

Markscheme

November 2025

Economics

Higher level

Paper 3

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Notes for examiners:

1. 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, 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.
2. Alternative approaches may be taken in responses to the [4] questions that use A02 command terms. If this is the case and the alternative approaches are valid, then full credit should be given.
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 (not per part)** for each type of error.

1. (a) (i) Using **Table 1**, calculate the annual GDP growth rate for 2023. Enter your result in Table 1. **[1]**

$$((22\,668 - 21\,989) / 21\,989) \times 100 = 3.09\%$$

An answer of **3.09%** or **3.09** without working is sufficient for **[1]**.

Note: Correct rounding to more than 2dp is accepted (e.g. 3.088).

- (ii) Calculate the real interest rate for households between January 2023 and January 2024. **[1]**

$$8.5 - 3.1 = 5.4\%$$

An answer of **5.4%** or **5.4** without working is sufficient for **[1]**.

- (iii) Explain how commercial banks create money. **[4]**

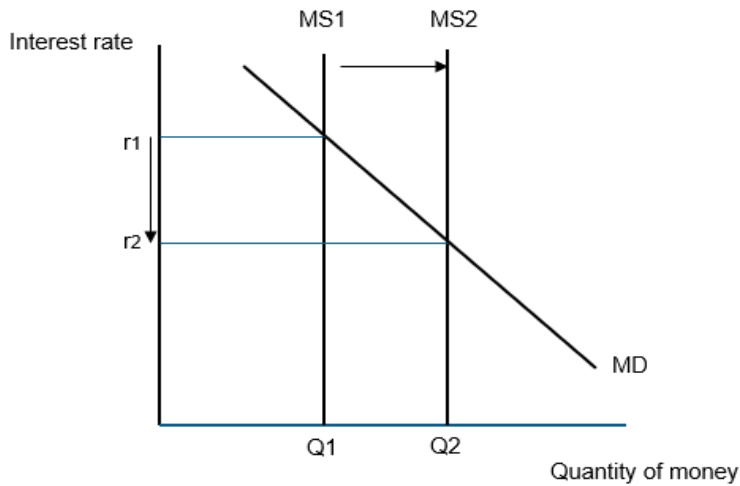
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1-2
	One of the bullet points below [1] Two of the bullet points below [2]	
2	<i>The written response is accurate.</i>	3-4
	Three of the bullet points below [3] Four of the bullet points below [4] OR with a correct quantitative example	

- An increase in (commercial) bank reserves (through a cash deposit or through open market purchases)
- Permits the bank to lend out (to customers) a portion of these additional reserves
- The quantity of possible loans depends on the minimum reserve requirement (MRR)/(required reserve ratio (RRR))
- These loans create (new) money **OR** the process is repeated.

(iv) Outline what is meant by the term quantitative easing. [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1
	Quantitative easing is a form of expansionary monetary policy OR the central bank purchases financial assets from commercial banks	
2	<i>The written response is accurate.</i>	2
	Quantitative easing is a form of expansionary monetary policy AND the central bank purchases financial assets from commercial banks	

(v) Sketch a diagram to show how an increase in the money supply is expected to affect the equilibrium interest rate. [2]



For a money market diagram, the vertical axis may be labelled interest rate, real interest rate, nominal interest rate, discount rate, cost of borrowing. The horizontal axis can be quantity of money or quantity. All abbreviations are acceptable. The curves should be labelled MD and MS, DM and SM or D and S.

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram BUT incorrect labelling or omissions.</i>	1
	For sketching a correct diagram showing an increase in the money supply and a fall in the rate of interest (Note: the changes must be indicated clearly via arrows or numbers, such as IR1 to IR2 and MS1 and MS2)	
2	<i>There is a correct diagram AND correct labelling.</i>	2
	For sketching a correct diagram showing an increase in the money supply and a fall in the rate of interest (Note: the changes must be indicated clearly via arrows or numbers, such as IR1 to IR2 and MS1 and MS2) AND the money supply curves must be vertical.	

- (vi) Using **Table 2**, calculate the deficit or surplus in the balance of trade in goods and services for Quarter 3 (Q3) only. **[1]**

$$1178 - 1374 = -196 \text{ OR (USD) } 196 \text{ (bn) deficit.}$$

An answer of **-196** or **196 deficit** without working is sufficient for **[1]**.

