

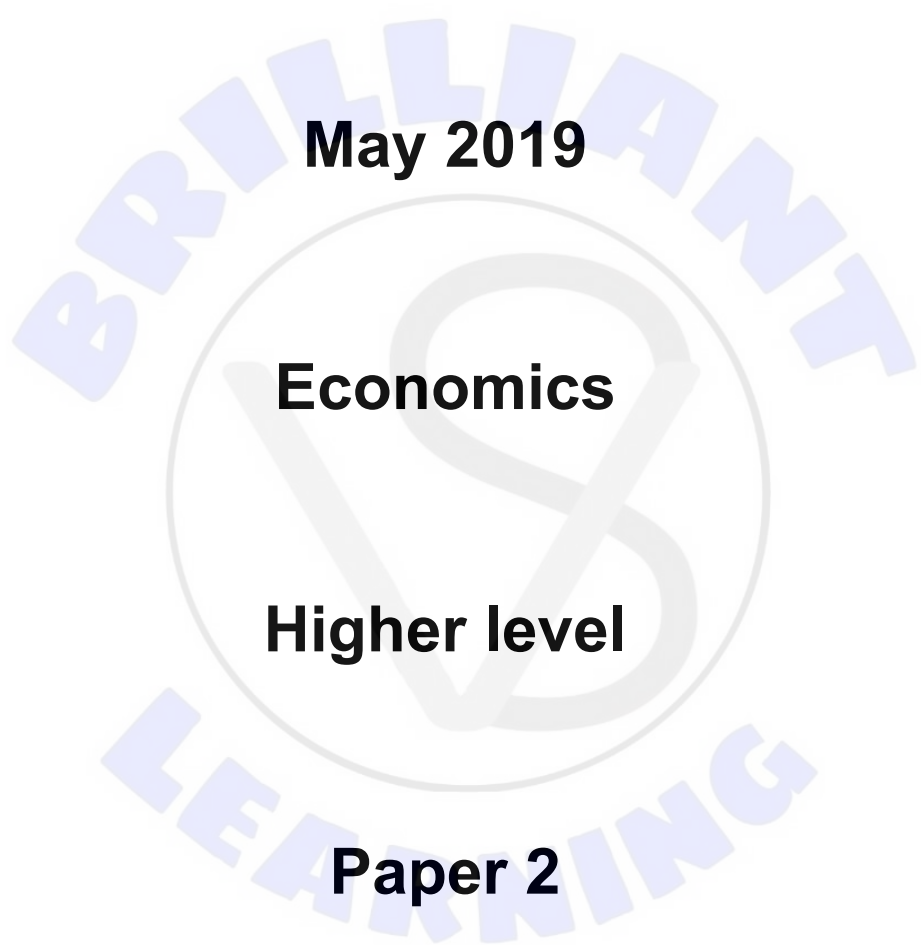
Markscheme

May 2019

Economics

Higher level

Paper 2



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Use the paper-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

Section A

1. (a) (i) Define the term ***dumping*** indicated in bold in the text (paragraph ②). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it is selling goods in another country at very low prices.	1
2	<i>Accurate definition.</i> An explanation that it is the selling of goods in another country: <ul style="list-style-type: none"> • at a price below the cost of production, OR • below the price charged in the home market. 	2

(ii) Define the term ***variable costs*** indicated in bold in the text (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 these are costs (of production) that change.	1
2	<i>Accurate definition.</i> The idea that these are costs (of production) that change when output changes.	2

