

Markscheme

May 2025

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, 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 script for each type of error.

1. (a) (i) Define the term *tariff* indicated in bold in the text (**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 a trade barrier /a form of protectionism	
2	<i>Accurate definition</i>	2
	An understanding that it is a tax (duty) on imports	

- (ii) List **two** components of the *Human Development Index* indicated in bold in **Table 3**. **[2]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i>	1
	Any one of the following: <ul style="list-style-type: none"> • Life expectancy (at birth) • Mean years of schooling • Expected years of schooling • GNI (or GDP) per capita PPP OR real GNI (or GDP) per capita. 	
2	<i>Accurate definition</i>	2
	Any two of the following: <ul style="list-style-type: none"> • Life expectancy (at birth) • Mean years of schooling • Expected years of schooling • GNI (or GDP) per capita PPP OR real GNI (or GDP) per capita. 	

- (b) (i) Using information from **Table 1**, calculate Kenya’s balance of trade in goods for 2023 in billions of USD. [1]

$$-12.24 \quad [1]$$

An answer of –12.24 without working or units is sufficient for [1].

- (ii) Using information from **Table 1** and your answer to (b)(i), calculate Kenya’s balance of trade in services for 2023 in billions of USD. [2]

$$-12.24 + x - 2.67 + 6.98 = -6.32 \quad [1]$$

$$x = -6.32 + 12.24 - 4.31$$

Any valid working should be rewarded with [1].

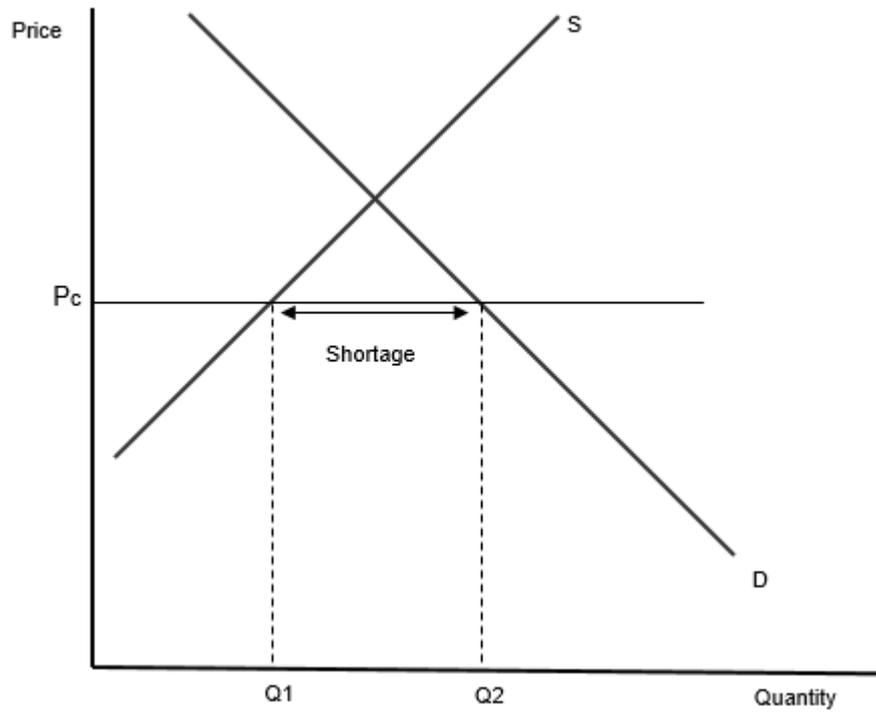
$$= 1.61 \quad [1]$$

An answer of 1.61 without working is sufficient for [1].

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

OFR applies.

- (iii) Sketch a demand and supply diagram to indicate that a price ceiling on essential food in Kenya may cause a shortage of food in Kenya (**Text A**, paragraph 2). [2]



Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	For sketching a diagram with correct labels for the curves and the axes, showing the maximum price below the equilibrium	1
2	For sketching a correctly labelled diagram showing the maximum price below the equilibrium and indicating the excess demand/shortage	2

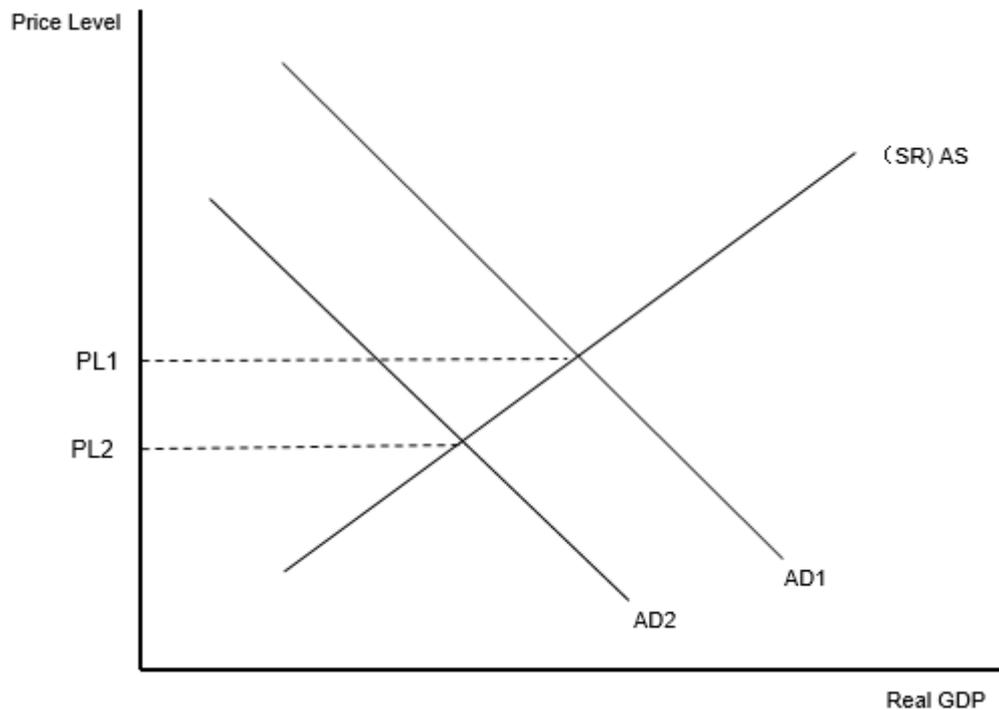
The axes can be labelled as P and Q. The shortage/excess demand may be indicated in other ways, which if accurate can be rewarded. A title is not necessary.