- (vii) Using **Table 2**, calculate the size of the financial account for Quarter 4 (Q4) only. **[3]**

$$1180 - 1375 + 36 - 39 - 2$$

Any valid working (including current account data only) is sufficient for [1].

$$= -200 \quad \mathbf{[1]}$$

Financial account = **USD 200 bn [1]**

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

OFR applies if the working is incorrect, as long as the final answer shows that the sum of all the accounts is zero. (*i.e. the final answer is the negative of the sum of the workings*).

- (viii) Using **Figure 1**, calculate the percentage change in the value of the USD in terms of the CNY from its highest point in September 2023 to its lowest in December 2023. **[2]**

$$\mathbf{(7.1 - 7.35) / 7.35 \times 100}$$

Any valid working is sufficient for [1].

$$= -3.4 (\%) \quad \mathbf{[1]}$$

An answer of -3.4 without working is sufficient for [1].

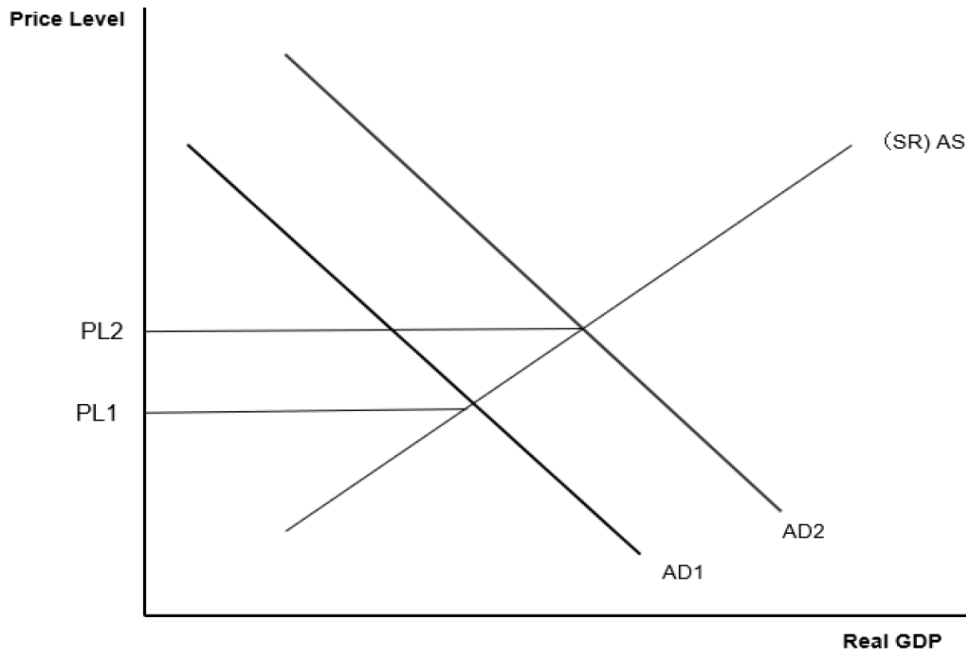
Note: *A slight misreading of the graph leads to a slightly different result, which should be fully rewarded.*

$$\mathbf{(7.095 - 7.35) / 7.35 \times 100 = -3.47}$$

OR

$$\mathbf{(7.09 - 7.35) / 7.35 \times 100 = -3.54}$$

- (ix) Using an AD/AS diagram, explain why a depreciating dollar may lead to demand-pull inflation in the USA. [4]



Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The response is limited.</i>	2
	For a correctly labelled AS/AD diagram showing a shift of AD to the right and a higher price level OR An explanation that a depreciating dollar would make US products more competitive, leading to an increase in net exports, causing AD to increase, (leading to demand-pull inflation).	
2	The response is accurate.	4
	For a correctly labelled AS/AD diagram showing a shift of AD to the right and a higher price level AND An explanation that a depreciating dollar would make US products more competitive, leading to an increase in net exports, causing AD to increase (leading to demand-pull inflation).	

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

- (b) Using the text/data provided and your knowledge of economics, recommend a policy that the government of the USA could introduce to correct its persistent current account deficit, without intervention in foreign exchange markets. **[10]**

Possible policies may include (but are not restricted to):

- Expenditure switching policies (such as tariffs/quotas/subsidies for exporters)
- Expenditure reducing policies (such as contractionary fiscal policy/contractionary monetary policy)
- Supply-side policies (such as education and training programs/tax incentives)

Any other valid policy

Note: *If more than one policy is recommended, only the best policy should be rewarded, unless the policies are shown to be complementary or if they are compared/contrasted with the student's one chosen policy.*

Assessment Criteria

Recommend—present an advisable course of action with appropriate supporting evidence/reason in relation to a given situation, problem, or issue.

