

# Markscheme

November 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 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 script for each type of error.**

1. (a) (i) Define the term *relative poverty* 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 living below a certain level of income OR being poor in comparison to others.	
2	<i>Accurate definition</i>	2
	An understanding that it is an income too low to maintain a typical (socially acceptable) standard of living within a country OR an understanding that it is an income below a specified level (poverty line), which is a certain percentage of the median (or average) income.	

- (ii) Define the term *depreciation* indicated in bold (**Text B**, 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 decrease in the exchange rate (price/value of a currency).	
2	<i>Accurate definition</i>	2
	An understanding that it is a decrease in the exchange rate (price/value of a currency) <b>AND one</b> of the following: <ul style="list-style-type: none"> <li>• In a floating/managed exchange rate system</li> <li>• Due to market forces/change in demand or supply.</li> </ul>	

- (b) (i) Using information in **Table 1**, calculate the cost of importing raw materials valued at USD 1200 in Argentine pesos (ARS) in 2023 **and** in 2024. **[2]**

2023:  $(1200 \times 350) = 420\ 000$  **[1]**

An answer of 420 000 without working or units is sufficient for **[1]**.

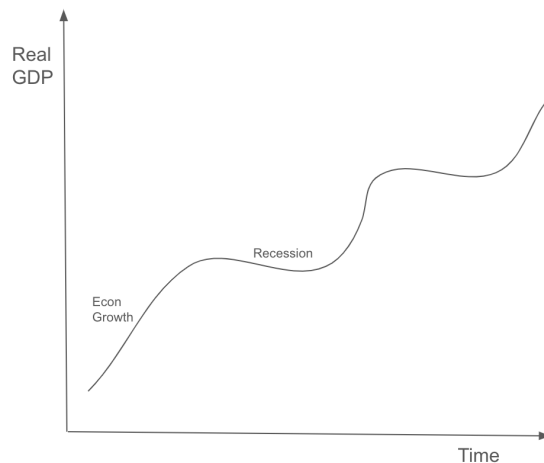
2024:  $(1200 \times 820) = 984\ 000$  **[1]**

An answer of 984 000 without working or units is sufficient for **[1]**.

*A maximum of **[1]** may be awarded for some correct workings if correct answers are not provided.*

- (ii) Sketch a business cycle diagram and indicate a period of economic growth **and** a period of recession on the diagram (**Text A**, paragraph 1). **[3]**

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	For sketching a business cycle diagram where the periods of economic growth and recessions are not shown or are incorrectly identified.  <b>OR</b> For sketching a correctly labelled business cycle diagram correctly indicating a period of economic growth <b>OR</b> a period of recession <b>BUT</b> there are some incorrect/missing labels.	1
2	For sketching a business cycle diagram indicating the periods of economic growth and recession <b>BUT</b> there are some incorrect/missing labels.  <b>OR</b> For sketching a correctly labelled business cycle diagram correctly indicating a period of economic growth <b>OR</b> a period of recession.	2
3	For sketching a correctly labelled business cycle diagram indicating a period of economic growth <b>AND</b> a period of recession.	3

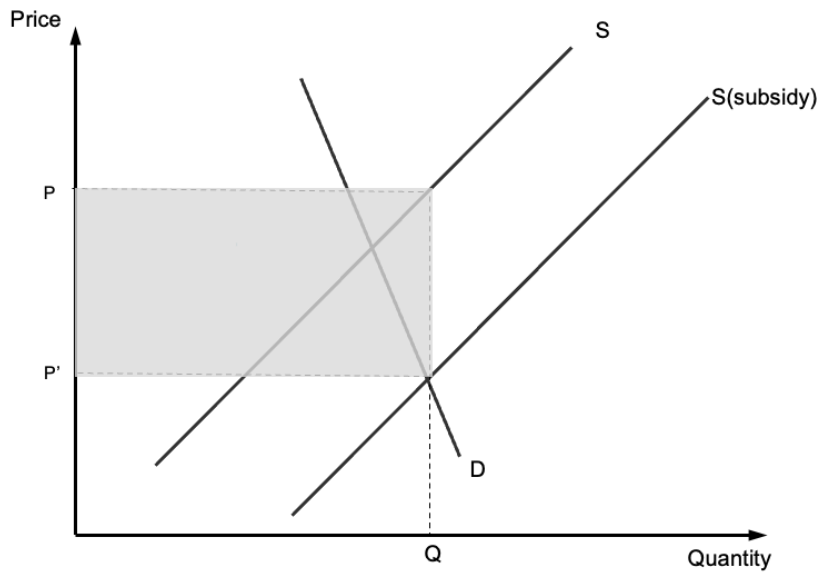


*The horizontal axis may be time or years. The vertical axis (or line) may be real GDP or output or real income or economic activity. All abbreviations are acceptable. If the vertical axis is labelled, the line need not be labelled, and vice versa. A title is not necessary.*