- (c) Using an AD/AS diagram, explain why a contractionary monetary policy may reduce inflation in Kenya (**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 correctly labelled AD/AS diagram, showing AD shifting to the left and a fall in the price level OR for an explanation that a contractionary monetary policy raises interest rates (or reduces money supply) which reduces investment (or consumption) and causes spending/AD to decline. (This reduces the price level/prices/inflation.)	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correctly labelled AD/AS diagram, showing AD shifting to the left and a fall in the price level AND for an explanation that a contractionary monetary policy raises interest rates (or reduces money supply) which reduces investment (or consumption) and causes spending/AD to decline. (This reduces the price level/ prices/inflation.)	

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.

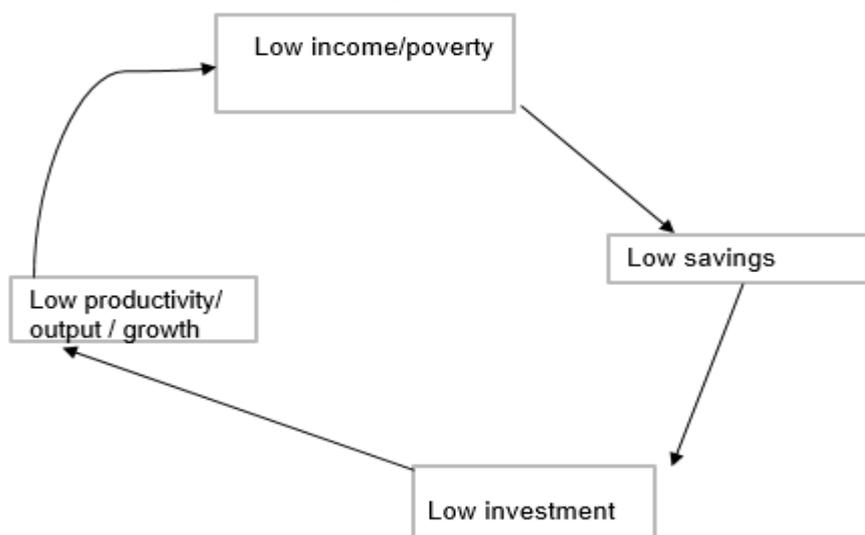
A Keynesian AS is acceptable, but the intersection with AD1 should not be in the horizontal section of the curve. A title is not necessary.

Alternatively, the AD curve may be shown moving right (or the AS curve moving left) and causing inflation, with the AD curve then being shifted left due to the contractionary policy. If explained correctly, this approach can be fully rewarded.

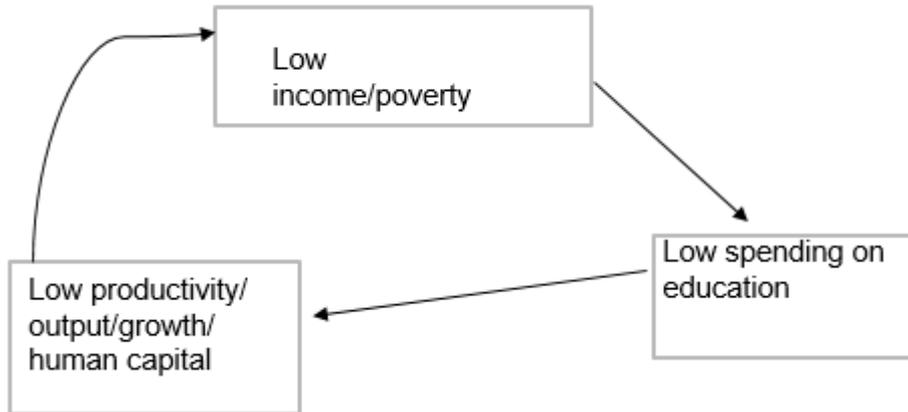
- (d) Using a poverty cycle diagram, explain how the Hustler fund could reduce poverty in Kenya (Text B, paragraph 2). [4]

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 correct poverty cycle diagram, beginning and ending with low income/poverty OR an explanation that the increased access to finance means that there will be more investment/spending on education, which will break the cycle and result in higher income/less poverty. N.B. The explanation needs to be consistent with the diagram and contain economic concepts.	
2	There is a correct diagram AND an accurate written response.	3–4
	For a correct poverty cycle diagram, beginning and ending with low income/poverty AND an explanation that the increased access to finance means that there will be more investment/spending on education, which will break the cycle and result in higher income/less poverty. N.B. The explanation needs to be consistent with the diagram and contain economic concepts.	

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



OR



Either poverty cycle diagram is acceptable, so long as it is consistent with the explanation. Other poverty cycle diagrams may also be acceptable if the diagram is consistent with the explanation and includes references to

- investment or education
- low income/poverty
- productivity/human capital/output/growth

If **only two** of the above are included, the diagram is awarded [1].

