

# Markscheme

**November 2022**

**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 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 *demand* indicated in bold (**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>Vague definition</i>	1
	The idea that it is the amount consumers want of a good or service <b>And one</b> of the following: <ul style="list-style-type: none"> <li>• at different prices / a given price / price level</li> <li>• in a given period of time</li> <li>• able to buy.</li> </ul>	
2	<i>Accurate definition</i>	2
	An understanding that it is the amount of a good or service that individuals are willing and able to buy at different prices / at a given price / price level in a time period ( <i>ceteris paribus</i> ).	

(ii) Define the term *circular economy* indicated in bold (**Text C**).

[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 economy that ( <b>one</b> of the following): <ul style="list-style-type: none"> <li>• designs out waste</li> <li>• keeps products and materials in use</li> <li>• regenerates natural systems</li> <li>• repairs</li> <li>• reuses</li> <li>• promotes continual resource use</li> <li>• recycles</li> <li>• reduces resource use in production/consumption</li> <li>• promotes environmental sustainability</li> <li>• leases</li> <li>• shares resources</li> <li>• considers interdependence of social, economic and environmental systems</li> <li>• considers environmental impact of economic decision making.</li> </ul>	
2	<i>Accurate definition</i>	2
	An economy that ( <b>two</b> of the following): <ul style="list-style-type: none"> <li>• designs out waste</li> <li>• keeps products and materials in use</li> <li>• regenerates natural systems</li> <li>• repairs</li> <li>• reuses</li> <li>• promotes continual resource use</li> <li>• recycles</li> <li>• reduces resource use in production/consumption</li> <li>• promotes environmental sustainability</li> <li>• leases</li> <li>• shares resources</li> <li>• considers interdependence of social, economic and environmental systems</li> <li>• considers environmental impact of economic decision making..</li> </ul>	

(b) (i) Using information from **Text A**, paragraph 2 and **Table 1**, calculate the income elasticity of demand (YED) for agricultural goods in Tanzania considering the change in income between 2008 and 2018.

[3]

Formula written or applied [1]

$$\% \Delta Qd = 21\%$$

$$\% \Delta Y = \frac{(2538-1880)}{1880} \times 100 = 35\%$$

$$YED = \frac{21}{35} = 0.6 \quad [1] \text{ for YED calculation } [1] \text{ correct answer}$$

A student who shows only the YED calculation (21/35) correctly, with a correct answer can be awarded full marks.

[2] only can be awarded for an answer without any working.

OFR applies if a student makes a calculation error in the percentage change in income, [2] can be awarded

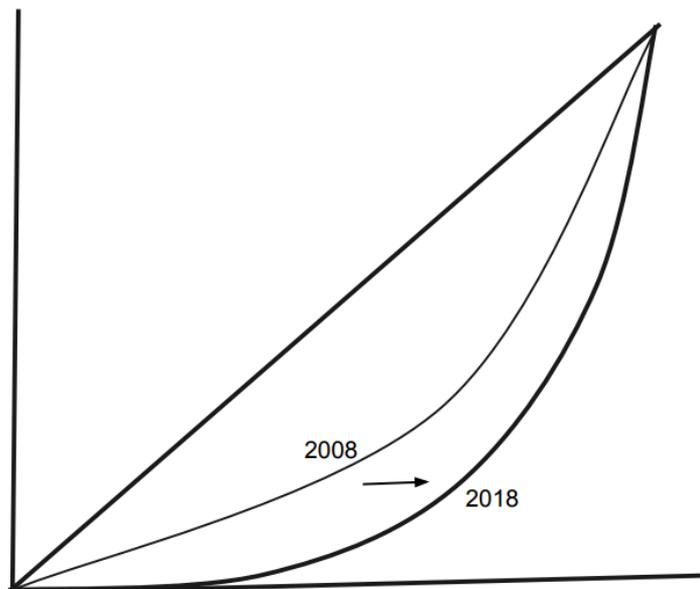
If a student makes a calculation error in the final YED figure, [2] only can be awarded.

- (ii) Sketch a Lorenz curve diagram to show the change in Tanzania’s Gini coefficient from 2008 to 2018 (Table 2). [2]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram <b>BUT</b> incorrect labelling.	1
	For sketching a correct Lorenz curve showing an outward shift away from line of perfect/absolute equality.	
2	There is a correct diagram <b>AND</b> correct labelling.	2
	For sketching a correctly labelled Lorenz curve showing an outward shift away from line of perfect/absolute equality.	

Candidates who incorrectly label diagrams can be awarded a maximum of [1]. 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/people/households or percentage of population/people/households. A title is not necessary.

(Cum)% income



(Cum)% households

(c) Using an AD/AS diagram, explain how crowding out may help control inflationary pressure in Tanzania (**Text A**, paragraph 5).