- (c) Using a demand and supply diagram to indicate the total cost of the subsidy to the government, explain how eliminating energy subsidies may affect government spending (**Text B**, paragraph 1).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	<p><i>For a correct demand and supply diagram showing a subsidy supply curve and an area representing the cost to government (this may be referred to in the written explanation)</i></p> <p><b>OR</b></p> <p>Explaining that the removal of subsidies will mean the government will no longer need to (either of the following):</p> <ul style="list-style-type: none"> <li>• pay producers an amount per unit of output</li> <li>• absorb part of the producers' cost of production</li> </ul> <p>This lowers government spending/allows for spending in other areas.</p>	
2	<p><i>For a correct demand and supply diagram showing a subsidy supply curve and an area representing the cost to government (this may be referred to in the written explanation)</i></p> <p><b>AND</b></p> <p>Explaining that the removal of subsidies will mean the government will no longer need to (either of the following):</p> <ul style="list-style-type: none"> <li>• pay producers an amount per unit of output</li> <li>• absorb part of the producers' cost of production</li> </ul> <p>This lowers government spending/allows for spending in other areas.</p>	3–4



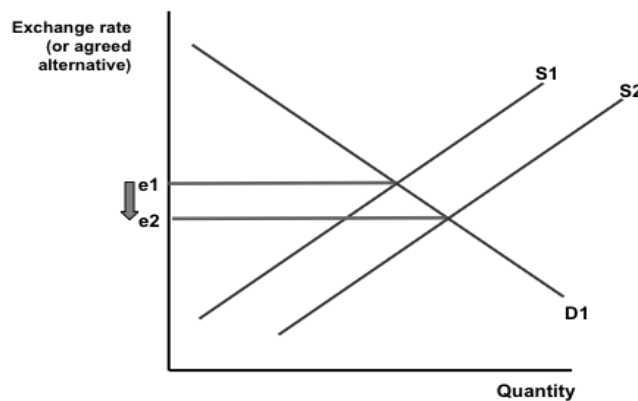
For a demand and supply diagram, the vertical axis should be price or P. The horizontal axis should be quantity or Q. A title is not necessary.

Candidates may indicate the cost of the subsidy with shaded areas or numbers/letters in the diagram (eg 'area ABCD').

(d) Using an exchange rate diagram, explain how speculation in the foreign exchange market might influence the value of the Argentine peso (ARS) (**Text B**, paragraph 2).

[4]

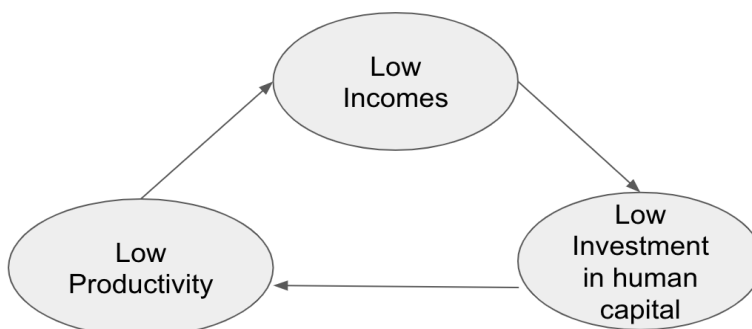
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	<p>For a correct exchange rate diagram, showing supply shifting right and the value of the peso decreasing.</p> <p><b>OR</b></p> <p>Explaining that speculators will sell their peso now to (either of the following):</p> <ul style="list-style-type: none"> <li>• purchase pesos back in the future</li> <li>• to make a profit/avoid a loss (from the fall in value)</li> <li>• buy more foreign currencies before the fall in value</li> </ul> <p>causing a depreciation/decrease of the exchange rate/price/value of the peso.</p>	
2	<p>For a correct exchange rate diagram, showing supply shifting right and the value of the peso decreasing</p> <p><b>AND</b></p> <p>Explaining that speculators will sell their peso now (either of the following):</p> <ul style="list-style-type: none"> <li>• purchase pesos back it in the future</li> <li>• to make a profit/avoid a loss (from the fall in value)</li> <li>• buy more foreign currencies before the fall in value</li> </ul> <p>causing a depreciation/decrease of the exchange rate/price/value of the peso.</p>	3–4



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

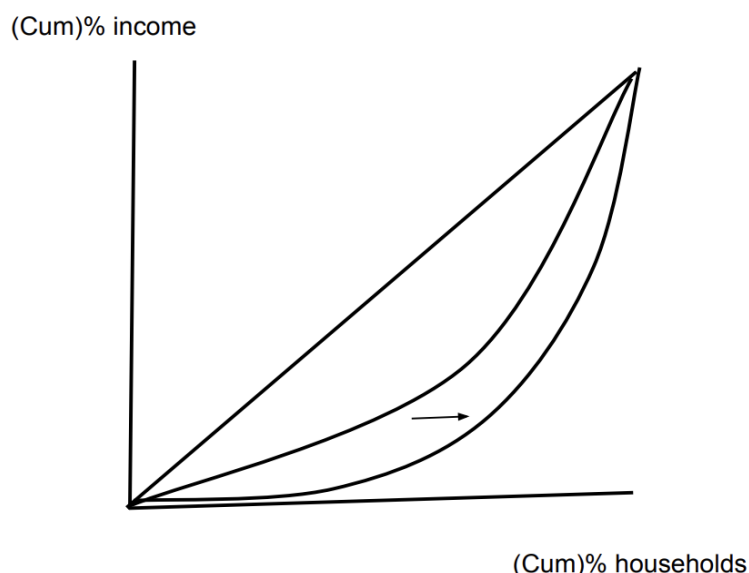
- (e) Using a poverty cycle diagram, explain how improving the quality of education in Argentina may help to break the poverty cycle (**Text C**). **[4]**