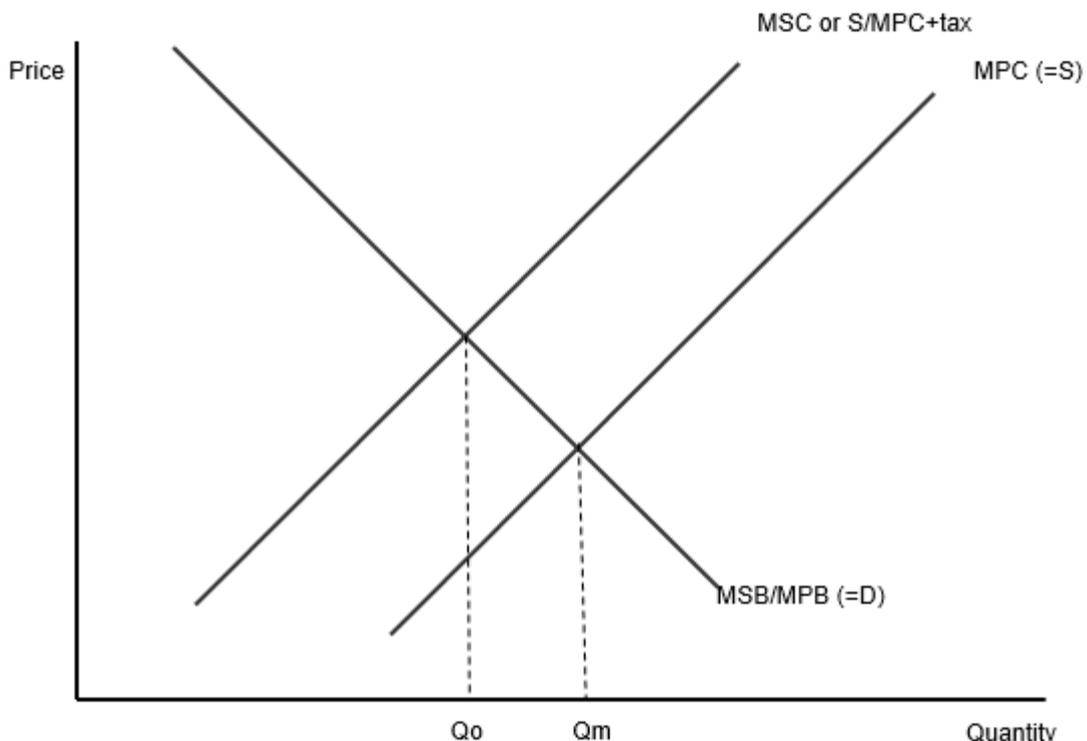
Alternatively, the poverty cycle may be constructed to show the effects of **higher** investment/education. If it includes the concepts listed above, this can be fully rewarded.

- (e) Using an externalities diagram, explain how a carbon tax could reduce the market failure due to the use of fossil fuels by manufacturing firms in Kenya (Text C, 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
	<p>For a correctly labelled externalities diagram, showing a negative production externality and a difference between market and optimum quantities, with the MPC curve shifting upwards due to the tax OR for an explanation that the tax raises the price/lowers the quantity or raises costs. Consequently (any one of the following):</p> <ul style="list-style-type: none"> • the market quantity moves (closer) to the optimum quantity • the welfare loss is removed/reduced • MPC is increased to align with MSC • a new equilibrium where $MSB=MSC$ <p>N.B. If a candidate incorrectly identifies the situation as a negative consumption externality, resulting in an incorrect diagram, this should not be penalized again in the explanation.</p>	

	<i>The explanation may still be awarded up to [2] if it otherwise meets the markscheme requirements. The diagram may, additionally be awarded [1], if it shows the correct effect of the carbon tax (the MPC (=S) curve shifting left) and is fully and correctly drawn and labelled to show a negative consumption externality.</i>	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	<p>For a correctly labelled externalities diagram, showing a negative production externality and a difference between market and optimum quantities, with the MPC curve shifting upwards due to the tax AND for an explanation that the tax raises the price/lowers the quantity or raises costs. Consequently (any one of the following):</p> <ul style="list-style-type: none"> • the market quantity moves (closer) to the optimum quantity • the welfare loss is removed/reduced • MPC is increased to align with MSC • a new equilibrium where $MSB=MSC$ <p>N.B. <i>If a candidate incorrectly identifies the situation as a negative consumption externality, resulting in an incorrect diagram, this should not be penalized again in the explanation. The explanation may still be awarded up to [2] if it otherwise meets the markscheme requirements. The diagram may, additionally be awarded [1], if it shows the correct effect of the carbon tax (the MPC (=S) curve shifting left) and is fully and correctly drawn and labelled to show a negative consumption externality.</i></p>	



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

The vertical axis may be price or costs or benefits. The axes can be labelled as P and Q. A title is not necessary.