[4]

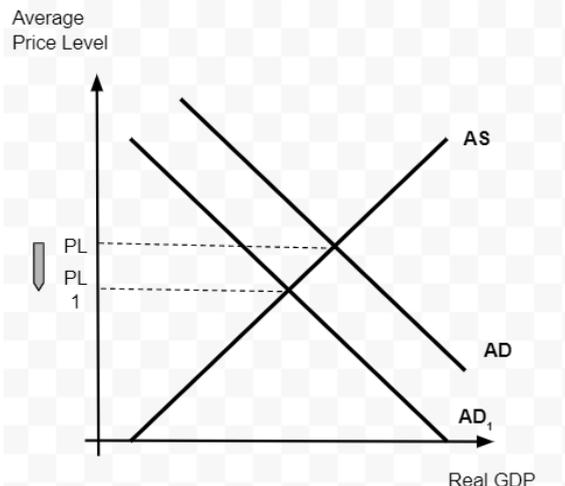
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For a correct AD/AS diagram with appropriate labelling showing a shift in the AD curve to the left and a decrease in the average price level. <b>OR</b> For an explanation that the government increases demand for loans/money ( <b>and</b> ): <ul style="list-style-type: none"> <li>• which increases interest rate/cost of borrowing [1]</li> <li>• lowering investment/consumption, decreasing AD, and lowering inflationary pressure [1].</li> </ul>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correct AD/AS diagram with appropriate labelling showing a shift in the AD curve to the left and a decrease in the average price level. <b>AND</b> For an explanation that the government increases demand for loans/money ( <b>and</b> ): <ul style="list-style-type: none"> <li>• which increases interest rate/cost of borrowing [1]</li> <li>• lowering investment/consumption, decreasing AD, and lowering inflationary pressure [1].</li> </ul>	

*Alternative approach:*

Increased government expenditure/borrowing may crowd out resources/reduce funds available to private investors which increases interest rates/cost of borrowing [1], lowering investment, decreasing AD and lowering inflationary pressure [1].

*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. 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 title is not necessary.*



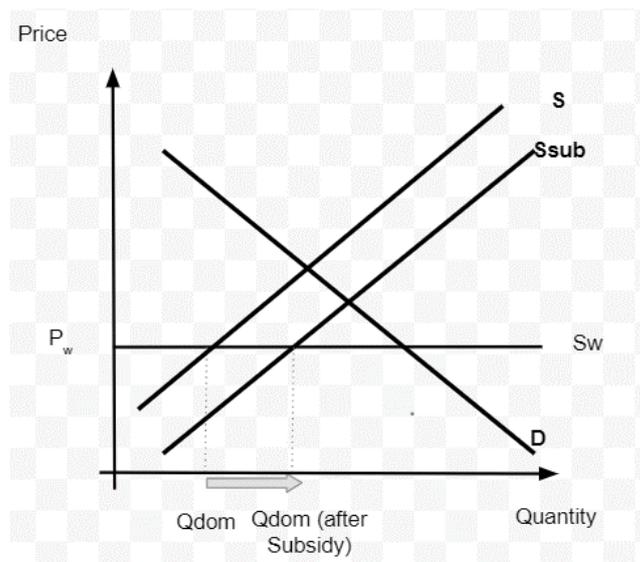
- (d) Using an international trade diagram, explain how a subsidy could help Tanzanian dairy farmers compete against imported dairy products (Text B, paragraph 3).

[4]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram <b>OR</b> an accurate written response.	1–2
	For a correct international trade diagram with appropriate labelling showing an increase of domestic supply (shift to the right), resulting in more domestic output at the world price. <b>OR</b> For an explanation that a subsidy lowers costs of production for Tanzanian farmers [1], increasing the amount supplied by the domestic producers (allowing domestic producers to compete with imports) [1].	
2	There is a correct diagram <b>AND</b> an accurate written response.	3–4
	For a correct international trade diagram with appropriate labelling showing an increase of domestic supply (shift to the right), resulting in more domestic output at the world price. <b>AND</b> For an explanation that a subsidy lowers costs of production for Tanzanian farmers [1], increasing the amount supplied by the domestic producers (allowing domestic producers to compete with imports) [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 price line may be labelled as S(World), SW, Pworld, PW, or any similar label indicating the horizontal line is the world price/supply. A title is not necessary.