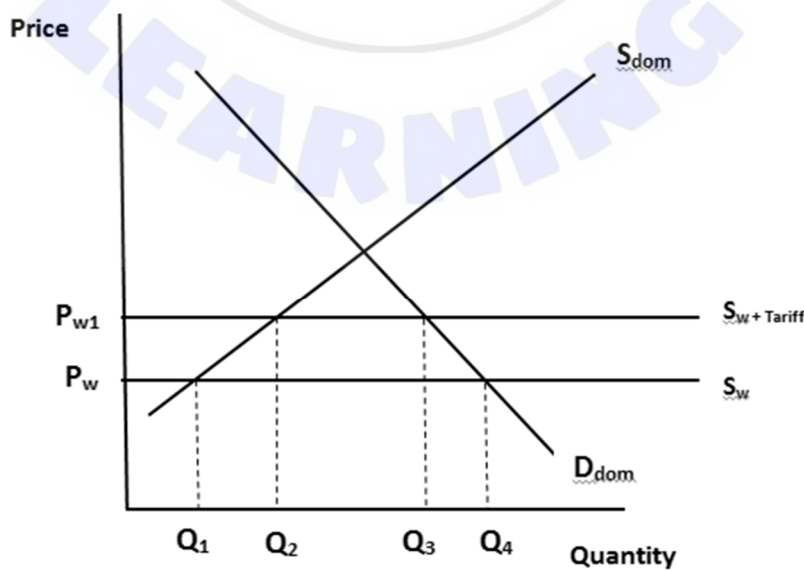
(b) Using a tariff diagram, explain the effect of the “preliminary tariffs” on Canadian consumers of drywall (paragraph 9).

[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
	A tariff diagram showing a shift of the world supply curve upwards which leads to an increase in the price of drywall and a fall in the quantity of drywall demanded OR an explanation that includes at least two of the following; <ul style="list-style-type: none"> • tariff raises prices/costs of production for consumers of drywall • decrease in quantity demanded • decrease choice for consumers • decrease quality due to inefficient domestic producers • decrease consumer surplus. 	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	A tariff diagram showing a shift of the world supply curve upwards which leads to an increase in the price of drywall and a fall in the quantity of drywall demanded AND an explanation that includes at least two of the following; <ul style="list-style-type: none"> • tariff raises prices/costs of production for consumers of drywall • decrease in quantity demanded • decrease choice for consumers • decrease quality due to inefficient domestic producers • decrease consumer surplus. 	

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

The use of P and Q on the axes is sufficient for a demand and supply diagram. The world supply curve must be labelled S_w , or S_{world} . A title is not necessary.

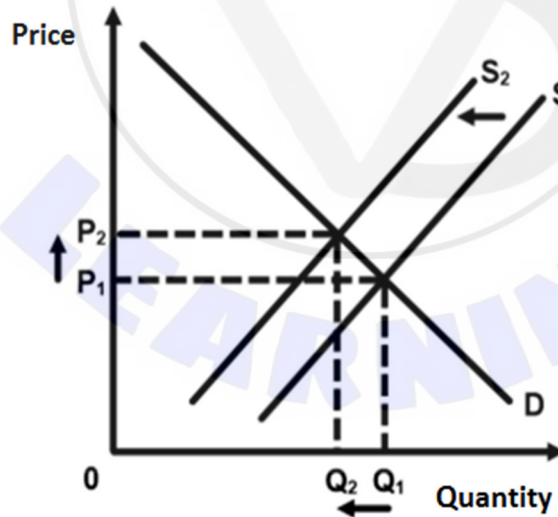


- (c) Using a demand and supply diagram, explain how the “imposition of the preliminary tariff” may have affected the market for new homes built in Canada (paragraph 4). [4]

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 OR an accurate written response.</i>	1–2
	A demand and supply diagram showing a shift of the supply curve to the left which leads to an increase in the price of new homes, and a fall of the quantity of new homes built in Canada OR An explanation that tariffs increased input costs of production of houses, decreasing the supply curve. This results in a decrease in quantity and an increase in the price of new homes.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	A demand and supply diagram showing a shift of the supply curve to the left which leads to an increase in the price of new homes, and a fall of the quantity of new homes built in Canada AND An explanation that tariffs increased input costs of production of houses, decreasing the supply curve. This results in a decrease in quantity and an increase in the price of new homes.	

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

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.



- (d) Using information from the text/data and your knowledge of economics, evaluate the effect of the tariff on drywall on different stakeholders.

[8]

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

Do not award beyond level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

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.

Responses may include:

- definition of stakeholders
- definition of tariff.

Consumers of drywall (Canadian building firms):

- will face higher costs, and thus reduced profits (paragraph 4)
- fall in the production of buildings (paragraph 4)
- may cause unemployment.