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response identifies a policy. • The response uses no economic theory to support the recommendation. • Economic terms are stated but are not relevant. • The response contains no use of text/data to support the recommendation. • The response contains no evidence of synthesis or evaluation.
3–4	<ul style="list-style-type: none"> • The response identifies an appropriate policy. • The response uses limited economic theory to support the recommendation in a superficial manner. • Some relevant economic terms are included. • The response contains no use of relevant text/data to support the recommendation. • The response contains superficial evidence of synthesis or evaluation.
5–6	<ul style="list-style-type: none"> • The response identifies and explains an appropriate policy. • The response uses relevant economic theory to partially support the recommendation. • Some relevant economic terms are used appropriately. • The response includes limited relevant information from the text/data which does not adequately support the recommendation. • The response contains limited evidence of appropriate synthesis or evaluation but lacks balance.
7–8	<ul style="list-style-type: none"> • The response identifies and fully explains an appropriate policy. • The response uses relevant economic theory to support the recommendation. • Relevant economic terms are used mostly appropriately. • The use of information from the text/data is generally appropriate, relevant and applied correctly to support the recommendation. • The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.
9–10	<ul style="list-style-type: none"> • The response identifies and fully explains an appropriate policy. • The response uses relevant economic theory effectively to support the recommendation. • Relevant economic terms are used appropriately throughout the response. • The use of information from the text/data is appropriate, relevant and supports the analysis/evaluation effectively. • The response contains evidence of effective and balanced synthesis or evaluation.

2. (a) (i) Using the information in **Table 3**, determine which country has a comparative advantage in producing coffee. [2]

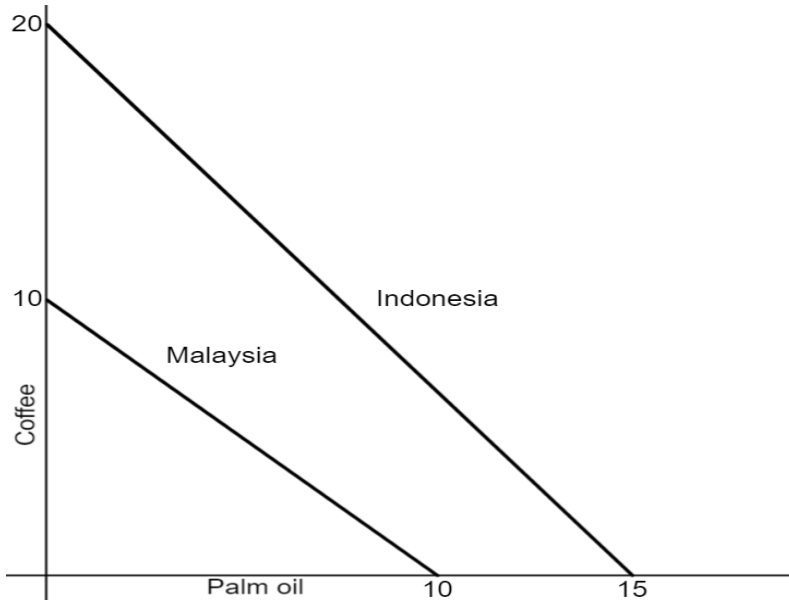
Opportunity cost of coffee:

Indonesia	$15/20 = 3/4$ (palm oil)
Malaysia	1 (palm oil)

For using the information accurately to show that Indonesia has a lower opportunity cost/is relatively more efficient in coffee [1]

For stating that Indonesia has a comparative advantage in the production of coffee [1]

- (ii) Using the information in **Table 3** and assuming constant costs, sketch a fully labelled diagram of the production possibility curves (PPCs) for Indonesia **and** for Malaysia. [2]



Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram BUT incorrect labelling or omissions.	1
	For sketching a diagram with palm oil and coffee on the axes AND either two labelled straight lines without denoting the intercepts OR two labelled curved lines with correctly denoted intercepts	
2	There is a correct diagram AND correct labelling.	2
	For sketching a fully labelled diagram with palm oil and coffee on the axes and two labelled straight lines with correctly denoted intercepts	

Note: The axes may be reversed with palm oil (intercepts 10 and 15) on the vertical axis and coffee (intercepts 10 and 20) on the horizontal axis.