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
	<p>For a correct poverty cycle diagram, beginning and ending with low income/low growth/poverty and any <b>two</b> of the following:</p> <ul style="list-style-type: none"> <li>• low savings</li> <li>• low investment</li> <li>• low spending on education</li> <li>• low levels of human capital/labour force participation</li> <li>• low productivity/productive capacity/growth/output</li> </ul> <p><b>OR</b></p> <p>Explaining that improving the quality of education would mean that there is more investment/spending on human capital/higher productivity, leading to higher incomes.</p> <p><b>N.B.</b> <i>The explanation needs to be consistent with the diagram <b>and</b> contain economic concepts.</i></p>	
2	<p>For a correct poverty cycle diagram, beginning and ending with low income/low growth/poverty and any <b>two</b> of the following:</p> <ul style="list-style-type: none"> <li>• low savings</li> <li>• low investment</li> <li>• low spending on education</li> <li>• low levels of human capital/labour force participation</li> <li>• low productivity/productive capacity/growth/output</li> </ul> <p><b>AND</b></p> <p>Explaining that improving the quality of education would mean that there is more investment/spending on human capital/higher productivity, leading to higher incomes.</p> <p><b>N.B.</b> <i>The explanation needs to be consistent with the diagram <b>and</b> contain economic concepts.</i></p>	3–4



- (f) Using a Lorenz curve diagram, explain how the income distribution changed in Argentina between 2013 and 2022 (**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 <b>OR</b> an accurate written response.</i>	1–2
	For a correct Lorenz curve diagram showing an outward shift of the curve  <b>OR</b>  Explaining that the Gini coefficient has increased (from 0.409 to 0.420), indicating that the income distribution has become more unequal/worsened.	
2	For a correct Lorenz curve diagram showing an outward shift of the curve.  <b>AND</b>  Explaining that the Gini coefficient has increased (from 0.409 to 0.420), indicating that the income distribution has become more unequal/worsened.	3–4



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

- (g) Using information from the text/data and your knowledge of economics, evaluate the likely consequences of Argentina’s new economic reforms on its economy. **[15]**

*Command term*

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported by appropriate evidence.

*Terminology/definitions may include:*

- Fiscal policy
- Exchange rate controls
- Price controls
- Subsidies
- Deregulation
- Privatization
- Infrastructure
- Labour market policies
- Income tax
- Indirect taxes – tariffs and excise tax.

*Economic models to support analysis may include:*

- An AD/AS diagram
- A Lorenz curve diagram
- A PPC 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.

The new economic reforms include (**Text B**, paragraph 1):

- deregulating markets such as removing price controls and restrictions on buying foreign currency.
- privatizing 41 state-owned enterprises, including the national airline, rail networks, state media, and major oil, water and sewage companies, many of which were recording losses and burdening the government budget.
- increasing labour market flexibility by reducing labour union power and lowering labour costs.
- reducing government spending by cancelling infrastructure projects, reducing the size of the public sector and eliminating transport and energy subsidies.

In addressing the impact of the reforms on the economy, candidates **may** consider **some** of the following:

- Economic growth
- Economic development
- Inflation
- Unemployment
- Balance of payments
- Income equality
- Sustainable development.