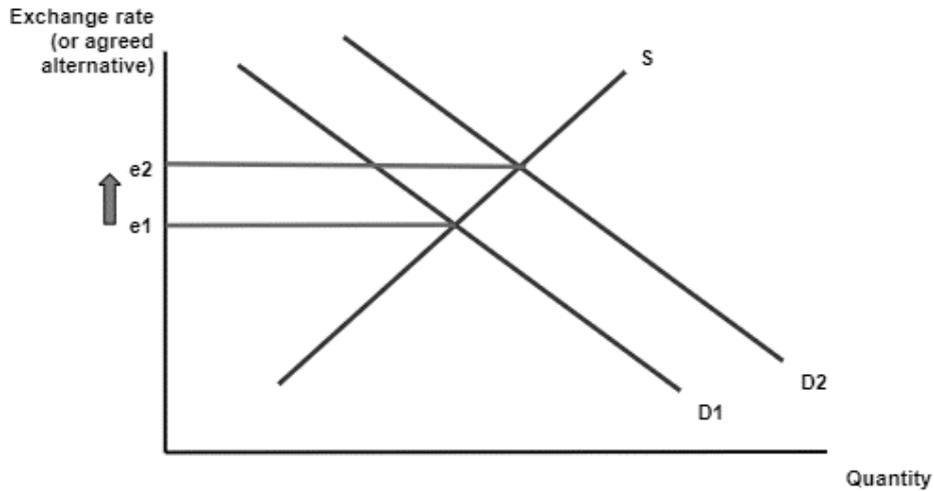


- (e) Using an exchange rate diagram, explain what could happen to the value of the Tanzanian shilling if there is increased inward foreign direct investment (FDI) in Tanzania (**Text B**, paragraph 4).

[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 a correct foreign exchange diagram showing a shift of demand to the right, with an increase in price of the Tanzanian currency (shilling). <b>OR</b> For an explanation that as foreign firms invest in Tanzania they will demand more of Tanzania's currency/shilling [1] which increases the price/value of the currency / appreciation [1].	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correct foreign exchange diagram showing a shift of demand to the right, with an increase in price of the Tanzanian currency (shilling). <b>AND</b> For an explanation that as foreign firms invest in Tanzania they will demand more of Tanzania's currency/shilling [1] which increases the price/value of the currency / appreciation [1].	

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



For an exchange rate diagram, the vertical axis may be:

- exchange rate
- price (or P) of Tanzanian currency in other currencies
- other currency/Tanzanian currency
- other currency per Tanzanian currency
- Tanzanian currency to/against other currency

The horizontal axis should be quantity or Q or quantity of Tanzanian currency/shilling. A title is not necessary.

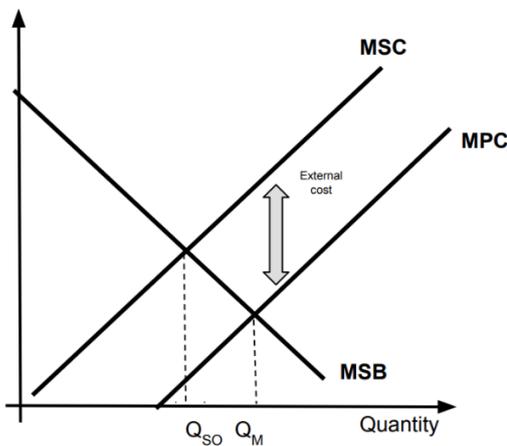
- (f) Using an externalities diagram, explain how the construction of an oil pipeline through Tanzania could result in market failure (**Text C**). **[4]**

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 <b>OR</b> an accurate written response.</i>	1–2
	For a correct negative externality of production diagram with appropriate labelling showing MSC above MPC and market equilibrium quantity indicated above the socially optimum level of output with the welfare loss or externality identified. <b>OR</b> For explaining that market failure exists because the oil pipeline creates a negative externality of production due to the negative impact on a 3rd party/environment <b>[1]</b> resulting in a welfare loss/external cost/socially optimum quantity is lower than the market quantity/MSC≠MSB <b>[1]</b> .	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correct negative externality of production diagram with appropriate labelling showing MSC above MPC and market equilibrium quantity indicated above the socially optimum level of output with the welfare loss or externality identified. <b>AND</b> For explaining that market failure exists because the oil pipeline creates a negative externality of production due to the negative impact on a 3rd party/environment <b>[1]</b> resulting in a welfare loss/external cost/socially optimum quantity is lower than the market quantity/ MSC≠MSB <b>[1]</b> .	

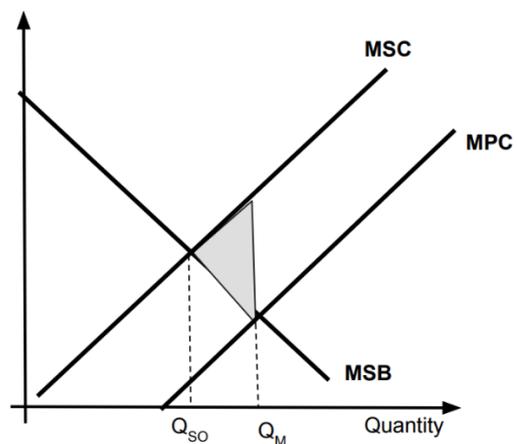
*Candidates who incorrectly label diagrams can be awarded a maximum of [3].*

*The vertical axis may be price but could be costs or benefits. The horizontal axis is quantity. P and Q are sufficient. A title is not necessary.*

Price/Benefits/  
Costs



Price/Benefits/  
Costs



- (g) Using information from the text/data and your knowledge of economics, discuss the different barriers to economic growth **and** to economic development faced by Tanzania.