Domestic producers of drywall:

- will receive higher prices (paragraph 3) and thus more profits
- increase in output and sales
- increase in employment (paragraph 6)
- supporting monopoly power (paragraph 5).

US producers of drywall:

- higher costs
- reduced sales
- lower profits and possibly a decrease in employment.

The Canadian government:

- increased revenue (paragraph 7)
- possible retaliation from the US.

Canadian economy:

- reduction in competition (paragraph ⑦), leading to inefficiency
- inflationary pressure in the housing market (paragraph ④).

Any reasonable evaluation.

To reach level 3, students must be aware of the particular situation in the Canadian drywall market on specific stakeholders, not just present an evaluation of tariffs in general.



2. (a) (i) List **two** functions of the central bank (paragraph ②).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague list.</i>	1
	For listing any one of the following: <ul style="list-style-type: none"> • regulator of commercial banks/lender of last resort • banker to the government • control of interest rates • control of money supply • implementing monetary policies • maintenance of price stability • control of exchange rate policy • holder of foreign exchange reserves • provider and printer of notes and coins • maintain low rate of unemployment. 	
2	<i>Accurate list.</i>	2
	For listing any two of the following: <ul style="list-style-type: none"> • regulator of commercial banks/lender of last resort • banker to the government • control of interest rates • control of money supply • implementing monetary policies • maintenance of price stability • control of exchange rate policy • holder of foreign exchange reserves • provider and printer of notes and coins • maintain low rate of unemployment. 	

(ii) Define the term **fiscal policy** indicated in bold in the text (paragraph ⑤).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	For any one of the following: <ul style="list-style-type: none"> • a demand-side policy (conducted by the government) • using changes in government expenditure (spending) • using changes in taxation • used to achieve economic objectives relating to inflation, unemployment and long-term economic growth. 	
2	<i>Accurate definition.</i>	2
	For any two of the following: <ul style="list-style-type: none"> • a demand-side policy (conducted by the government) • using changes in government expenditure (spending) • using changes in taxation • used to achieve economic objectives relating to inflation, unemployment and long-term economic growth. 	

- (b) Using an exchange rate diagram, explain how the central bank might depreciate the value of the rupee (paragraph 3).

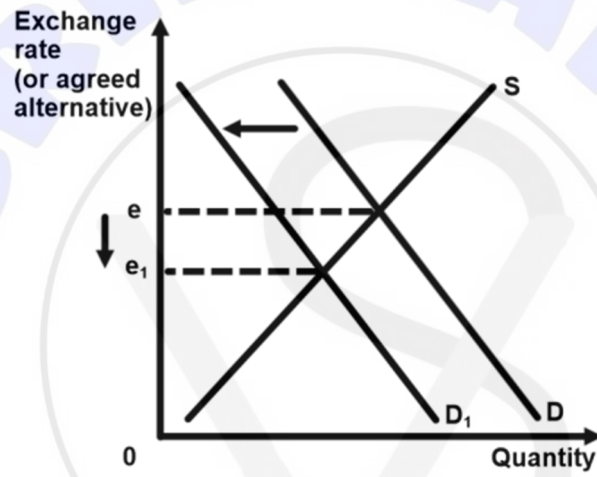
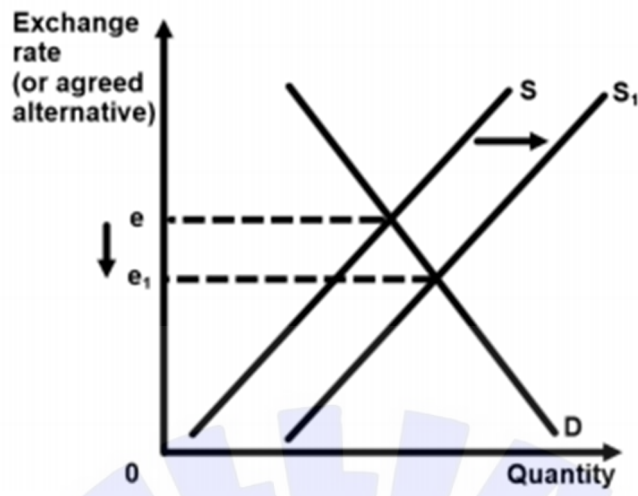
[4]