<b>Economic reforms</b>	<b>Strengths</b>	<b>Limitations</b>
<b>Cancelling public works on infrastructure (Text B, para 1)</b>	<ul style="list-style-type: none"> <li>• Reduces government spending and helps meet IMF conditions (<b>Text B</b> para 4)</li> <li>• Frees budget resources for debt repayment; external debt is very high (<b>Table 3</b>)</li> <li>• Signals fiscal discipline to international investors and may bring back FDI (<b>Text A</b>, para 3).</li> </ul>	<ul style="list-style-type: none"> <li>• Cuts to infrastructure lower long-run productive capacity; PPC growth slows</li> <li>• Loss of employment in public works; public sector = 23.4% of employment (<b>Table 3</b>)</li> <li>• Weak infrastructure may discourage FDI (<b>Text A</b>, para 3)</li> <li>• Limits the ability to develop agriculture, energy, renewables (<b>Text A</b>, para 1) which affects Sustainable development.</li> </ul>
<b>Reducing labour market restrictions/costs/Labour market reforms (Text B, para 1)</b>	<ul style="list-style-type: none"> <li>• Lower labour costs shift SRAS right; increase output and promote job creation in the formal sector (<b>Text B</b>, para 1)</li> <li>• May reduce informal employment by making hiring cheaper</li> <li>• Greater flexibility may attract FDI.</li> </ul>	<ul style="list-style-type: none"> <li>• May lead to increased worker insecurity and worker unrest as traditionally there has been strong protection for workers and labour unions (<b>Text A</b>, para 2)</li> <li>• Lower real wages during high inflation (<b>Table 3</b>)</li> <li>• Could worsen income inequality in the short run.</li> </ul>
<b>Contractionary fiscal policy (Text B, para 1)</b>	<ul style="list-style-type: none"> <li>• Helps reduce the very high inflation rate (<b>Table 3</b>; <b>Text B</b>, para 2)</li> <li>• Supports debt sustainability as the external debt is very high (<b>Table 3</b>)</li> <li>• Improves fiscal credibility; aligns with IMF support (<b>Text B</b>; para 4).</li> </ul>	<ul style="list-style-type: none"> <li>• Reduces AD; lowers short-run growth</li> <li>• Higher unemployment may result from cuts to public spending</li> <li>• May further exacerbate the increasing rate of poverty (<b>Text B</b>, para 2).</li> </ul>
<b>Lifting exchange rate controls (allowing for the depreciation of the peso) (Text B, para 1)</b>	<ul style="list-style-type: none"> <li>• Removes distortions and informal market rates (<b>Text A</b>, para 3)</li> <li>• Increases export competitiveness; may help</li> </ul>	<ul style="list-style-type: none"> <li>• This resulted in a sharp depreciation (350 → 820 ARS per USD) (<b>Table 1</b>)</li> <li>• Higher import prices fuelled inflation (<b>Text B</b>, para 2) and especially cost-push</li> </ul>

	<p>maintain the trade surplus (<b>Table 3</b>)</p> <ul style="list-style-type: none"> <li>• May attract FDI previously discouraged by controls (<b>Text A</b>, para 3)</li> <li>• Improves long-term investor confidence in FX transparency.</li> </ul>	<p>inflation due to higher cost of imported inputs</p> <ul style="list-style-type: none"> <li>• Increased poverty due to cost-of-living rise (<b>Text B</b>, para 2).</li> </ul>
<p><b>Eliminating subsidies for transportation and energy</b> (<b>Text B</b>, para 1)</p>	<ul style="list-style-type: none"> <li>• Reduces fiscal deficit significantly; subsidies must be a major budget burden since they apply to commonly consumed necessities</li> <li>• Encourages energy conservation and efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• Raises prices for essential goods; inflation rises further</li> <li>• Regressive impact on low-income households; increases relative poverty</li> <li>• Raises business operating costs; slows short-run growth.</li> </ul>
<p><b>Income tax reforms</b> (<b>Text B</b>, paragraph 3)</p>	<ul style="list-style-type: none"> <li>• More progressive tax structure improves income distribution; reverse the trend in rising Gini coefficient (<b>Table 2</b>)</li> <li>• Raises tax-free threshold, supporting lowest earners</li> <li>• Higher government revenue for debt repayment (<b>Table 3</b>) and welfare spending.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher taxes reduce disposable income; contractionary effect</li> <li>• Effectiveness depends on whether wages keep up with inflation</li> <li>• Implementation challenges in a high-inflation environment.</li> </ul>
<p><b>Privatization</b> (<b>Text B</b>, para 1)</p>	<ul style="list-style-type: none"> <li>• Increases efficiency; many state enterprises were making losses (<b>Text B</b>, para 1)</li> <li>• Provides immediate fiscal revenue; reduces need to cover losses</li> <li>• Encourages investment and long-term growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of government control over critical sectors (strategic industries)</li> <li>• Prices for basic utilities may rise; relative poverty rate may increase</li> <li>• Short-term job losses from restructuring.</li> </ul>
<p><b>Import tariffs and cigarette taxes</b> (<b>Text B</b>, para 3)</p>	<ul style="list-style-type: none"> <li>• Increase government revenue for debt repayment</li> <li>• Cigarette tax internalises external costs</li> <li>• Reduces import expenditure; may help the trade balance.</li> </ul>	<ul style="list-style-type: none"> <li>• Tariffs are regressive; worsen income inequality</li> <li>• Raises inflation for consumer goods such as laptops (<b>Text B</b>, para 3)</li> </ul>

		<ul style="list-style-type: none"><li>• Tariffs may be unnecessary to discourage imports given the sharp depreciation (<b>Table 1</b>) and may lead to retaliation</li><li>• Disproportionately impacts low-income smokers and consumers.</li></ul>
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*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 meet 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 or are used incorrectly.</li> <li>• The response contains no evidence of synthesis or evaluation.</li> <li>• The response contains no use of text/data or it is merely copied.</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 relevant but 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 thoroughly 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>

2. (a) (i) Define the term *overvalued currency* indicated in bold (**Text D**, paragraph 3). **[2]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i> The idea that it is when the exchange rate is too high.	1
2	<i>Accurate definition</i> An understanding that it is a currency whose value/exchange rate is greater than its (market) equilibrium, (usually due to central bank intervention).	2