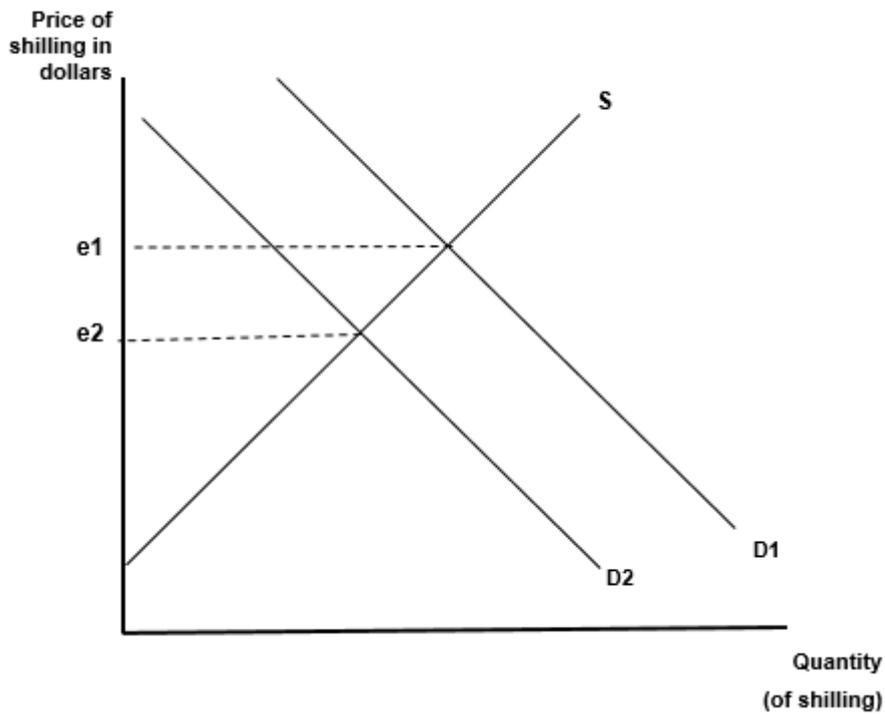
Alternatively, the diagram can show the effect of a tax that is less than the unit negative externality, so that the market failure is reduced (which is a more precise response to the question) rather than fully eliminated. This should be fully rewarded.

- (f) Using an exchange rate diagram, explain the likely effect on the exchange rate for the Kenyan shilling (KES) of the change from 2015 to 2022 in Kenya’s net portfolio investment (**Table 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 exchange rate diagram, showing demand shifting left and the exchange rate decreasing OR for an explanation that lower net inflows/credits (or increased net outflows/debits) of portfolio investment mean that there is less buying (or increased selling) of the KES. This leads to a fall in the exchange rate/ depreciation.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correctly labelled exchange rate diagram, showing demand shifting left and the exchange rate decreasing AND for an explanation that lower net inflows/credits (or increased net outflows/debits) of portfolio investment mean that there is less buying (or increased selling) of the KES. This leads to a fall in the exchange rate/ depreciation.	

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



The vertical axis may be labelled

- *exchange rate*
- *price or value of shilling in another currency,*
- *other currency/ shilling,*
- *other currency per shilling.*

The horizontal axis may be quantity or quantity of shilling. All abbreviations are acceptable. A title is not necessary.

Alternatively, the supply curve may be shown shifting right, as there is more outward portfolio investment. If correctly explained, this can be fully rewarded. (VAM)

- (g) Using information from the text/data and your knowledge of economics, discuss the consequences of high economic growth in Kenya.

[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.

Terminology may include:

- growth
- sustainability
- equity
- economic well-being
- development
- externalities
- opportunity costs/choice
- absolute/relative poverty
- nominal/real GDP

Economic models to support analysis may include:

- an externalities diagram
- a labour market diagram
- a PPC diagram
- an AD/AS diagram
- a Lorenz curve diagram

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

Candidates are not expected to cover every possible consequence of growth in order to achieve high marks.

Responses may include:

Variable impacted	Benefits of growth	Costs of growth/sectors not benefiting
Living standards	Rising because both per capita real GDP and HDI rising (Text A , paragraph 1; Table 2) and absolute poverty falling which can ameliorate the poverty cycle (Text B , paragraph 1).	Rural poverty continues (Text B , paragraph 1).
Structure of GDP	The economy is diversifying with increases in manufacturing, tourism, etc (Text A , paragraph 1).	But increases in manufacturing etc may mean that agricultural output is neglected, leading to food prices rising, food insecurity, and continuing low productivity (Text A , paragraphs 2 & 3; Text B , paragraph 1).
Inflation	Economy is growing without hyperinflation (Table 2).	High growth could be causing demand-pull inflation, though the main cause seems to be cost-push (Text A , paragraph 3). However, the depreciation (to promote exports) is probably adding to inflation (Text A , paragraph 5).

Distribution of income	Gini coefficient decreasing and therefore less inequality (Text B , paragraph 1; Table 3).	Could be causing more inequality between sectors, because some benefit more from growth (e.g. tourism, urban areas) (Text B , paragraph 1).
Employment	Employment opportunities increasing for certain sectors (Text A , paragraph 1).	Youth unemployment continues and a lot of employment is in the informal sector (which has not fallen). Possibly causing structural unemployment (Text A , paragraph 1; Text B , paragraph 1, Table 3).
Government budget	Higher tax revenues and therefore a lower budget deficit (Text A , paragraph 4).	
Government spending	More government spending possible on transfer payments or infrastructure or education or the Hustler fund, which could eventually improve human capital (raising potential GDP) and the distribution of income (Text A , paragraph 4; Text B , paragraph 2).	
International trade/ financial flows	Growth of secondary and tertiary sectors means that export revenues are more predictable than when most exports are primary goods (Text A , paragraph 5).	Growth may eventually lead to less foreign aid and support (e.g. from World Bank) if Kenya becomes a high-income country (Text A , paragraph 4; Text C , paragraph 4).
The environment	Growth which is based on climate-related projects will improve the environment (Text C , paragraphs 2 & 4) Kenya is taking measures to reduce environmental problems and perhaps can afford to do so (with public-private partnerships) because it is growing (Text C , paragraph 1 & 2).	Growth leads to more carbon emissions and deforestation, etc. (Text C , paragraph 1) Growth leads to more urbanization and more need for transport, which can have negative externalities (Text C , 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 *balance of payments* indicated in bold in the text (**Text D**, paragraph 6). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i>	1
	The idea that it is a record of international transactions OR it consists of the current account, the capital account, and the financial account	
2	<i>Accurate definition</i>	2
	It is a record of transactions between one country and other countries/the rest of the world OR it is a record of credits and debits (or inflows and outflows) between one country and other countries/ the rest of the world	

- (ii) Define the term *entrepreneurship* indicated in bold in the text (**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>	1
	Entrepreneurship (any one of the following) <ul style="list-style-type: none"> • is a factor of production • takes risks/innovates in a business/firm or in order to make a profit • owns/starts a business/firm. 	
2	<i>Accurate definition</i>	2
	Entrepreneurship is a factor of production AND (any one of the following): <ul style="list-style-type: none"> • organizes the other factors (of production) • takes risks/innovates in a business/firm or in order to make a profit • owns/starts a business/firm. 	