- (iii) Explain **two** reasons why it might not be in Indonesia’s best interests to specialize and trade according to the theory of comparative advantage. **[4]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1
	For one reason stated [1] . For two reasons stated OR one reason explained [2] .	
2	<i>The written response is accurate.</i>	2
	For one reason explained AND one reason stated [3] . For two reasons explained [4] .	

Reasons may include:

- transport costs not included; trade in coffee and palm oil may not be mutually beneficial if it takes place over long distances, which will increase costs
 - goods not identical (perfect competition assumption not valid); Indonesia’s palm oil may be of higher quality than Malaysia’s; imported palm oil may not be safe and may have compromised environmental standards
 - resources (labour and capital) not immobile between countries; when labour migrates from Indonesia or capital flows take place through FDI, opportunity costs will change
 - resources within a country immobile, which will lead to (structural) unemployment in industries where there is a comparative disadvantage, because neither workers nor plantations can easily be moved from palm oil to coffee
 - assumption that all factors of production are fully employed unrealistic; when there is rural unemployment, trade based on comparative advantage may be disadvantageous
 - assumption of no trade barriers; when the coffee and palm oil are traded, tariffs will raise the costs
 - by relying on Malaysia to produce palm oil, Indonesia loses access to an important consumer good for cooking in low-income households
 - costs are not necessarily constant; specialization may not be advantageous, because of deforestation or depletion of resources or being a barrier to diversification/economic development
 - *geopolitical and other risks; vulnerability to changes in market conditions in Indonesia’s trading partners or supply shocks*
 - *coffee is a primary product; specialization may be unfavourable due to low-income elasticity of demand and climate conditions, which lead to price volatility*
- Any other valid reason.*

- (iii) Using **Table 4**, outline the reason why the palm oil market is not perfectly competitive. **[2]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague outline</i>	1
	For the idea that: the firm has market power OR the price changes as output changes OR the demand curve slopes down OR MR is lower than the price/AR	
2	<i>Accurate outline</i>	2
	For providing evidence from the Table 4: Market power/Price changes/D slopes down <i>as shown by</i> e.g. at 3 kg P = 20, while at 4 kg P = 18 OR MR is lower than the price/AR <i>as shown by</i> e.g. at 4 kg: MR = 12 < 18 = P	

An alternative valid approach is to identify a relationship from the table [1] and then to explain why this relationship means that the market is not perfectly competitive [1].

- (iv) Using **Table 4**, calculate the profit when output is 3 kg. **[1]**

$$60 - 6 = 54$$

An answer of 54 or 54 000 (IDR) without working is sufficient for [1].

- (v) Using **Table 4**, calculate the marginal (private) cost (MC) when output increases from 7 kg to 8 kg. **[1]**