[15]

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

Marks	Level descriptor
0	<ul style="list-style-type: none"> <li>• The work does not reach a standard described by the descriptors below.</li> </ul>
1–3	<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>
4–6	<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>
7–9	<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>
10–12	<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>
13–15	<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>

*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.

*Definitions may include:*

Economic growth  
Economic development  
Interventionist supply-side policies

*Economic models to support analysis may include:*

- Lorenz diagram
- ADAS diagram
- Poverty cycle
- PPC

*Possible barriers to economic growth and/or economic development in Tanzania may include a discussion on some of the following:*

**Increasing absolute poverty**

- Absolute poverty means that people do not have access to basic needs, trapping them in the poverty cycle and limited possibilities for economic growth and development. (**Text A**, paragraph 1, **table 2**)
- But relative poverty has fallen possibly explained by the divide between urban and rural areas (**Text A**, paragraph 1, **Table 2**)
- Although HDI has improved, the HDI country ranking is lower, meaning that Tanzania’s economic development has not improved as much compared to other countries (**Table 2**).

**Rising inequality:**

- Gini coefficient has increased from 2000-2018 (**table 2**), may lead to problems with social unrest (**Text A**, paragraph 4).
- Persistent inequality has not allowed for all people to benefit from the economic growth (**Text A**, paragraph 1)
- Rural – urban inequalities (**Text A**, paragraph 1, **Table 2** data)
  - growth has not reached rural areas due to the focus on manufacturing and service industries (**Text A**, paragraph 1)
  - Most of the population is employed in agriculture (**Text A**, paragraph 2), limited opportunity for higher skilled jobs, which leads to higher incomes, better human capital, supporting further economic growth and development.
  - Rural areas have less access to electricity (**Table 2**), less economic development, also may inhibit new businesses and investment needed in rural areas (**Text A**, paragraph 3).
  - Urban middle class accessing more resources (**Text A**, paragraph 4), resources may not be used in areas of need hindering economic development and economic growth.
  - Higher youth unemployment (**Table 1**), youth may be less skilled/experienced and therefore may find it more difficult to find jobs leading to lower growth and development.

**Limited infrastructure:**

- Insufficient infrastructure is significant as it supports the functioning of an economy and the ability for the population to conduct economic activity hindering economic growth. (**Text B**, paragraph 1).
- Inappropriate provision of infrastructure - urban rather than rural (**Text A**, paragraph 4), leading to less opportunities for economic growth and development.
- Farmers complaining that they cannot reach markets or suppliers due to lack of infrastructure (**Text B**, paragraph 1)
- Insufficient infrastructure may slow down potential land development, which is currently only using 30% (**Text A**, paragraph 2) limiting economic growth and access to increased income opportunities in the rural areas.

**Low levels of human capital:**

- Rural sector only involved in unskilled work, so population not developing human capital (**text A**, paragraph 2), limiting opportunities for economic development.
- Economic growth focussed on capital intensive manufacturing/services (**text A**, paragraph 1), limiting opportunities for developing human capital and economic development.
- Education spending has decreased (**Table 2**).
- Numbers of students completing secondary school has fallen (**Table 2**).
- Currently not exploiting opportunities EAC may offer the low-income earners as human capital needs improving (**text B**, paragraph 4)
- Less significant over time if aid programmes are successful (**Text B**, paragraph 2).

**Access to healthcare**

- Improvements in healthcare struggle to keep up with population growth (**Text B**, paragraph 1).
- Government spending on healthcare has decreased (**Table 2**).
- Leads to poor human capital - traps people in the poverty cycle.

**Rural sector barriers/Reliance on primary sector:**

- Poor productivity in the rural sector (**Text A**, paragraph 3).
- Lack of investment (**Text A**, paragraph 3).
- Low YED (**Text A**, paragraph 2) leads to limited growth - economic growth needed for economic development.
- However, a new oil pipeline might bring in FDI, fund infrastructure and create new jobs. (**Text C**, paragraph 1)
- Aid and government programmes could encourage new business development (**Text B**, paragraph 2)
- Lack of tradable crops and land resources not fully utilised to fully capacity (**Text A**, paragraph 2).

**Level of external and government (national) debt:**

- Financing repayments could take funds away from development initiatives (**Table 1, Text 1** paragraph 5)
- Significant at the moment with the depreciating currency (**Text A**, paragraph 5), but may be less of an issue if there is increased FDI (ECA and oil pipeline) inflows which may increase the demand of the currency and therefore the value. (**Text B**, paragraph 4, **Text C**, paragraph 1).

**Informal Sector:**

- Number of migrating youths are employed in the urban informal sector\ where working conditions are poor and unlikely to develop human capital (**Text A** paragraph 3).

**Access to credit:**

- Economists advised government to improve access to credit. If farmers cannot access credit, it is difficult for them to access capital needed to diversify. (**Text B**, paragraph 2).

**Property rights:**

- Lack of property rights has historically disincentivized farmers to invest in production, leading to low skills/productivity. Less significant now as the government has begun to introduce clear property rights. (**Text B**, paragraph 3).

