

Markscheme

May 2019

Economics

Standard level

Paper 2

22 pages

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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 *excess demand* 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> Demand exceeds supply.	1
2	<i>Accurate definition.</i> The situation where (at a given price) quantity demanded exceeds quantity supplied.	2

- (ii) Define the term *structural unemployment* 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> For an explanation that it is a situation where some workers are willing to work (seeking employment) but do not have a job.	1
2	<i>Accurate definition.</i> Occurs due to one of the following: <ul style="list-style-type: none"> • a mismatch between skills of workers and the jobs available • a mismatch between the geographical location of the workers and the jobs available • a permanent fall in the demand for a skill (demand for labour). 	2

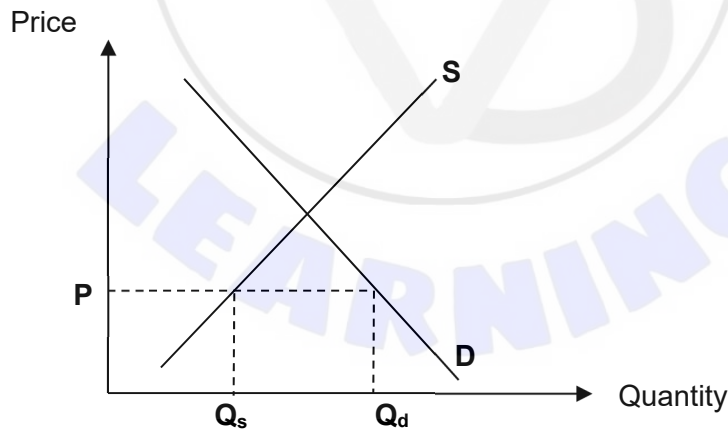
- (b) Using a supply and demand diagram and data from the text, explain how a “disequilibrium in the domestic US tinplate steel market” would occur if there were no imports (paragraph ③).

[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 market diagram, with a price below the equilibrium, and an excess demand clearly labelled in some way OR for an explanation that in the domestic market, there is a disequilibrium because there is one of the following: <ul style="list-style-type: none"> • a shortage of 0.9 million tons • demand of 2.1 million tons and supply of only 1.2 million tons • only 57% of domestic demand was met. 	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled market diagram, with a price below the equilibrium, and an excess demand clearly labelled in some way AND for an explanation that in the domestic market, there is a disequilibrium because there is one of the following: <ul style="list-style-type: none"> • a shortage of 0.9 million tons • demand of 2.1 million tons and supply of only 1.2 million tons • only 57% of domestic demand was met. 	

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

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



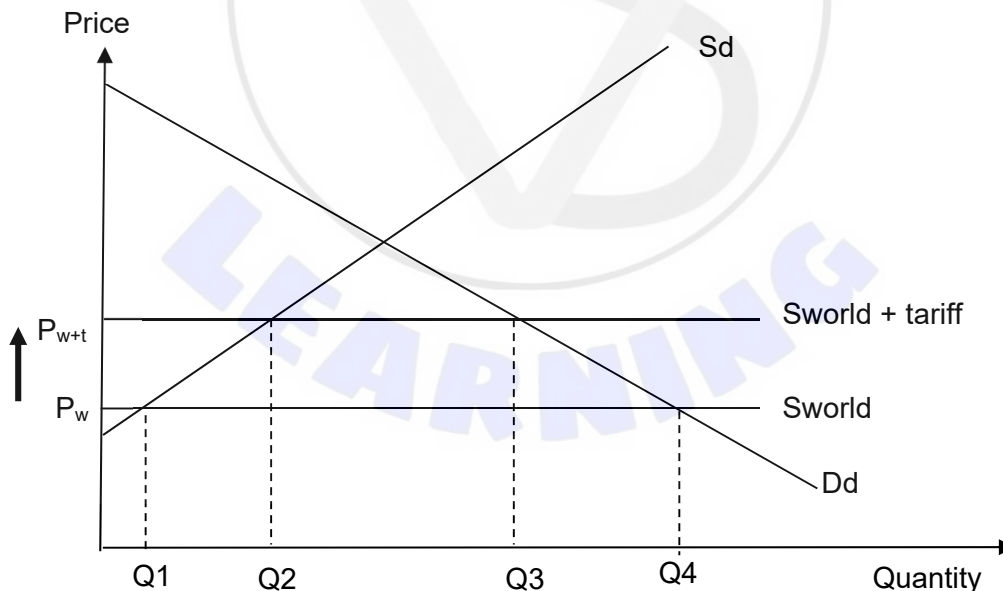
(c) Using an international trade diagram, explain the effect of a tariff on the imports of tinsplate steel (paragraph 1).