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 drawing a correctly labelled exchange rate diagram showing a rightward shift of the supply curve (leftward shift of the demand curve) and a fall in the exchange rate OR for an explanation of one of the following: <ul style="list-style-type: none"> the central bank may reduce (domestic) interest rates, inducing domestic (financial) investors to increase the supply of the rupee (as they demand more foreign currency) in order to save abroad, and so lowering its value the central bank may reduce (domestic) interest rates, inducing foreign (financial) investors to decrease the demand for the rupee (as they demand less domestic currency) in order to save in Pakistan, and so lowering its value the central bank may purchase foreign currencies in the foreign exchange market, increasing the supply of the rupee and so lowering its value. 	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled exchange rate diagram showing a rightward shift of the supply curve (leftward shift of the demand curve) and a fall in the exchange rate AND for an explanation of one of the following: <ul style="list-style-type: none"> the central bank may reduce (domestic) interest rates, inducing domestic (financial) investors to increase the supply of the rupee (as they demand more foreign currency) in order to save abroad, and so lowering its value the central bank may reduce (domestic) interest rates, inducing foreign (financial) investors to decrease the demand for the rupee (as they demand less domestic currency) in order to save in Pakistan, and so lowering its value the central bank may purchase foreign currencies in the foreign exchange market, increasing the supply of the rupee and so lowering its value. 	

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

Candidates whose explanation does not correspond to the diagram (eg the candidate explains increase of supply, but the diagram shows decrease of demand) can be awarded a maximum of [2].

For an exchange rate diagram, the vertical axis may be labelled exchange rate, price of rupee in terms of another currency, another currency per rupee, another currency/rupee. The horizontal axis should be labelled quantity (of rupees). A title is not necessary.



- (c) Explain the difference between a current account deficit and a budget deficit (paragraph 9).

[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 an explanation that a current account deficit is when the net flow of money/value from trade in goods and services and income flows and/or transfers is negative OR an explanation that a budget deficit occurs when government spending is greater than government revenues.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For an explanation that a current account deficit is when the net flow of money/value from trade in goods and services and income flows and/or transfers is negative AND an explanation that a budget deficit occurs when government spending is greater than government revenues.	

- (d) Using information from the text/data and your knowledge of economics, discuss the effects of the increasing current account deficit on Pakistan’s economy.

[8]

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

Do not award beyond level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

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.

Responses **may** include:

- definition of current account deficit (paragraph ❶) / reference to (c).

Positive effects:

- imports of capital can lead to increased economic growth in the long run (paragraph ❷)
- high imports of non-essential goods may indicate development and higher living standards (paragraph ❶) suggests consuming outside of PPC
- Pakistan may have to depreciate the currency as advised by central bank. This will reduce the relative price of exports and may allow to improve Pakistan's export competitiveness (paragraph ❸).

Negative effects:

- may require “new IMF” loan and conditions that are attached regarding austerity (paragraph ❶)
- persistent trade deficit may compromise “decade high” economic growth (paragraph ❹)
- inflows on financial account increase, meaning foreign debt payments will increase and worsen current account deficit
- downward pressure on the exchange rate requiring use of foreign exchange reserves to maintain managed float (paragraph ❸)
- may be forced to “depreciate” the rupee which will:
- increase import prices and may cause cost-push inflation
- reduce export revenues – Marshall-Lerner condition
- IMF loans to finance current account deficit (paragraph ❶) will require interest payments that may worsen the budget deficit (paragraph ❺)
- foreign investors may be purchasing Pakistan assets to finance the deficit which could threaten sovereignty
- current account deficit may worsen Pakistan’s credit rating
- it may be unsustainable to finance the current account deficit by borrowing. If foreign investors lose confidence, there may be a rapid outflow of financial capital resulting in a rapid fall in the value of the rupee
- fiscal policy (paragraph ❺) decisions may have to be addressed to help with the deficit. In this case, moving from expansionary to contractionary. This may reduce economic growth.

Any reasonable discussion.

To reach level 3, students must be aware of the particular situation in Pakistan, not just present an evaluation of a current account deficit in general.