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

*A maximum of [9] should be awarded if **only** economic growth **or** economic development is discussed.*

2. (a) (i) Define the term *humanitarian aid* indicated in bold (**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> The idea that it is when aid is provided to help another country/region.	1
2	<i>Accurate definition</i> An understanding that it is aid given to alleviate short-term suffering/in emergencies <b>[1]</b> in the form of basic necessities/emergency relief aid (supplies)/aid such as food/medical aid <b>[1]</b> .	2

- (ii) Define the term *monopoly* indicated in bold (**Text E**, 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> The idea that it is a market structure where there is only one firm/dominant firm in the industry.	1
2	<i>Accurate definition</i> An understanding that it is a market structure where there is only one firm/dominant firm in the industry. <b>And one</b> of the following: <ul style="list-style-type: none"> <li>• High barriers to entry.</li> <li>• Unique product/no close substitutes</li> <li>• Or any other characteristics.</li> </ul>	2

- (b) (i) Using information from **Table 3**, calculate the 2015 gross national income for Lebanon. [3]

$$\text{GNI} = \text{GDP} + \text{net income from abroad} \text{ [1]}$$

$$\text{GNI} = 50 + (2.4 - 2.9) \text{ [1]}$$

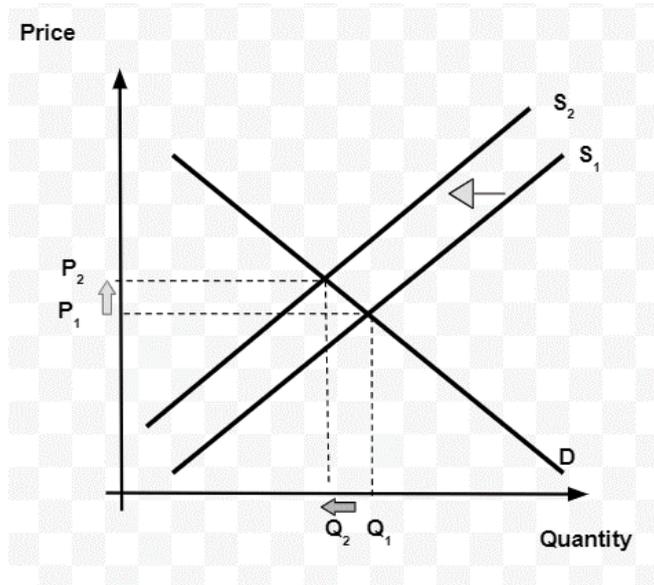
$$\text{GNI} = (\text{US})\$49.5 \text{ billion [1]}$$

*For full marks to be awarded, the response must provide valid working and include correct units.*

- (ii) Sketch a demand and supply diagram to show the impact of an indirect tax on the market for social media applications such as WhatsApp (Text E, paragraph 1).

[2]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram <b>BUT</b> incorrect labelling.	1
	For drawing a correct demand and supply diagram curve showing a decrease in supply/shift to the left.	
2	There is a correct diagram <b>AND</b> correct labelling.	2
	For drawing a correctly labelled demand and supply diagram curve showing a decrease in supply/shift to the left.	



Candidates who incorrectly label diagrams can be awarded a maximum of [1].

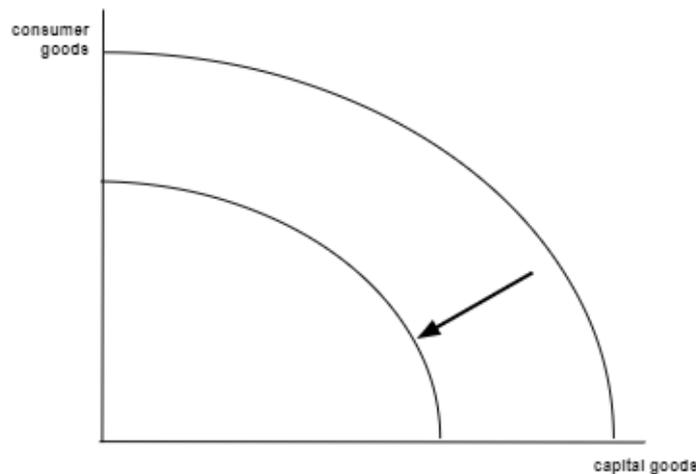
For a demand and supply diagram, the vertical axis should be price or P. The horizontal axis should be quantity or Q. A title is not necessary.

- (c) Using a PPC diagram, explain the impact of the damage to the major buildings in Beirut on Lebanon's productive capacity (**Text D**, 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 a correct PPC diagram with appropriate labelling showing an inward shift of the curve. <b>OR</b> For an explanation that the damage leads to a decrease in quality/quantity of infrastructure/ capital/factors of production/resources <b>[1]</b> and therefore, decreasing productive capacity <b>[1]</b> .	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correct PPC diagram with appropriate labelling showing an inward shift of the curve. <b>AND</b> For an explanation that the damage leads to a decrease in quality/quantity of infrastructure/ capital/factors of production/resources <b>[1]</b> and therefore, decreasing productive capacity <b>[1]</b> .	