- (ii) Define the term *infrastructure* indicated in bold (**Text D**, paragraph 4). **[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 (any <b>one</b> of the following is sufficient): <ul style="list-style-type: none"> <li>• (large scale) public systems/physical capital (services and facilities) of a country</li> <li>• necessary for economic activity/the functioning of an economy</li> <li>• adding to the capital stock of a nation</li> <li>• (usually) supplied/funded by the government</li> <li>• generates (significant) positive externalities.</li> </ul>	1
2	<i>Accurate definition</i> The understanding that it is (any <b>two</b> of the following are sufficient): <ul style="list-style-type: none"> <li>• (large scale) public systems/physical capital (services and facilities) of a country</li> <li>• necessary for economic activity/the functioning of an economy</li> <li>• adding to the capital stock of a nation</li> <li>• (usually) supplied/funded by the government</li> <li>• generates (significant) positive externalities.</li> </ul>	2

- (b) (i) Calculate the expected percentage change in the quantity of PNG’s exports if world incomes rise by 3.5% (**Text E**, paragraph 1). **[2]**

$$3.5 \times 3 = 10.5$$

*Any valid working should be rewarded with [1]  
An answer of 10.5 without working is sufficient for [1]*

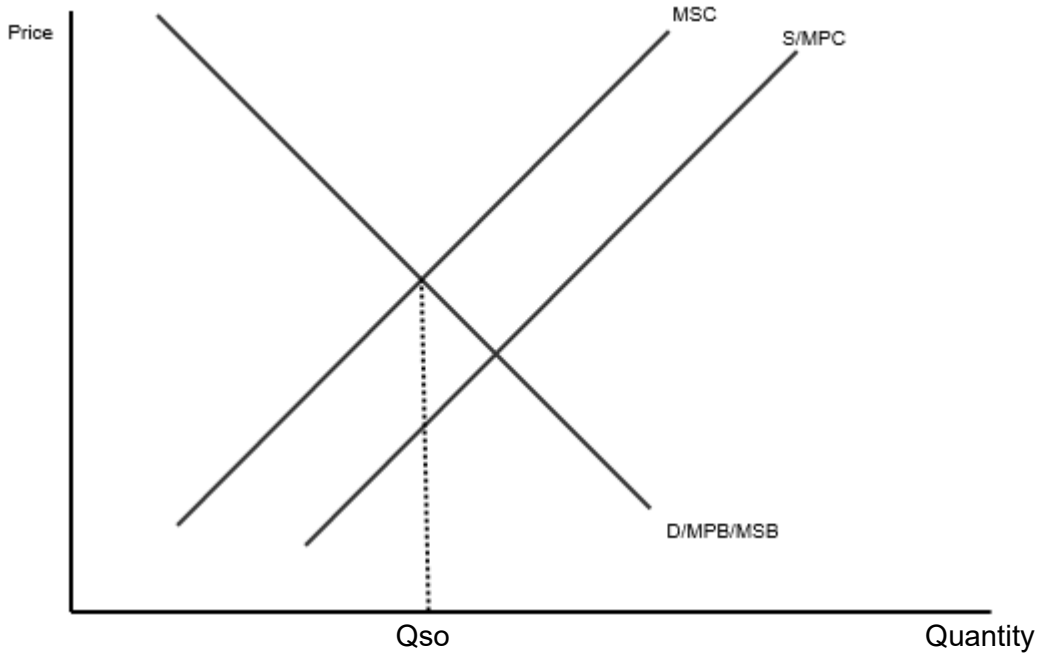
- (ii) Using information from **Table 4**, calculate PNG’s real GDP in millions of USD in 2022. **[1]**

$$2462.5 \times 10.14$$

$$24\,969.75 \text{ (million) or } 24\,969\,750\,000 \text{ or } 24\,969.75 \times 10^6$$

*An answer of 24 969.75 without working or units is sufficient for [1]*

(iii) Sketch an externalities diagram and indicate the socially optimum output of copper when mining in PNG causes environmental damage (**Text D**, paragraph 1). [2]

