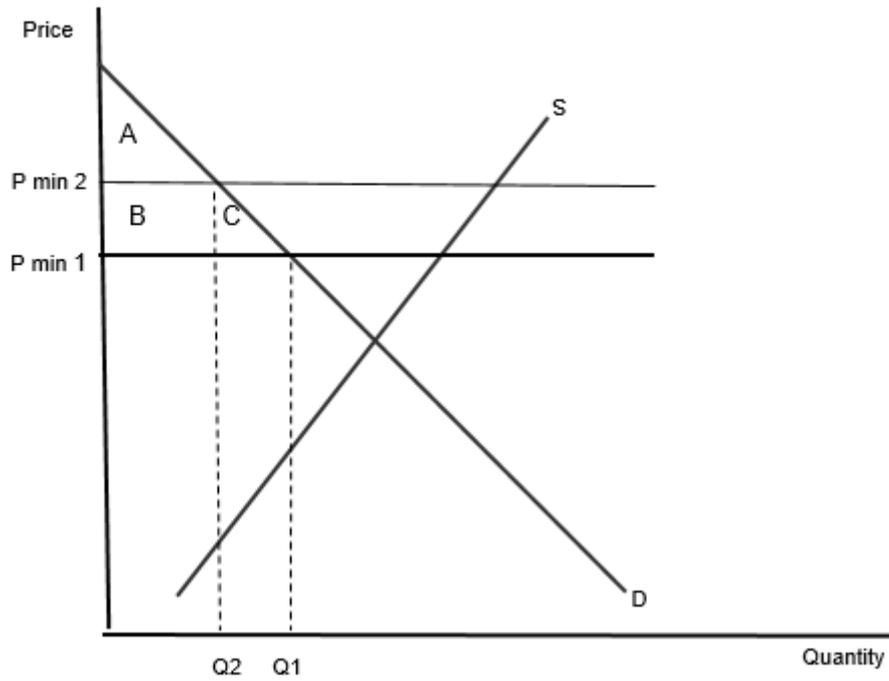


The use of P and Q on the axes is sufficient for an international trade diagram. The world price line may be labelled as S(World), Sw, Pworld, or any similar label indicating the horizontal line is the world price/supply. Domestic can be omitted on the other curves. The quantities do not need to be projected on the horizontal axis, so long as the tariff revenue is correctly indicated, either on the diagram or in the explanation. A title is not necessary.

- (e) Using a demand and supply diagram, explain what is likely to happen to the consumer surplus if the minimum (floor) price charged by private bus drivers is raised further above the equilibrium price (**Text E**, paragraph 3). [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 correctly labelled demand and supply diagram, showing one or two price floors above the equilibrium and showing reduced consumer surplus (or using appropriate annotations from the diagram in the written explanation to indicate the reduction in consumer surplus) OR for an explanation that when the (minimum/floor) price is raised/quantity (demanded) is reduced/excess supply is increased, leading to a reduction in consumer surplus. | |
| 2 | There is a correct diagram AND an accurate written response. | 3–4 |
| | For a correctly labelled demand and supply diagram, showing one or two price floors above the equilibrium and showing reduced consumer surplus (or using appropriate annotations from the diagram in the written explanation to indicate the reduction in consumer surplus) AND for an explanation that when the (minimum /floor) price is raised/quantity (demanded) is reduced/excess supply is increased, leading to a reduction in consumer surplus. | |

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



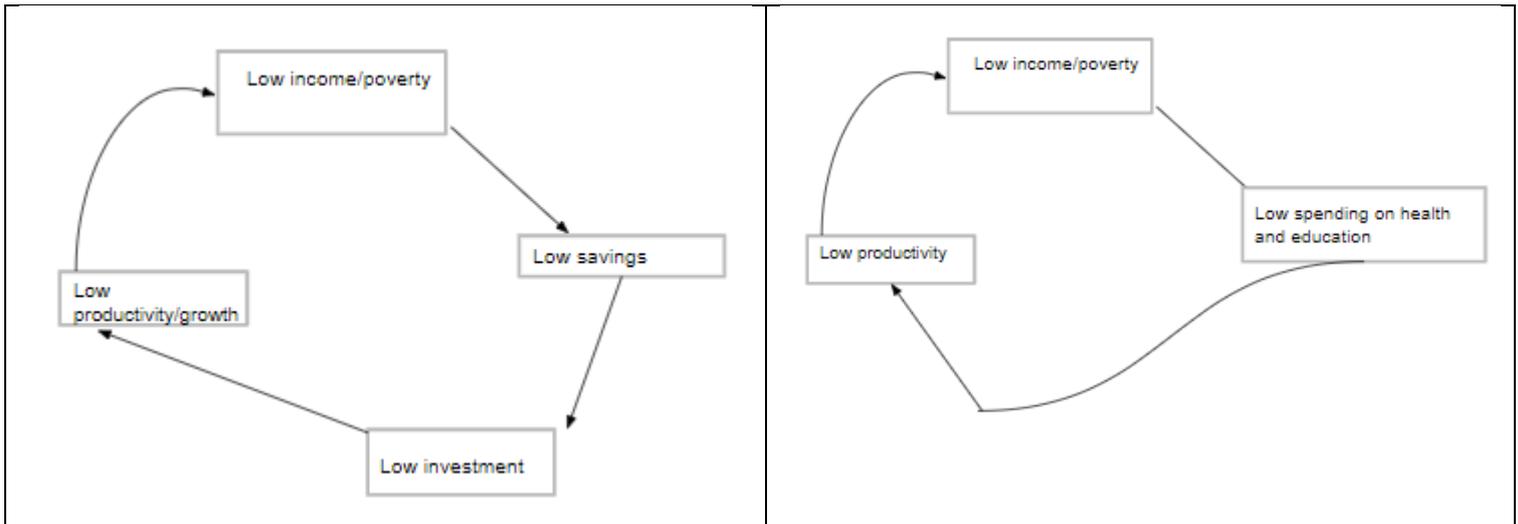
If there is only one minimum price line, but the diagram is correctly labelled and consumer surplus is shown, then the diagram may be fully awarded.