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

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



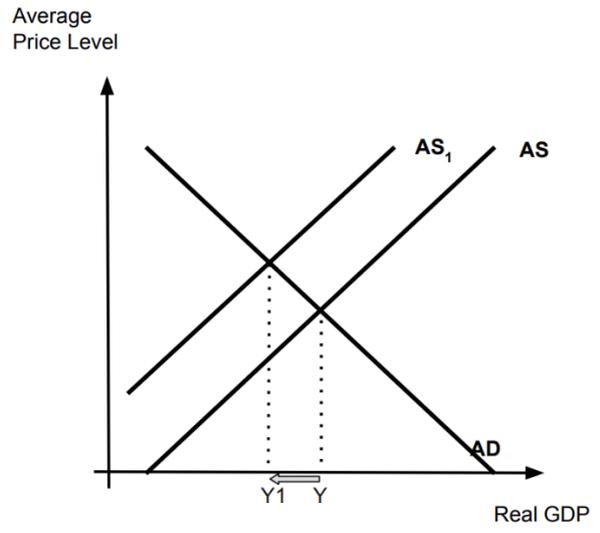
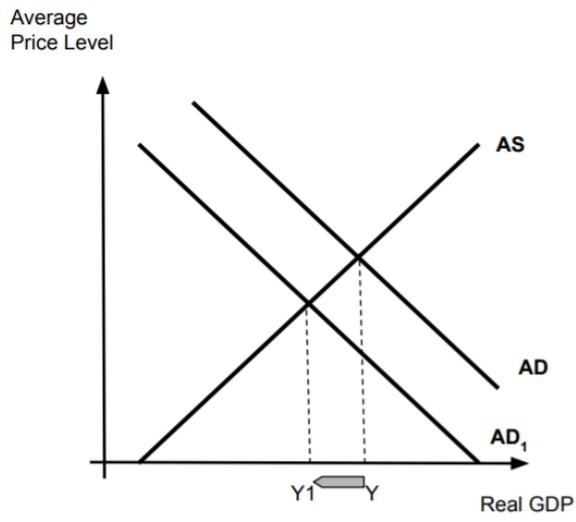
- (d) Using an AD/AS diagram, explain how falling remittances may affect Lebanon’s real output (**Text E**, paragraph 3).

[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 correct AD/AS diagram with appropriate labelling showing a decrease in AD or AS, shift to the left and a decrease in real output. <b>OR</b> For an explanation that the loss of remittances sent to Lebanon may decrease consumption and/or investment, leading to a decrease in AD [1] and therefore leading to a decrease in real output [1] <b>OR</b> A fall in remittances causes fall in value of pound leading to increased imported input prices resulting in a decrease in SRAS [1], and therefore leading to a decrease in real output [1].	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an AD/AS diagram with appropriate labelling showing a decrease in AD or AS, shift to the left and a decrease in real output. <b>AND</b> For an explanation that the loss of remittances sent to Lebanon may decrease consumption and/or investment, leading to a decrease in AD [1] and therefore leading to a decrease in real output [1] <b>OR</b> A fall in remittances causes fall in value of pound leading to increased imported input prices resulting in a decrease in SRAS [1], and therefore leading to a decrease in real output [1].	

*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. 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 title is not necessary.*



- (e) Using an exchange rate diagram, explain how Lebanon's current account balance could affect the Lebanese pound (**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 <b>OR</b> an accurate written response.</i>	1–2
	For a correct exchange rate diagram with appropriate labelling showing a shift of supply to the right and/or demand to the left, with a decrease in the price of the pound. <b>OR</b> For an explanation that as there is a current account deficit, caused by increased import value and/or decreased export value [1], Lebanese are supplying pounds to pay for the imported products and/or foreigners are demanding less pounds to pay for exports, resulting in a decrease of the price of the pound/depreciation [1].	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correct exchange rate diagram with appropriate labelling showing a shift of supply to the right and/or demand to the left, with a decrease in the price of the pound. <b>AND</b> For an explanation that as there is a current account deficit, caused by increased import value and/or decreased export value [1], Lebanese are supplying pounds to pay for the imported products and/or foreigners are demanding less pounds to pay for exports, resulting in a decrease of the price of the pound/depreciation [1].	