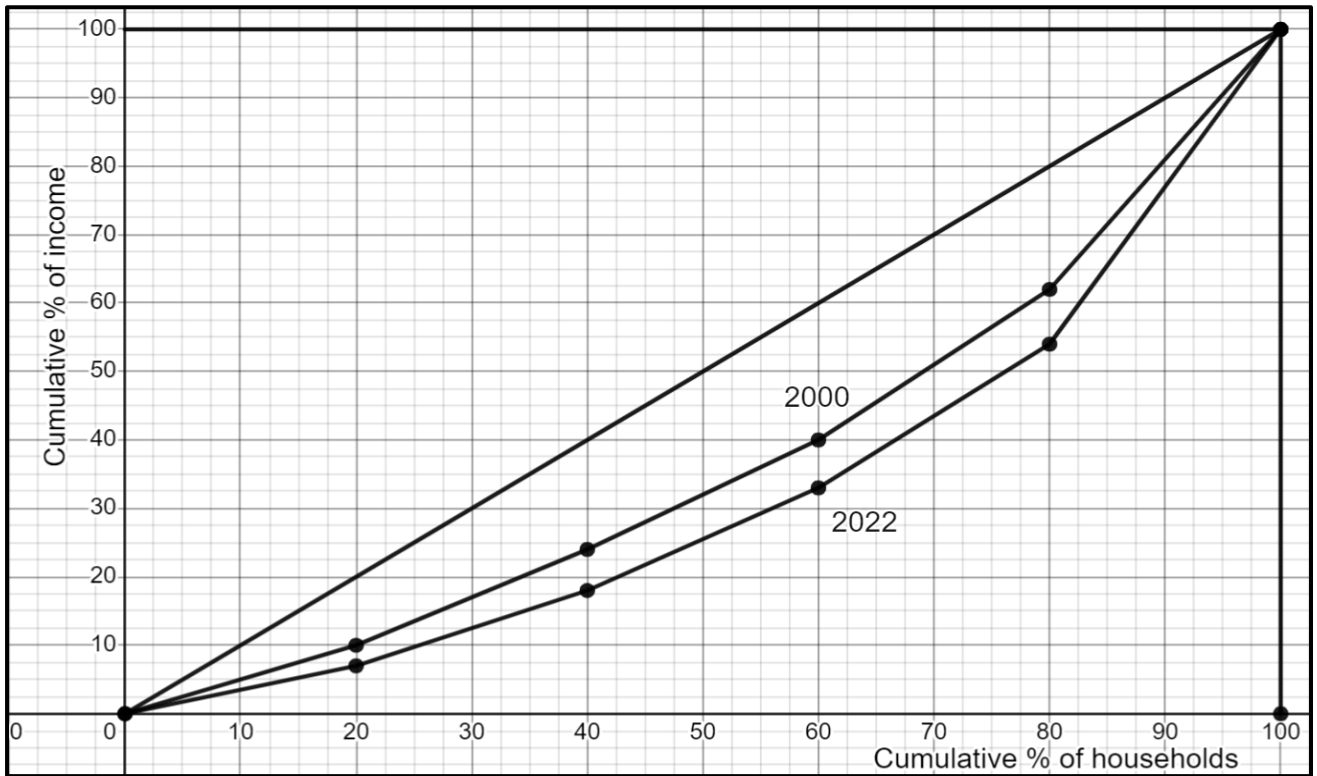
$$25 - 17 = 8$$

An answer of 8 or 8000 (IDR) without working is sufficient for [1].

- (vi) Using **Table 4**, identify the level of output when social/community surplus is maximized. **[1]**

5 or 5 kgs is sufficient for [1].

(vii) Using the information in **Table 5**, construct a labelled Lorenz curve for the year 2000 on **Figure 2**. **[2]**



*Award [1] for a curve (smooth or straight lines), plotted accurately at the 20th and 60th percentile, (with the other points approximately correct) **but** without a label.*

Award [2] for a curve (smooth or straight lines), labelled 2000, plotted accurately at the 20th and 60th percentile, (with the other points approximately correct).

(viii) Explain **two** possible causes of income inequality in Indonesia. **[4]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i> For one cause stated [1] . For two causes stated OR one cause explained [2] .	1–2
2	<i>The written response is accurate.</i> For one cause explained AND one cause stated [3] . For two causes explained [4] .	3–4

Causes **may** include:

- inequality of opportunity; as place of birth, parental background, and other social factors differ
- different levels of resource ownership; owners of capital typically earn higher incomes
- different levels of human capital/skills; limited access to training or to education (e.g. in rural areas)
- discrimination (gender, race and others); women may not be promoted because expected to become mothers
- unequal status and power; market concentration leads to transfer of surplus from consumers to producers
- corruption; prevents redistribution, because funds are diverted towards those with political power
- government tax policy; could be regressive, e.g. sales tax
- government transfer policies; welfare payments to low-income families may be low in size and/or duration
- globalization and technological change; loss of employment in industries that lose their comparative advantage
- market-based supply side policies; deregulation and privatization may adversely affect wages

Any other valid cause.

(ix) Using **Figure 3**, calculate the total welfare loss, in billions of IDR, as a result of the subsidy. **[1]**

$$0.5 \times 0.25 \times 2 = 0.25$$

An answer of **0.25** (billion) (IDR) without working is sufficient for **[1]**.

- (b) Using the text/data provided and your knowledge of economics, recommend a policy that the Indonesian government could adopt to reduce carbon emissions. **[10]**

Possible policies may include (but are not restricted to):

- moving resources to production of coffee for export instead of palm oil
- improving land use, including reduction of deforestation
- cutting palm oil production (regulation) by limiting expansion of plantations so as to bring output closer to the socially optimal level
- investment (with subsidies transferred from fossil fuels) in renewable energy sources
- carbon pricing/taxes on gasoline used in private vehicles with tax revenue used for public transportation
- cutting subsidies for fuel while using the funds saved for targeted transfer payments/spending on health
- subsidies for electric vehicles
- improving public transport in major cities along with bicycle lanes
- tax breaks for hybrid or electric cars
- education and awareness as part of green-energy nudges and choice architecture
- *Any other valid policy*

Note:

If more than one policy is recommended, only the best policy should be rewarded, unless the policies are shown to be complementary or if they are compared/contrasted with the student's one chosen policy.

Assessment Criteria

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