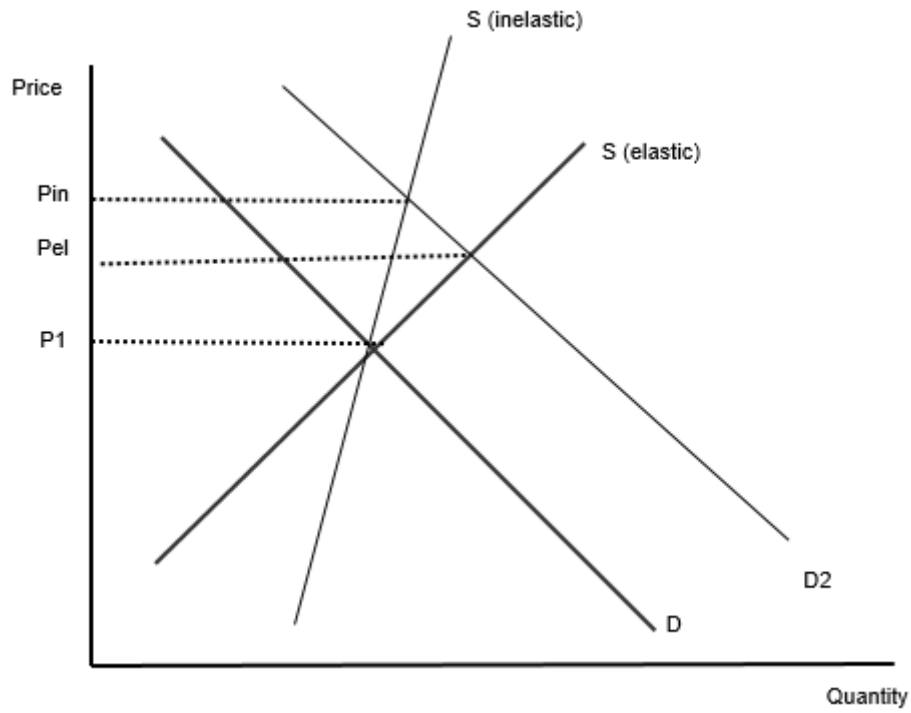


Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	For sketching a diagram showing either the MSC curve above the S/MPC curve and the socially optimum quantity where MSC intersects D/MPB/MSB <b>BUT</b> there are some incorrect/missing labels/projection	1
2	For sketching a correctly labelled diagram showing the MSC curve above the S/MPC curve and the socially optimum quantity where MSC intersects D/MPB/MSB.	2

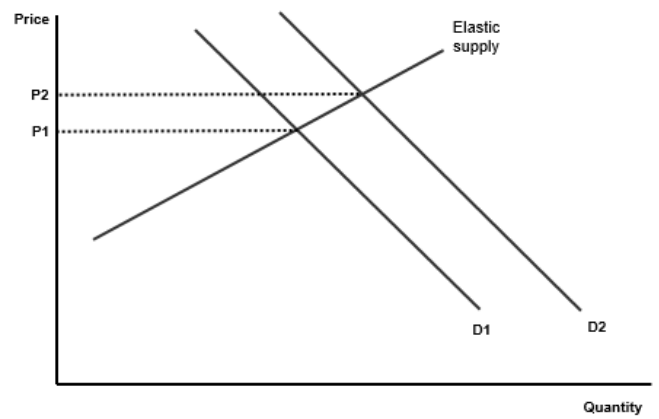
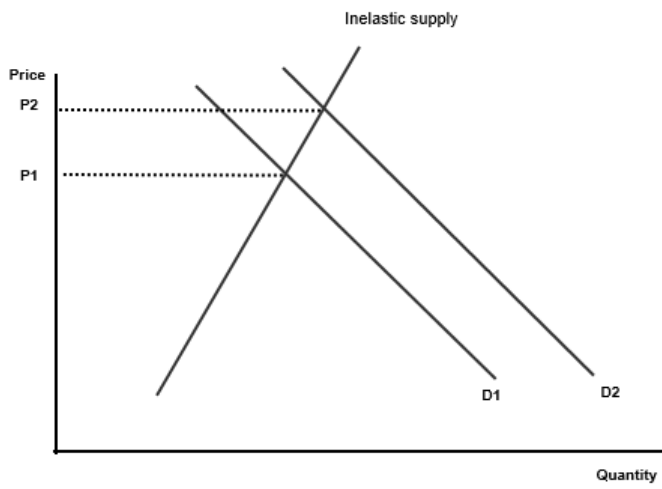
*The vertical axis may be price P or benefits/costs. The horizontal axis may be quantity or Q. The supply curve can be labelled S and/or MPC. The demand curve can be labelled D and/or MPB and/or MSB. A title is not necessary*

- (c) Using a demand and supply diagram, explain why an increase in demand for copper causes a greater change in the price of copper when PNG’s supply is price inelastic than when its supply is price elastic (**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
	<p>For correctly labelled demand and supply diagram(s), with two different supply curves, showing that as demand shifts right, the increase in price is greater when supply is inelastic</p> <p><b>OR</b></p> <p>For an explanation that when supply is inelastic, the change in price is proportionately greater (a larger % change) than the (%) change in quantity (supplied).</p> <p>(Alternatively, candidates may explain that if supply is elastic, the change in price is proportionately smaller – responses do not need to refer to both elastic and inelastic supply curves to obtain full marks).</p>	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	<p>For correctly labelled demand and supply diagram(s), with two different supply curves, showing that as demand shifts right, the increase in price is greater when supply is inelastic</p> <p><b>AND</b></p> <p>For an explanation that when supply is inelastic, the change in price is proportionately greater (a larger % change) than the (%) change in quantity (supplied).</p> <p>(Alternatively, candidates may explain that if supply is elastic, the change in price is proportionately smaller – responses do not need to refer to both elastic and inelastic supply curves to obtain full marks).</p>	