*Alternatively, students can refer to net transfers or net income in the explanation and be awarded full marks.*

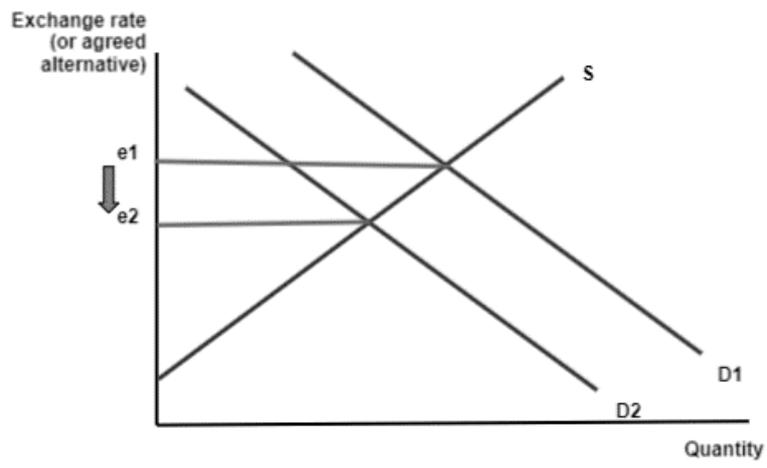
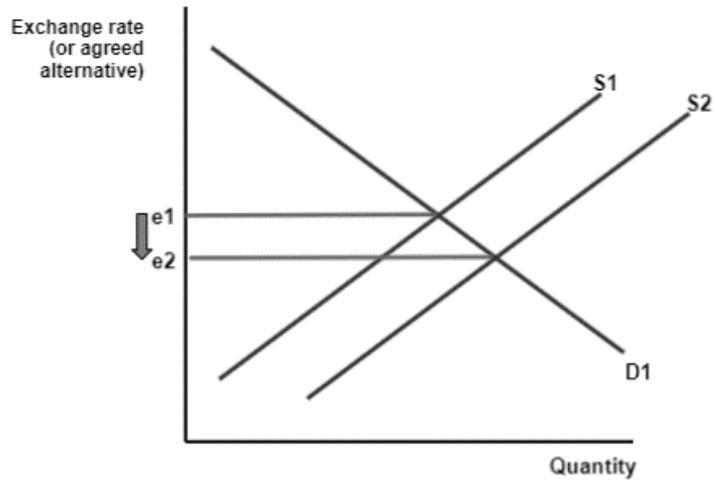
*Candidates who incorrectly label diagrams can be awarded a maximum of [3].*

*The diagram used must be appropriate for the explanation for full marks.*

*For an exchange rate diagram, the vertical axis may be;*

- *exchange rate*
- *price (or P) of Lebanese pound currency in other currencies*
- *other currency/Lebanese pound*
- *other currency per Lebanese pound*
- *Lebanese pound to/against other currency*

*The horizontal axis should be quantity or Q or quantity of Lebanese pound. A title is not necessary.*



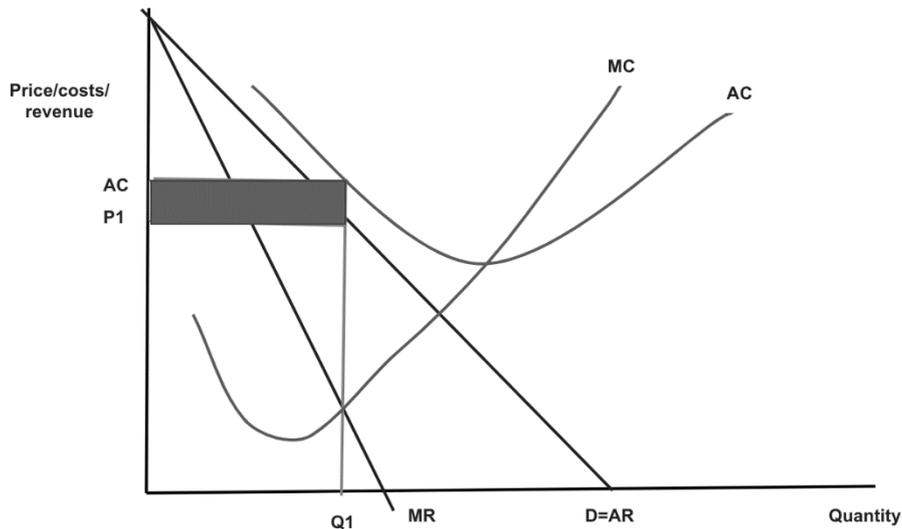
- (f) Using a monopoly diagram, explain why a profit-maximizing state-run telecommunications firm might be making a loss (Text E, paragraph 2).

[4]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram <b>OR</b> an accurate written response.	1–2
	For a correct profit maximizing monopoly diagram with appropriate labelling showing a loss. <b>OR</b> High costs, due to inefficiencies/mismanagement <b>OR/AND</b> insufficient D(AR) due to poor service [1], losses will arise because AC/TC is greater than AR/TR/price [1] (at the profit maximising/loss minimising output).	
2	There is a correct diagram <b>AND</b> an accurate written response.	3–4
	For a correct profit maximizing monopoly diagram with appropriate labelling showing a loss. <b>AND</b> High costs, due to inefficiencies/mismanagement <b>OR/AND</b> insufficient D(AR) due to poor service [1], losses will arise because AC/TC is greater than AR/TR/price [1] (at the profit maximising/loss minimising output).	