The vertical axis may be price or P. The horizontal axis may be quantity or Q. The change in consumer surplus may be denoted in other ways. A title is not necessary.

(f) Using a poverty cycle diagram, explain the likely effect of official development assistance (ODA) on incomes in the Philippines (**Figure 2** and **Text F**).

[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. For a correct poverty cycle diagram OR for an explanation that the funds supplied by ODA can allow for (one of the following): <ul style="list-style-type: none"> • more investment/infrastructure/employment • more spending on health/education/training that breaks the poverty cycle /leads to higher incomes. | 1–2 |
| 2 | There is a correct diagram AND an accurate written response. For a correct poverty cycle diagram AND for an explanation that the funds supplied by ODA can allow for (one of the following): <ul style="list-style-type: none"> • more investment/infrastructure/employment • more spending on health/education/training that breaks the poverty cycle / leads to higher incomes. | 3–4 |



Either of the above diagrams is acceptable. The number of boxes and the wording in the boxes can also be different, so long as the diagram matches the explanation.

- (g) Using information from the text/data and your knowledge of economics, evaluate the policies used in the Philippines to reduce poverty and income inequality.

[15]

| Marks | Level descriptor |
|-------|---|
| 0 | <ul style="list-style-type: none"> The work does not meet a standard described by the descriptors below. |
| 1–3 | <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 or are used incorrectly. The response contains no evidence of synthesis or evaluation. The response contains no use of text/data or it is merely copied. |
| 4–6 | <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 relevant but superficial synthesis or evaluation. The response contains limited use of text/data. |
| 7–9 | <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. |
| 10–12 | <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. |
| 13–15 | <ul style="list-style-type: none"> The specific demands of the question are thoroughly 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

“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.

Answers **may** include:

- terminology: poverty, inequality
- a poverty cycle diagram
- a Lorenz curve diagram
- a minimum wage/price diagram
- an indirect tax/externalities/subsidies diagram

N.B. diagrams that have already been given in answers to parts (c), (d), (e) or (f), and then referred to in part (g), should be rewarded.

Policies that are being used:

- encouraging workers to shift from agriculture, fishing and the informal sector to other growth sectors (**Text D**, paragraphs 3 and/or 2)

| Strengths | Limitations |
|--|--|
| <ul style="list-style-type: none"> • higher wages and productivity, which could help break the poverty cycle | <ul style="list-style-type: none"> • may increase urbanisation which depletes rural areas and leads to more congestion/pollution in towns |
| <ul style="list-style-type: none"> • may reduce over-fishing and deforestation, which, if unchecked, would result in loss of income for workers in these industries in the future | <ul style="list-style-type: none"> • may reduce food supplies, which may result in higher prices for necessities • may result in loss of income for workers in these industries in the short run |
| <ul style="list-style-type: none"> • employment and wages will be less influenced by natural disasters and thus result in a reduction in poverty | <ul style="list-style-type: none"> • growth sectors (such as tourism and insurance) may not be suitable for many workers |

- increased government spending due to expansionary fiscal policies (**Text D**, paragraphs 4 and 5)

| Strengths | Limitations |
|---|---|
| <ul style="list-style-type: none"> • more spending on education and health care | <ul style="list-style-type: none"> • health and education services still inadequate in many areas |
| <ul style="list-style-type: none"> • government spending will add to AD leading to higher growth and incomes | <ul style="list-style-type: none"> • budget deficit will require borrowing |
| | <ul style="list-style-type: none"> • high population growth (over 14% in less than 10 years) means that government spending will have to increase even faster to maintain current living standards (Table 4) |