- (b) (i) Using information from **Table 4**, calculate Bhutan’s real GDP in USD in 2008. [2]

$1227.81 / 143 \times 100$ [1]

858.61 million **or** 858,608,391.60 **or** 8.59×10^8 [1]

Any valid working is sufficient for [1] (e.g. if x100 has been neglected).

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

- (ii) Using your answer to part (i) and **Table 4**, calculate Bhutan’s real GDP per capita in USD in 2008.

[1]

1244.83

An answer of 1244.83 or 1244.84 or 1244.82 or 1245 or 0.0012 million or 1.24×10^{-3} million is sufficient for [1]

Working is not required.

OFR applies

- (iii) A cement firm based in Bhutan contributed BTN 400 000 to the nominal GDP of Bhutan in 2008. Using information from **Table 4**, calculate the firm’s contribution in USD to Bhutan’s nominal GDP in 2008.

[2]

400 000 / 43.51

Any valid working is sufficient for [1]

9193. 29

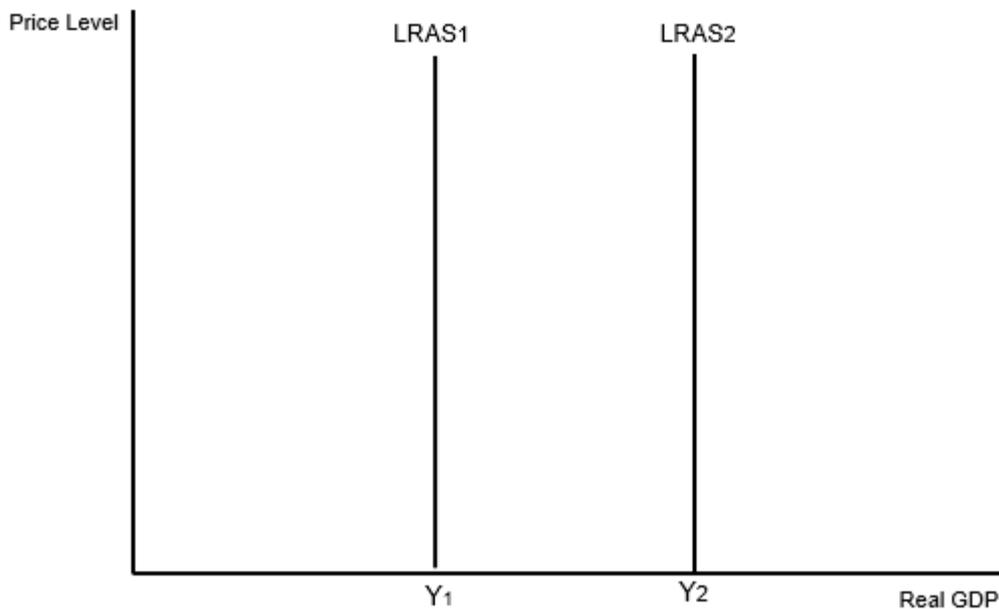
[1]

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

- (c) Using an AD/AS diagram, explain the likely effect on Bhutan’s potential (long-term) output of further government investment in hydropower projects (**Text D**, paragraph 2).

[4]

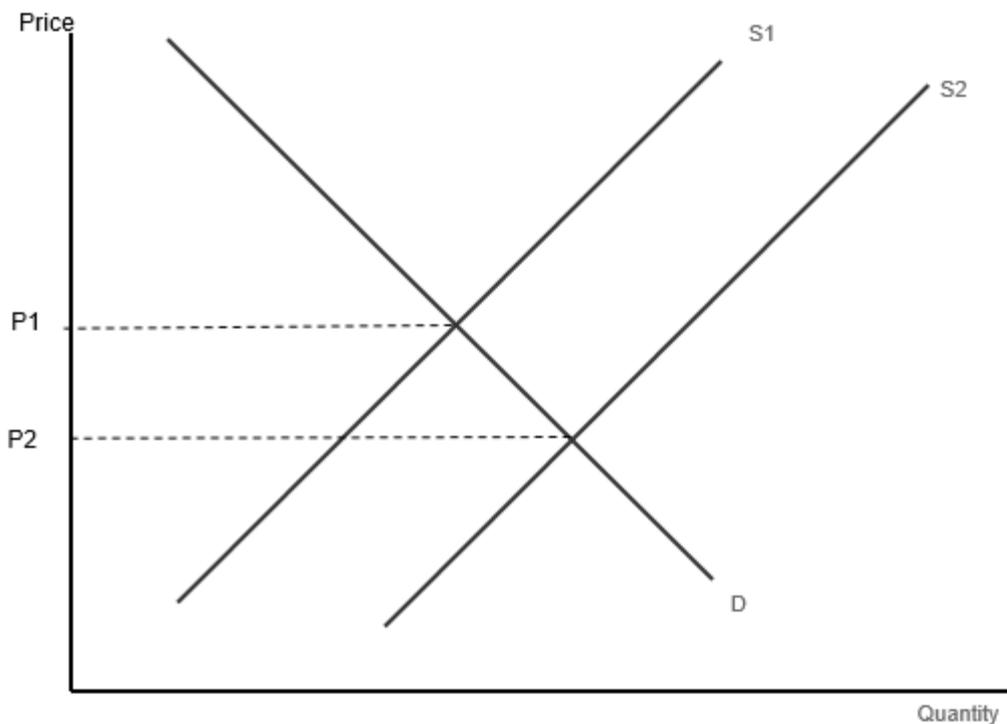
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	For a correctly labelled AD/AS diagram and LRAS shifting to the right with an increase in potential output OR for an explanation that increased investment in hydropower would raise productive capacity/productivity/quantity or quality of FoPs. This leads to higher potential (long term/full employment) output.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correctly labelled AD/AS diagram and LRAS shifting to the right with an increase in potential output AND for an explanation that increased investment in hydropower would raise productive capacity/productivity/ quantity or quality of FoPs. This leads to higher potential (long term/full employment) output.	