For a monopoly diagram, the vertical axis may be labelled Cost (C), Price (P) or Revenue (R). The horizontal axis may be labelled Quantity (Q) or Output. A title is not necessary.

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 impact of the proposed IMF conditions (**Text F**, paragraph 1) on Lebanon’s economic growth **and** economic development.

[15]

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

Marks	Level descriptor
0	<ul style="list-style-type: none"> <li>• The work does not reach a standard described by the descriptors below.</li> </ul>
1–3	<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>
4–6	<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>
7–9	<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>
10–12	<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>
13–15	<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>

*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.

Definitions **may** include:

- Economic growth
- Economic development

Economic models to support analysis **may** include:

- PPC
- Lorenz curve
- ADAS diagram
- Poverty cycle
- Exchange rate diagram

Discussion **may** include **some** of the following proposed IMF conditions:

Procedures and processes established to ensure good governance, including enforcement of anti-corruption laws:

- High levels of corruption (**table 4**) have led to misallocation of funds (**text D**, paragraph 1). Growth has not occurred because funds are not given to areas of need. Anti-Corruption will prevent this, resources allocated more efficiently leading to increases in AD/AS leads to higher econ growth leading to higher levels of output and employment.
- Good governance and accountability (**text F**, paragraph 2) is needed for confidence to attract investment (domestic and foreign) which would support growth.
- Good governance and accountability (**text F**, paragraph 2) needed for aid to provide support which is aimed at rebuilding infrastructure and small/medium size business growth. This may help with growth, but also development.
- High levels of corruption are often associated with low growth and instability, growing poverty.
- Decrease tax evasion and improve tax collection to support problems with growing budget deficit, debt and provide funds needed to support growth.

Financial sector reforms implemented to build confidence in the banking system and laws to control capital flight:

- Build confidence in banking sector to encourage remittances to come back into the country - increases AD, supporting economic growth and may help with the relative poverty growth (**table 4**)
- Will help control capital flight (**text D**, paragraph 1), and the resulting downward pressure this place on the currency, this may help with cost push inflation (**text E**, paragraph 3).

Government spending reduced and revenue increased through higher corporate, wealth and personal income taxes for high-income earners. Introduction of a tax on imported luxury goods and an increase of indirect taxes:

- Budget deficit will be helped (**Table 3**)
- Fiscal measures may result in decreased AD and hardship for some groups, may lead to further reduction in AD, further negative growth, loss of output, increased unemployment, lower economic development.
- If reduced spending is on removal of subsidies on basic needs hinders economic development (**Text E**, paragraph 1)
- Increased tax revenue could be used to fund inadequate infrastructure (**text D**, paragraph 2), and development of the manufacturing sector. (**Text F**, paragraph 2)
- Progressive tax system to redistribute income helps to decrease poverty/income inequality (**text D**, paragraph 1). Improving income equality leads to economic development. May help with the relative poverty (**table 4**)
- Increase government revenue through indirect taxes - helps with meeting debt repayments therefore improving credit ratings and access to loans (**text D**, paragraph 3)
- Indirect tax increases, decrease AS - cause cost push inflation is already problematic (**text E**, paragraph 1, **Table 3**).

Partially privatizing the electricity and telecommunications sectors to increase efficiency and encourage the exploration of new energy sources.

- Efficient electricity and telecommunications that are essential for business activity to lead to economic development.
- Private partnership will encourage more efficiency, average costs may decrease, reduce need for government subsidies, and less pressure on the budget deficit (**Text E**, paragraph 2)
- Private sector may have conflicting objectives.
- New energy projects will be initiated to improve supply of electricity, improving quality and quantity of resources through better infrastructure (**Text D**, paragraph 2).

Transitioning from a managed to a floating exchange rate system.

- May initially be another depreciation - higher cost push inflation, however exports (luxury tourism) will become cheaper and more competitive - help with the persistent current account deficit (**Text D**, paragraph 3).
- Less reserve assets needed to maintain the managed rate. (**Text E**, paragraph 3).
- Floating rate is more likely to be self-correcting and therefore interest rate can be used for other objectives instead of attracting financial inflows to cover the current account deficit. (**Text D**, paragraph 3).
- Managed rates may have more certainly compared to floating.

If Lebanon meets the conditions, then this leads to:

- Government debt restructuring (**Text F**, paragraph 1, **table 3**):
  - Creating a sustainable repayment plan may ease debt repayments so the government can spend in other areas of need.
  - Will restructure debt to avoid future defaults (**text D**, paragraph 3), so will improve credit rating for future borrowing for further investment.
- Funds for infrastructure will be obtained (**Text F**, paragraph 1).

However,

- Unknown level of interference (**Text F**, paragraph 3)
- Any conditional lending may go against other government objectives. Poverty may increase further (**Text F**, paragraph 3).

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

*A maximum of **[9]** should be awarded if **only** economic growth **or** economic development is discussed.*

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