Section B

3. (a) (i) Define the term *interest rates* indicated in bold in the text (paragraph 5). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is a payment to (or from) the bank.	
2	<i>Accurate definition.</i>	2
	An explanation that it is one of the following: <ul style="list-style-type: none"> • the price or cost of borrowed money (credit) • the reward for saving • the percentage paid on borrowed (or saved) money. 	

(ii) Describe the nature of foreign direct investment (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 investment between countries.	
2	<i>Accurate definition.</i>	2
	An explanation that it is any two of the following: <ul style="list-style-type: none"> • long-term investment in another country • investment by a multinational corporation (MNC) • investment in another country representing at least 10 % ownership • investment in productive facilities • <i>any reasonable answer that describes the nature of FDI.</i> 	

(b) Using information from the text, explain **two** reasons why Chinese multinational corporations (MNCs) are investing in Bolivia.

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
	Referencing text without explanation.	
1	<i>The written response is limited.</i>	1–2
	For explaining one reason with reference to the text OR for providing two possible reasons with no reference to the text. <i>Reasons may include:</i> <ul style="list-style-type: none"> • expanding market/gain economies of scale as bilateral trade has increased (paragraph ❶) and China provides a significant portion of Bolivia’s imports (paragraph ❷) • creates lending opportunities for Chinese banks (paragraphs ❸ and ❹) to gain profits from interest payments • increased business opportunities for Chinese firms, as the loans from Chinese banks are spent on Chinese imports (paragraph ❸) • access to exploit resources (paragraph ❺) to use for their own production/profit purposes • profits (paragraph ❻) generated from investments in energy/infrastructure. 	
2	<i>The written response is accurate.</i>	3–4
	For explaining two reasons with reference to the text. <i>Reasons may include:</i> <ul style="list-style-type: none"> • expanding market/gain economies of scale as bilateral trade has increased (paragraph ❶) and China provides a significant portion of Bolivia’s imports (paragraph ❷) • creates lending opportunities for Chinese banks (paragraphs ❸ and ❹) to gain profits from interest payments • Increased business opportunities for Chinese firms, as the loans from Chinese banks are spent on Chinese imports (paragraph ❸) • access to exploit resources (paragraph ❺) to use for their own production/profit purposes • profits (paragraph ❻) generated from investments in energy/infrastructure. 	

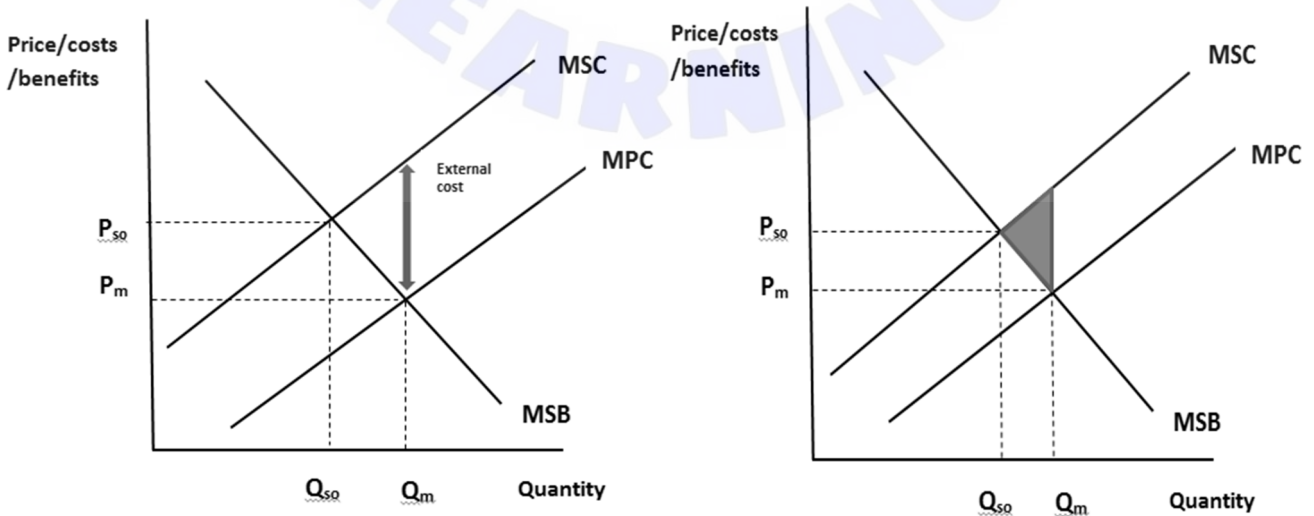
(c) Using an externalities diagram, explain how the Chinese infrastructure projects have caused negative externalities (paragraph 6).