Candidates who label diagrams incorrectly can be awarded a maximum of [3]. For AD/AS, the vertical axis may be Average (General) Price Level, or Price Level or CPI. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. Abbreviations are acceptable. A Keynesian AS is acceptable. A title is not necessary.

- (d) Using a demand and supply diagram, explain how more affordable credit for investment in farming technology could affect the price of agricultural goods such as rice in Bhutan (**Text D**, paragraph 7). **[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 demand and supply diagram, showing an increase in supply and fall in price OR for an explanation that more affordable credit/the use of technology can reduce farmers' costs/increase productivity which increases supply/production/quantity and decreases the price.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correctly labelled demand and supply diagram, showing an increase in supply and fall in price AND for an explanation that more affordable credit /the use of technology can reduce farmers' costs/increase productivity which increases supply/production/quantity and decreases the price.	



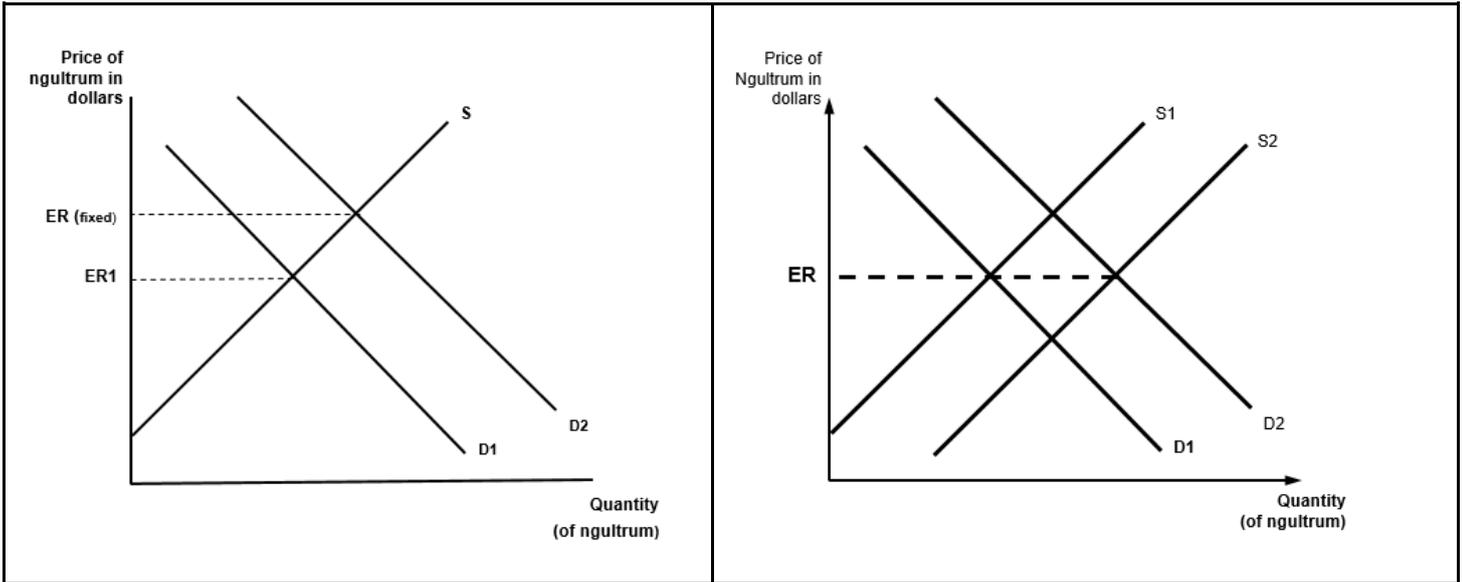
Candidates who label diagrams incorrectly can be awarded a maximum of **[3]**.
 The axes can be labelled as P and Q. A title is not necessary.

- (e) Using an exchange rate diagram, explain how the central bank of Bhutan could maintain its fixed exchange rate during a period of increasing demand by Bhutan for cars and rice produced in India (**Text F**).

[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 exchange rate diagram, showing demand shifting right and the exchange rate rising or maintained at ER (it is acceptable to use the labels ER2 or ER1 or ER fixed) OR for an explanation that the central bank could (one of the following): <ul style="list-style-type: none"> • buy BTN • sell foreign currencies/assets/reserves • raise the interest rate in order to prevent the depreciation/put upward pressure on the exchange rate.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correctly labelled exchange rate diagram, showing demand shifting right and the exchange rate rising or maintained at ER (it is acceptable to use the labels ER2 or ER1 or ER fixed) AND for an explanation that the central bank could (one of the following): <ul style="list-style-type: none"> • buy BTN • sell foreign currencies/assets/reserves • raise the interest rate in order to prevent the depreciation/put upward pressure on the exchange rate.	