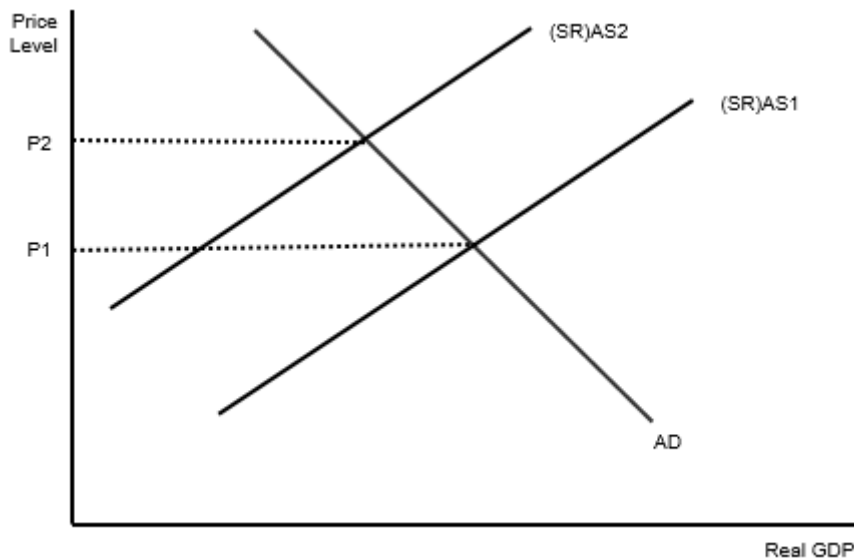
OR



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

- (d) Using an AD/AS diagram, explain why there were inflationary pressures when PNG’s currency depreciated through 2012–2015 (**Text D**, paragraph 3). **[4]**

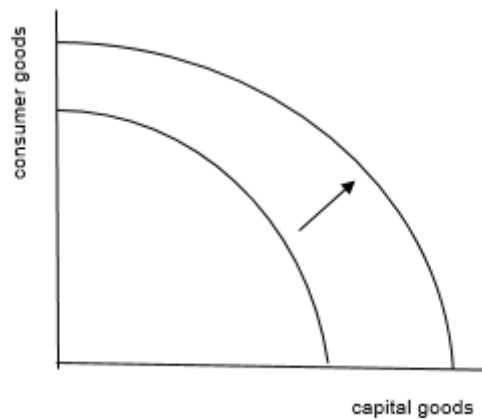
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For a correctly labelled AD/AS diagram, with AS shifting upwards causing a rise in the price level  <b>OR</b>  For an explanation that if the currency depreciates, imported goods become more expensive, and that higher prices of imported inputs will increase (firms’) costs of production.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correctly labelled AD/AS diagram, with AS shifting upwards causing a rise in the price level  <b>AND</b>  For an explanation that if the currency depreciates, imported goods become more expensive, and that higher prices of imported inputs will increase (firms’) costs of production.	



*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.*

- (e) Using a production possibilities curve (PPC) diagram, explain the impact of investment in human capital on production possibilities in PNG (**Text D**, paragraph 4). **[4]**

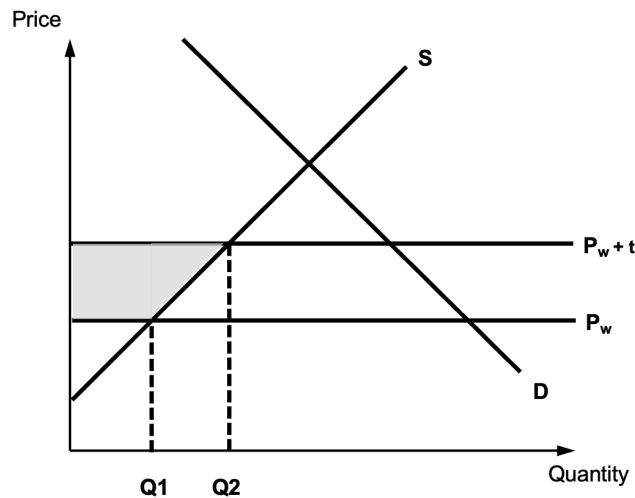
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For a correctly labelled PPC diagram, with the curve shifting outwards <b>OR</b> For an explanation that increases in human capital raise productivity (or the quality/quantity of factors of production) which increases productive capacity/potential output.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correctly labelled PPC diagram, with the curve shifting outwards <b>AND</b> For an explanation that increases in human capital raise productivity (or the quality/quantity of factors of production) which increases productive capacity/potential output.	



*For a PPC diagram, there must be two goods or groups of goods competing for the same resources on the axes. Good X and Good Y are appropriate, but simply X and Y are not sufficient. A title is not necessary.*

- (f) Using an international trade diagram, explain how producer surplus for PNG producers changed when the tariff on imports of machinery into PNG was raised (**Text E**, paragraph 2).**[4]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For a correctly labelled international trade diagram, showing an increase in the tariff and price leading to a rise in domestic output and an increased producer surplus (which may be annotated on the diagram or referenced in the explanation)  <b>OR</b> For an explanation that the rise in the tariff raised both the price and the output for domestic producers, which caused their producer surplus to increase.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a correctly labelled international trade diagram, showing an increase in the tariff and price leading to a rise in domestic output and an increased producer surplus (which may be annotated on the diagram or referenced in the explanation)  <b>AND</b> For an explanation that the rise in the tariff raised both the price and the output for domestic producers, which caused their producer surplus to increase.	