[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 drawing a correctly labelled externalities diagram, showing: <ul style="list-style-type: none"> • $MSC > MPC$ and identifying both the socially optimal quantity of output and the quantity of output determined by the market forces • The vertical distance between MSC and MPC labelled externality/external costs or the shaded welfare loss due to the negative externality of production. OR For explaining that Chinese infrastructure projects cause water contamination/overuse, creating costs to third parties/local communities/society.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled externalities diagram, showing: <ul style="list-style-type: none"> • $MSC > MPC$ and identifying both the socially optimal quantity of output and the quantity of output determined by the market forces • The vertical distance between MSC and MPC labelled externality/external costs or the shaded welfare loss due to the negative externality of production. AND For explaining that Chinese infrastructure projects cause water contamination/overuse, creating costs to third parties/local communities/society.	

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

The y axis may be labelled price but could be costs or benefits and the x axis labelled quantity.



- (d) Using information from the text/data and your knowledge of economics, discuss the possible effects of Chinese involvement on economic growth and development in the Bolivian economy.

[8]

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

Do not award beyond level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

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.

Responses **may** include:

- definitions of economic growth and economic development
- definition of FDI.

Positive outcomes for growth and/or development:

- increased export markets (paragraph ①)
- lower prices and choice for domestic consumers from Chinese imports
- improvements in infrastructure (paragraph ③)
- continued growth in the economy (paragraph ⑤)
- improvements in infrastructure lowering input costs (paragraph ⑥)
- possibility of increased domestic employment
- filling of the savings gap
- breaking the poverty cycle
- technology transfer.

Negative outcomes for growth and/or development:

- dependency on China (throughout)
- worsening current account deficit (paragraph ②)
- problems of indebtedness (paragraph ③)
- minimal opportunity for increasing local employment as Chinese bring their own labour (paragraph ⑤)
- problems associated with commercial loans (paragraph ⑤)
- problems associated with tied aid – contracts only to Chinese companies (paragraph ⑤)
- opportunity cost of interest payments (paragraph ⑤)
- Chinese interests are advanced before Bolivian growth and development (paragraph ⑤)
- negative externalities (paragraph ⑥)
- overexploitation of Bolivia's natural resources (paragraph ⑦)
- possible loss of control of assets and infrastructure.

Any reasonable discussion.

To reach level 3, students must be aware of the particular situation in the Bolivian economy, not just present a discussion of growth and development factors in general. They must also present a balanced evaluative approach between both growth and development.

4. (a) (i) Define the term *investment* indicated in bold in the text (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 buying some form of capital.	
2	<i>Accurate definition.</i>	2
	An explanation that it is: <ul style="list-style-type: none"> • any addition to the capital stock of the economy OR • expenditure by firms on capital OR • public investment (context of paragraph ②) is expenditure by government on capital. 	

(ii) Define the term *productivity* indicated in bold in the text (paragraph ⑤). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is a measure of efficiency.	
2	<i>Accurate definition.</i>	2
	An explanation that it is a measure of (the rate of) output per unit of input/time/labour.	