N.B. Alternative correct diagrams: Candidates need not draw the increase in supply of ngultrum resulting from the increase in imports.



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

The vertical axis may be labelled:

- exchange rate
- price or value of BTN(ngultrum) in another currency
- other currency/BTN(ngultrum)
- other currency per BTN(ngultrum)

The horizontal axis may be quantity or quantity of BTN/ngultrum. Abbreviations are acceptable. A title is not necessary.

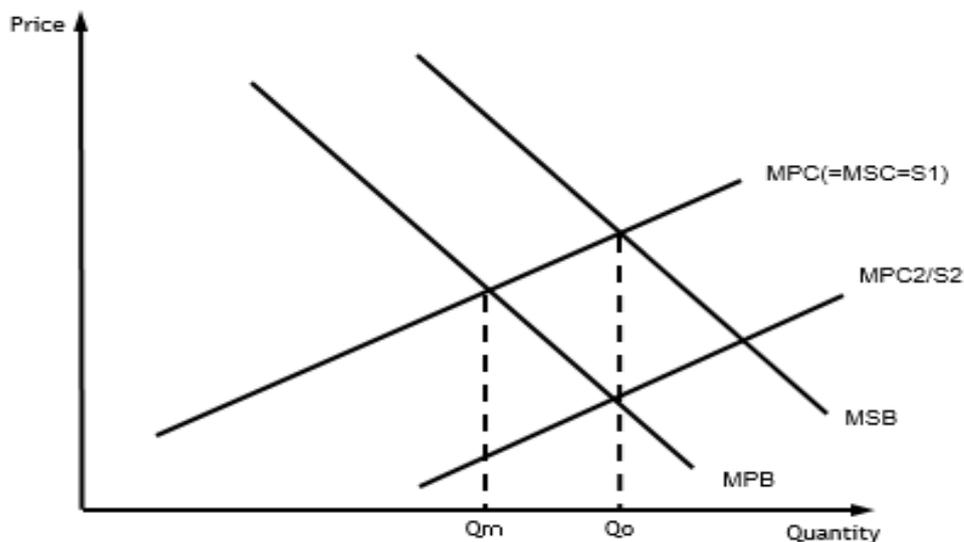
Alternatively, the diagram could show a shift left in the supply curve because the central bank could decrease supply of the BTN by using forex restrictions or restrictions on financial capital outflows. If correctly drawn and explained, this can be fully rewarded. (VAM)

- (f) Using an externalities diagram, explain how increased government investment in healthcare could achieve allocative efficiency in Bhutan’s healthcare market (Text D, paragraph 4).

[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
	<p>For a correctly labelled externalities diagram, showing MSB to the right of MPB at the equilibrium output, and supply/MPC shifting right (downwards) to reach (or get closer to) the optimum output</p> <p>N.B. If the shift of the MPC/S is not shown, then the diagram can be awarded [1], provided the market failure is correctly illustrated.</p> <p>OR for an explanation that government investment increases supply/production/quantity resulting in (one of the following):</p>	

	<ul style="list-style-type: none"> • an increase in the quantity of healthcare (closer) to the social optimum • more resources being allocated to healthcare • the reduction/removal of the welfare loss • a new equilibrium where $MSB=MSC$. <p><i>N.B. If a candidate incorrectly identifies the situation as a positive production externality, resulting in an incorrect diagram, this should not be penalised again in the explanation. The explanation may still be awarded up to [2] if it otherwise meets the markscheme requirements. The diagram may additionally be awarded [1], if it shows the correct effect of the government policy (the $MPC (=MSC =S1)$ curve shifting right) and is fully and correctly drawn and labelled to show a positive production externality.</i></p>	
2	<p>There is a correct diagram AND an accurate written response.</p>	3–4
	<p>For a correctly labelled externalities diagram, showing MSB to the right of MPB at the equilibrium output, and supply/MPC shifting right (downwards) to reach (or get closer to) the optimum output</p> <p><i>N.B. If the shift of the MPC/S is not shown, then the diagram can be awarded [1], provided the market failure is correctly illustrated.</i></p> <p>AND for an explanation that government investment increases supply/production/quantity resulting in (one of the following):</p> <ul style="list-style-type: none"> • an increase in the quantity of healthcare (closer) to the social optimum • more resources being allocated to healthcare • the reduction/removal of the welfare loss • a new equilibrium where $MSB=MSC$. <p><i>N.B. If a candidate incorrectly identifies the situation as a positive production externality, resulting in an incorrect diagram, this should not be penalised again in the explanation. The explanation may still be awarded up to [2] if it otherwise meets the markscheme requirements. The diagram may additionally be awarded [1], if it shows the correct effect of the government policy (the $MPC (=MSC =S1)$ curve shifting right) and is fully and correctly drawn and labelled to show a positive production externality.</i></p>	



Candidates who label diagrams incorrectly can be awarded a maximum of **[3]**. The vertical axis may be labelled price or costs or benefits. The horizontal axis may be labelled quantity or Q. A title is not necessary.

Alternatively, candidates may illustrate and explain an improvement in allocative efficiency with the output getting closer to the optimum output. If correctly drawn and explained, this can be fully rewarded.

Alternatively, a candidate may shift the demand/MPB to the right with the explanation that the government investment takes the form of measures to encourage people to use healthcare (for example, a campaign promoting vaccinations). If correctly drawn and explained, this can be fully rewarded. (VAM)

- (g) Using information from the text/data and your knowledge of economics, evaluate the strengths and limitations of Bhutan’s economic development strategy. **[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.