*The use of P and Q on the axes is sufficient for an international trade diagram. The world supply curve may be labelled  $S_w$ , or  $S_{world}$  or  $P_w$  or any similar label indicating the horizontal line is the world price/supply. Candidates may indicate the change in producer surplus with shaded areas or numbers/letters in the diagram (eg 'area ABCD'). A title is not necessary.*

*Alternatively, the lower horizontal line may be labelled  $P_{w+tariff}$ , with the upper line labelled  $P_{w+higher\ tariff}$  or there may be three horizontal lines appropriately labelled. These approaches can be fully rewarded.*

- (g) Using information from the text/data and your knowledge of economics, discuss the view that foreign aid is more beneficial than foreign direct investment (FDI) for economic growth **and** economic development in PNG.

[15]

*Command term*

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

*Terminology/definitions may include:*

- Economic growth
- Economic development
- Sustainable development
- foreign aid and different types of aid
- foreign direct investment.

*Economic models to support analysis may include*

- an externalities diagram
- a poverty cycle diagram
- a PPC diagram
- an AD/AS diagram
- a Lorenz curve diagram
- an exchange rate 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.

*Answers may include*

- foreign aid

<i>Strengths</i>	<i>Limitations</i>
can be in form of grants, technical assistance or loans ( <b>Text D</b> , para 4 and 5)	loans need to be repaid with interest ( <b>Text D</b> , para 5) increasing future debt burdens and potentially lowering future growth
can provide funds for government expenditure to relieve shortage of tax revenue ( <b>Text D</b> , para 2; <b>Table 4</b> )	government has to meet certain performance criteria or conditions such as reducing budget deficits ( <b>Text D</b> , para 5), which may limit the government’s policy options and slow future development spending
provides loans (in foreign currencies) which can be used to manage exchange rate or to buy essential imports ( <b>Text D</b> , para 3)	some argue that too much aid goes to governance projects rather than infrastructure ( <b>Text D</b> , para 6), limiting direct contributions to growth
improves infrastructure ( <b>Text D</b> , paragraph 4 or 6), which raises productivity, encourages investment, and promotes economic growth and development	may encourage dependence on other countries and/or aid agencies, as aid funds increase ( <b>Table 4</b> ).
improves human capital which could also improve HDI and the gender inequality index ( <b>Text D</b> , para 4; <b>Table 4</b> )	

can be used to lower and mitigate the effects of climate change with funds for environment and for renewable energy (**Text F**, para 3).

- foreign direct investment

<i>Strengths</i>	<i>Limitations</i>
has been effective for large scale extraction projects ( <b>Text F</b> , para 1), contributing significantly to GDP and export earnings ( <b>Text D</b> , para 1). Supports short-run economic growth	FDI flows fall sharply after project completion ( <b>Text F</b> , para 1), resulting in unstable growth and putting downward pressure on the exchange rate
large contributor to GDP through foreign-owned mines ( <b>Text D</b> , para 1)	commodity price volatility <b>caused GDP growth to be volatile (Figure 1; Text D</b> , para 2), weakening long-term development
the extraction sector has enabled a trade surplus ( <b>Text E</b> , para 1; <b>Table 5</b> )	repayment may lead to outflows on financial account ( <b>Table 5</b> )
can provide funds for infrastructure and other investment ( <b>Text D</b> , para 4)	net incomes on current account are negative due to payment of interest and profits, and GNI is lower ( <b>Table 5</b> )
Special economic zones aim to attract FDI in tourism and manufacturing/processing firms ( <b>Text F</b> , para 3), supporting diversification and employment	tourism could impact the cultural heritage of PNG negatively
can regulate so that the property/land rights of citizens and local firms are protected ( <b>Text F</b> , paragraph 2)	mines (probably foreign-owned) have caused environmental problems and property rights issues ( <b>Text D</b> , para 1), reduced development outcomes and posed a threat to sustainability
government can get more tax revenue etc. from foreign owned companies ( <b>Text D</b> , para 2)	foreign firms are given tax concessions to encourage inward FDI ( <b>Text F</b> , para 3)
foreign owned firms can provide jobs and training to reduce the number of those in the informal economy and raise wages ( <b>Text D</b> , para 4)	may use labour from overseas rather than local labour
may incentivise more efficiency among local firms ( <b>Text F</b> , para 2)	may cause local firms to go out of business ( <b>Text F</b> , para 2)
will provide foreign exchange that can be used to import machinery etc ( <b>Table 5</b> ).	may cause the currency to be overvalued ( <b>Text D</b> , para 3).

*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 meet 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 or are used incorrectly.</li> <li>• The response contains no evidence of synthesis or evaluation.</li> <li>• The response contains no use of text/data or it is merely copied.</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 relevant but 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 thoroughly 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>