[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
	For drawing a correctly labelled trade diagram, with an upward shift of the world supply curve, an increase in price, and a fall in the level of imports OR for an explanation that a tariff will result in an increase in the price of tinsplate steel and hence a fall in the quantity of imports due to an increase in the domestic quantity supplied (and/or decrease in quantity demanded).	
2	There is a correct diagram AND an accurate written response.	3-4
	For drawing a correctly labelled trade diagram, with an upward shift of the world supply curve, an increase in price, and a fall in the level of imports AND for an explanation that a tariff will result in an increase in the price of tinsplate steel and hence a fall in the quantity of imports due to an increase in the domestic quantity supplied (and/or decrease in quantity demanded).	

Candidates who incorrectly label diagrams can be awarded 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.



- (d) Using information from the text/data and your knowledge of economics, discuss possible economic impacts of the tariff on tinsplate steel. [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 tariff
- international trade diagram to explain impact of the requested tariff on consumers, producers, government, importers and efficiency (paragraph ①).

Possible impacts:

- some candidates may question the claims of the CMI, noting that they have a vested interest in tinplate steel being exempted from a tariff (paragraph ①)
- severe economic impacts on the tin can manufacturing industry (paragraph ②)
- job losses and potential structural unemployment in the tin can industry (paragraphs ② and ④)
- inefficient domestic tinplate steel producers are supported (paragraph ③), causing a misallocation of resources
- the inferior “quality of domestically-produced tinplate steel” (paragraph ③) may result in a decline in quality and higher price of final products
- tariff allows domestic steel tinplate producers to maintain higher revenues / incomes to allow them to compete with higher quality imports (paragraph ③)
- higher input prices for can manufacturers may force closures of some can producers and a consolidation within the tin can industry (paragraph ④)
- tariff will increase input costs for can manufacturers requiring tinplate steel as an input (paragraph ④)
- tin can producers disadvantaged when substitute packaging is not exposed to a tariff (paragraph ④)
- impact on economic growth in communities dependent on tin can manufacturing (paragraph ④)
- impact on low-income households as tariffs are regressive taxes and food is a staple; low income households spend a higher proportion of their income on canned food (paragraph ⑤)
- trading partners might retaliate by imposing their own protectionist measures
- tariffs provide a source of tax revenue that can be reinvested
- as domestic production can only meet 57% of domestic demand, it might take a substantial increase in price to resolve the shortage (paragraph ③)
- may affect the competitiveness of US exports, which require tin-plate steel as a factor input.

2. (a) (i) Define the term *appreciation* 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> The idea that a currency is worth more or the idea that the exchange rate rises.	1
2	<i>Accurate definition.</i> An explanation that it is an increase in the value (price) of one currency (in terms of another currency) plus one of the following: <ul style="list-style-type: none"> • in a floating exchange rate system • as a result of a movement in market forces. 	2

- (ii) Define the term *monetary policy* indicated in bold in the text (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> The idea that is to do with interest rates (or money supply).	1
2	<i>Accurate definition.</i> An explanation that it is any two of the following: <ul style="list-style-type: none"> • demand-side policy • enacted by the central bank • changes in interest rates • changes in money supply. 	2

- (b) Using an AD/AS diagram, explain how increased import expenditure might affect economic growth in the Indian economy (paragraph ③).

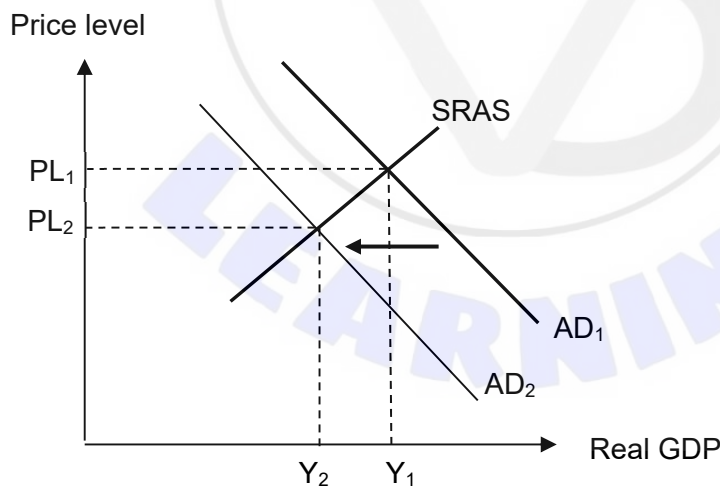
[4]

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
	An AD/AS diagram showing a shift of the AD curve to the left and a fall in the level of national income OR an explanation that the increased import expenditure will reduce net exports, a component of AD, thus reducing AD and reducing economic growth.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3-4
	An AD/AS diagram showing a shift of the AD curve to the left and a fall in the level of national income AND an explanation that the increased import expenditure will reduce net exports, a component of AD, thus reducing AD and reducing 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 output, real output, national output, real national output, national income, or real GDP. A title is not necessary.