Terminology may include:

- economic development
- economic growth
- sustainability
- equity
- economic well-being
- externalities
- opportunity costs/choice
- absolute/relative poverty
- nominal/real GDP

Economic models to support analysis may include:

- a poverty cycle diagram (could link to improved health and education).
- a Lorenz curve diagram to show reduced income inequality (Gini coefficient, **Table 5**)
- a tariff diagram (**Text F**)
- a labour market diagram
- a PPC diagram
- an AD/AS diagram
- an externalities 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.

Candidates are not expected to cover every possible type of strategy/policy in order to achieve high marks.

Responses may include:

Economic Development strategy – possible policies	Strengths in furthering Economic development	Limitations in furthering economic development
Aim to increase GNH - measuring income inequality, environmental conservation, sustainable development, and gender equality (Text D , paragraph 1).	<ul style="list-style-type: none"> • Considers development measures that are of wider scope than those measured by GDP per capita and HDI • Improvement in life expectancy and income equality, reduction of poverty etc (Table 5) • Improvement in HDI (Figure 1). 	<ul style="list-style-type: none"> • May hinder improvement of agricultural productivity • Could restrict growth (Text D, paragraph 7).
Trade liberalization: FTA with India (Text F).	Probably increases revenue from exports, which will contribute to economic growth and possibly ultimately development.	<ul style="list-style-type: none"> • Trade reliance (80% of trade) on India creates vulnerability to external shocks (Text F) • Could result in a significant drop in government revenue from tariffs.

<p>Sales of electricity to India (Text D, paragraph 4).</p>	<ul style="list-style-type: none"> • Helps to finance import spending, which may contribute to development • Helps to finance government spending 	<p>Dependence on trade with India suggests the need to diversify exports (Text F)</p>
<p>Utilising foreign aid by accepting grants and loans from India (Text D, paragraph 3).</p>	<p>Fills the savings gap (in the poverty cycle), allowing for increased investment spending by government.</p>	<ul style="list-style-type: none"> • loans taken from India need to be repaid with interest • implications for the BOP current account (Table 4).
<p>Protection of forests (Text D, paragraph 1).</p>	<p>Promotes environmental conservation efforts.</p>	<p>May limit growth potential.</p>
<p>Investment in hydropower and other infrastructure (Text D, paragraph 2 & 4).</p>	<ul style="list-style-type: none"> • Provides electricity to rural areas and at lower prices, allowing households greater access to necessities (Text D, paragraph 2). • Increased revenue for state-owned enterprises, which help finance development through provision of healthcare and education (Text D, paragraph 3&4). 	<p>Transportation networks are still inadequate, indicated by “high transport costs” (Text D, paragraph 5).</p>
<p>State control of production and distribution of electricity (Text D, paragraph 3).</p>	<p>Ensures access to electricity in vulnerable communities (Text D, paragraphs 2&3).</p>	<p>Public control may reduce efficiency and lead to financial losses (Text D, paragraph 3).</p>
<p>Investment in healthcare and education (Text D, paragraph 3).</p>	<ul style="list-style-type: none"> • Adds to human capital and therefore productivity/potential output • Provision of education may help reduce the high youth unemployment, especially for women (Text E, paragraph 1) • Better healthcare leads to increase in life expectancy (Table 5). 	<ul style="list-style-type: none"> • Opportunity cost of government spending • Lack of job opportunities and lack of access to finance for entrepreneurship still exist (Text E, paragraph 2) • Progress on gender equality (Text D, paragraph 1) is questionable, given the high rate of female youth unemployment, (Text E) • Will place burdens on healthcare sector as population ages.
<p>Expansion of essential infrastructure (Text A, paragraph 4).</p>	<ul style="list-style-type: none"> • Improves quality/quantity of resources • May encourage private sector investment by lowering transport costs (Text A, paragraph 5). 	<ul style="list-style-type: none"> • Opportunity cost of government spending • Over reliance on public sector with the private sector facing a lack of investment (Text E, paragraph 2) • Infrastructure construction may lead to negative externalities, resulting in a conflict with GNH aims.

<p>Tax on tourists (Text D, paragraph 5).</p>	<ul style="list-style-type: none"> • Supports sustainable development • Provides government revenue to finance development. 	<ul style="list-style-type: none"> • May reduce competitiveness of the tourism sector • Resulting fall in incomes of workers in the tourism sector may make it difficult for them to break the poverty cycle.
<p>Partnership with UN agency to provide funds for investment in agricultural sector (Text D, paragraph 7).</p>	<ul style="list-style-type: none"> • Provides infrastructure and investment in agriculture where wages are low. • Increase in productivity may help farmers break out of the poverty cycle • May reduce urban-rural inequalities. • Improves food security and nutrition • May reduce need for food imports (Text D, paragraph 6) • Improved infrastructure (roads) may also improve access to jobs and schools/hospitals. 	<ul style="list-style-type: none"> • Could lead to dependency on foreign aid • Most agricultural output is not marketed. Subsistence farming may limit potential productivity gains (Text D, paragraph 6).
<p>Regulations on chemical fertilisers (Text D, paragraph 7).</p>	<p>Aim to make farming practices more sustainable.</p>	<p>Increases in productivity may be limited by the restrictions on use of fertilisers (Text D, paragraph 7).</p>
<p>Fixed exchange rate (to the Indian rupee) (Text F).</p>	<ul style="list-style-type: none"> • Trade with India is facilitated • Costs of necessities that are imported (fuel and rice) are less volatile. 	<ul style="list-style-type: none"> • Restricts monetary policy freedom • Requires central bank intervention.

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