- removal of quota on pork imports and other free trade measures due to membership of ASEAN (**Text D**, paragraphs 4 and 6)

| Strengths | Limitations |
|--|---|
| <ul style="list-style-type: none"> • lowers food prices for consumers, especially for the poor who spend proportionately more on food | <ul style="list-style-type: none"> • reduces demand for domestic farm products and therefore may reduce farmers' incomes |

- tariffs on rice imports (**Text D**, paragraph 7)

| Strengths | Limitations |
|---|--|
| <ul style="list-style-type: none"> • higher prices and output for rice farmers leading to higher incomes | <ul style="list-style-type: none"> • regressive impact of higher food prices on low-income households |
| <ul style="list-style-type: none"> • tariff revenues used to subsidise farm equipment etc will increase productivity and will increase rural incomes | <ul style="list-style-type: none"> • may strain trade relations with other economies leading to a trade war |

- more spending on the public health care system, financed by indirect taxes on tobacco etc (**Text E**, paragraph 1)

| Strengths | Limitations |
|---|--|
| <ul style="list-style-type: none"> • can improve health and other indicators, especially in rural areas (Text D, paragraph 4) | <ul style="list-style-type: none"> • indirect taxes (especially on smoking and alcohol) are regressive |
| <ul style="list-style-type: none"> • can raise the HDI (through increased life expectancy), which is relatively low (Table 4) | <ul style="list-style-type: none"> • population is increasing fast and therefore the extra spending unlikely to be enough (Table 4) |

- increased conditional cash payments (**Text E**, paragraph 2)

| Strengths | Limitations |
|---|--|
| <ul style="list-style-type: none"> • can directly decrease level of inequality and raise incomes above the poverty line, potentially decreasing the level of inequality | <ul style="list-style-type: none"> • will raise government expenditure and therefore probably the budget deficit |
| <ul style="list-style-type: none"> • conditions will encourage schooling, improving human capital and future earning potential | <ul style="list-style-type: none"> • because consumption spending is a high proportion (over 70%) of GDP, these payments and all extra government spending will have a strong expansionary effect on GDP which may be inflationary (Text D, paragraph 1 and Table 3) |
| <ul style="list-style-type: none"> • can help regions/households escape the poverty trap | |
| <ul style="list-style-type: none"> • higher incomes for lower income earners could reduce Gini coefficient which is relatively high and shift Lorenz curve inwards (Table 4) | |

- subsidies for farmers (**Text D**, paragraph 7) and private bus drivers (**Text E**, paragraph 3)

| Strengths | Limitations |
|---|---|
| <ul style="list-style-type: none"> • encourages public transport and food production | <ul style="list-style-type: none"> • reduces government funds for other purposes, leading to opportunity costs and/or wider budget deficit |
| <ul style="list-style-type: none"> • may counteract the rising food and fuel prices (Text D, paragraph 4) | <ul style="list-style-type: none"> • may encourage inefficiency and more fuel consumption, leading to pollution |

- rise in minimum prices charged by private bus drivers (**Text E**, paragraph 3)

| Strengths | Limitations |
|--|---|
| <ul style="list-style-type: none"> • raises their wages | <ul style="list-style-type: none"> • increases welfare loss • may not increase incomes if demand is relatively elastic • regressive, since the poor more likely to use buses |

- increased spending on infrastructure (**Text F**)

| Strengths | Limitations |
|--|--|
| <ul style="list-style-type: none"> • will reduce the unemployment rate, raise productivity and connect the poor to more opportunities | <ul style="list-style-type: none"> • needs more government spending, leading to opportunity costs and/or wider budget deficit |
| <ul style="list-style-type: none"> • can diversify the economy, making it less susceptible to supply shocks and possibly will also increase exports | <ul style="list-style-type: none"> • may require more imports of capital in the short run and/or more FDI, leading to widening deficit on the current account |

- increased use of grants and loans received through ODA (**Text F; Figure 2**)

| Strengths | Limitations |
|--|---|
| <ul style="list-style-type: none"> • grants and loans can effectively break the poverty cycle | <ul style="list-style-type: none"> • loans must be paid back |
| <ul style="list-style-type: none"> • training will raise productivity | <ul style="list-style-type: none"> • may lead to dependency |
| <ul style="list-style-type: none"> • disadvantaged groups, such as women, and growth areas, such as tourism, are targeted | |

Overall:

- poverty rates and the Gini coefficient have been reduced, while the HDI index has improved (**Table 4**), implying that measures have had some success
- pace of poverty reduction still low and many workers still in informal economy (**Text D**, paragraph 3)
- rising food and fuel prices will further widen the distribution of real incomes (**Text D**, paragraph 4).

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