- (c) Using an exchange rate diagram, explain how reducing interest rates might lead to a fall in the value of the rupee (paragraph 7).

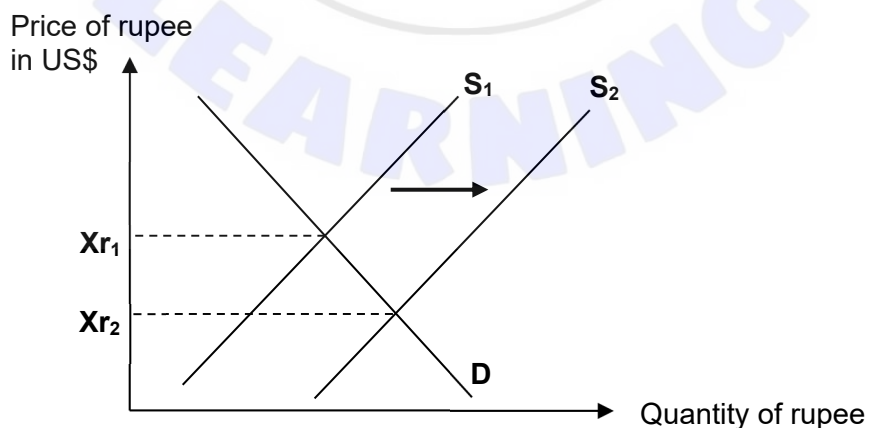
[4]

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 exchange rate diagram showing a shift of the supply curve to the right and a fall in the value of the rupee OR an explanation that a fall in the interest rate will make saving abroad a better option, so increasing the demand for foreign currencies and increasing the supply of the rupee on the foreign exchange market.	
2	There is a correct diagram AND an accurate written response.	3-4
	An exchange rate diagram showing a shift of the supply curve to the right and a fall in the value of the rupee AND an explanation that a fall in the interest rate will make saving abroad a better option, so increasing the demand for foreign currencies and increasing the supply of the rupee on the foreign exchange market.	

Candidates may state that reducing interest rates means that overall there has been less demand for the rupee because foreign depositors have less incentive to deposit their money in Indian banks, thus causing a shift in the demand curve to the left and a fall in the value of the rupee. If properly explained, with a correct diagram, then this approach may be fully rewarded.

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

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



- (d) Using information from the text/data and your knowledge of economics, discuss the possible economic consequences of the increasing value of the rupee for India's inflation rate, employment, economic growth and current account balance. **[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 appreciation, inflation, employment, economic growth, current account.

Inflation rate:

- the inflation rate may decrease due to cost-push deflation caused by lower prices of imported goods (paragraph ②)
- the inflation rate may decrease due to cost-push deflation caused by lower prices of imported raw materials and semi-finished goods (paragraph ②)
- the central bank may reduce interest rates to lower the value of the rupee (paragraph ⑦), causing an expansion of AD and demand-pull inflation
- the above points may have an off-setting effect on the level of inflation
- excess liquidity in the financial markets (paragraph ⑥) may also be inflationary
- demand-pull inflation falls due to lower AD since net exports fall.

Employment:

- increased export prices (paragraph ②) may lead to falling demand for exports (paragraph ④ and paragraph ⑤) and so an increase in unemployment in export industries and in industries that compete with imports (due to lower import prices)
- decreased import prices (paragraph ②) may lower costs for firms using imported raw materials and semi-finished goods, thus lowering prices, increasing demand, and leading to higher employment.