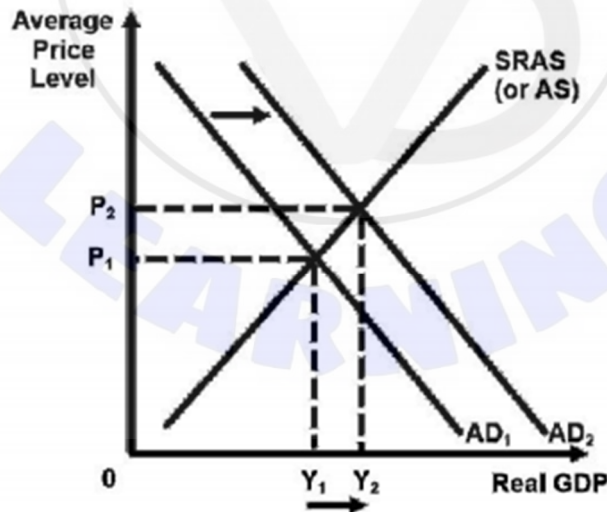
- (b) Using an AD/AS diagram, explain how expansionary monetary policy might lead to economic growth (paragraph 1).

[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
	An AD/AS diagram showing a shift of the AD curve to the right and an increase in the level of real national income OR an explanation that an expansionary monetary policy (reduction in interest rates) will increase consumption/investment increasing AD. This leads to an increase in real GDP, and thus economic growth.	
2	There is a correct diagram AND an accurate written response.	3-4
	An AD/AS diagram showing a shift of the AD curve to the right and an increase in the level of national income AND an explanation that an expansionary monetary policy (reduction in interest rates) will increase consumption/investment increasing AD. This leads to an increase in real GDP, and thus economic growth.	

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

For AD/AS, the vertical axis may be price level or average price level. The horizontal axis may be real output, real national output, real national income, real Y, or real GDP. A title is not necessary.



- (c) Explain the difference between economic growth and economic development (paragraph 7). [4]

Responses may include:

- growth is increase in real GDP
- development is measure of well-being/standard of living/welfare
- GDP single indicator/measures only income (quantitative)
- development is composite (qualitative) / made up of multiple measures such as literacy rates, access to clean water, life expectancy, years of schooling, level of gender equality.

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
	Award [1] for one point above. Award [2] for two points above.	
2	<i>The written response is accurate.</i>	3–4
	Award [3] for three points above. Award [4] for four points above.	

- (d) Using information from the text/data and your knowledge of economics, discuss the extent to which continued economic growth may lead to economic development in Kenya. [8]

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

Do not award beyond level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

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.

Responses may include:

- definition of economic growth
- definition of economic development.

Economic growth and economic development:

- good agricultural performance (paragraph ①) may increase growth through exports, however dependence on primary products is dangerous because of fluctuating commodity prices (paragraph ⑦)
- expansionary monetary policy (paragraph ①) leads to growth but might be difficult to maintain if it causes inflation, however, Kenya is within the central bank’s inflation targets at the moment (paragraph ③)
- infrastructure developments (paragraph ①), enhanced construction (paragraph ②) and investment in energy and transportation (paragraph ②) will all lead to long-term growth, however, there are cost considerations for any developing country
- low inflation (paragraph ②) enables expansionary policies to continue to be implemented (paragraph ①)
- moderate improvement in the business environment (paragraph ④) but need to reduce the cost of doing business (paragraph ⑥)
- low oil prices (paragraph ①) reduce costs in the economy, thus leading to increased SRAS and growth, however, these may not be sustained and are out of Kenya’s control (external shocks) (paragraph ⑦)
- currency stability (paragraph ②) is a factor, but often beyond the control of developing countries (external shocks) (paragraph ⑦)
- fast-growing neighbouring countries (paragraph ④) is beyond the control of Kenya (external shocks) (paragraph ⑦)
- surge in remittances (paragraph ②) allows increased consumption on necessities and merit goods which support development, but this will be dependent upon continued world economy growth (external shocks) (paragraph ⑦)
- “a growing middle-class and rising incomes” (paragraph ②) are signs that economic development is occurring
- PPF to show how economic growth can lead to development (development goods such as merit goods on one axis with PPF increasing)
- Kenya faces development challenges in spite of strong economic growth (inequality, climate change, poverty) that may compromise economic development (paragraph ⑦).

Any reasonable discussion.

*To reach level 3, students must show awareness of the ways and to what extent (evaluating) economic growth may or may not lead to **economic development** – **making a very clear link between the two** (not just an analysis on economic growth or/and economic development). They must present a balanced evaluative approach on how growth might or might not impact on economic development.*