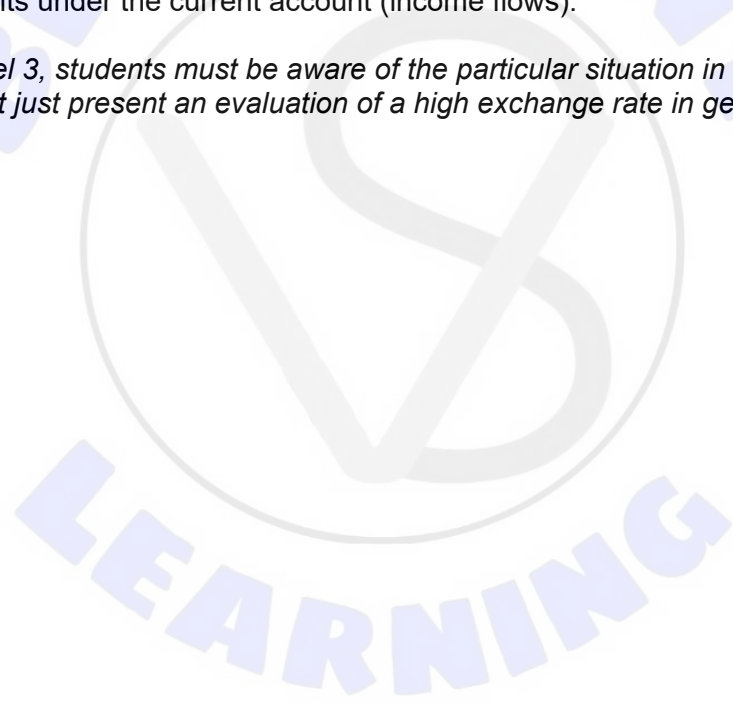
Economic growth:

- the overall effect of higher export prices and lower import prices (paragraph ②) might lead to a fall in net exports, as explained in (b), causing a fall in growth
- strong capital inflows (paragraph ③) might offset the above if the funds are used for investment in capital goods as increased investment shifts AD to the right, causing growth
- a slowdown in exports has slowed economic expansion and real GDP growth has fallen to 5.7%, the lowest for more than three years (paragraph ④).

Current account balance:

- purchase of reserve assets might be necessary to compensate for the current account deficit (paragraph ①)
- higher export prices may lead to reduced export revenue and lower import prices to increased import expenditure harming the current account balance
- if the central bank reduces the value of the rupee (paragraph ⑦), then the US may retaliate with protectionist measures that would harm the current account balance (and employment/economic growth)
- the capital inflows that caused the appreciation (paragraph ⑥) will lead to future debits under the current account (income flows).

To reach level 3, students must be aware of the particular situation in the Indian economy, not just present an evaluation of a high exchange rate in general.



Section B

3. (a) (i) Define the term *concessional long-term loans* 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
	For stating any one of the following: <ul style="list-style-type: none"> • a form of aid (to finance development projects) • very low (below market rate) or zero rate of interest • repayments are stretched over a long time period (25 to 40 years) • may include a grace period • may be repayable in local currency. 	
2	<i>Accurate definition.</i>	2
	For stating any two of the following: <ul style="list-style-type: none"> • a form of aid (to finance development projects) • very low (below market rate) or zero rate of interest • repayments are stretched over a long time period (25 to 40 years) • may include a grace period • may be repayable in local currency. 	

- (ii) Define the term *real gross domestic product (GDP)* 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
	An explanation that it is national income (output produced in an economy).	
2	<i>Accurate definition.</i>	2
	The (total) value of all output (goods and services) produced in an economy (over a given period of time) adjusted for inflation (changes in price level).	

- (b) Explain **two** possible disadvantages for Bhutan in receiving India’s tied aid (paragraph ③).

[4]

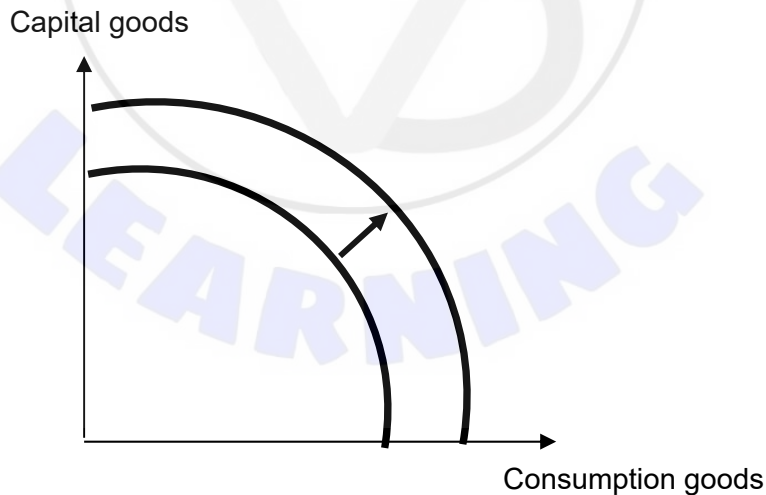
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1–2
	<p>For an explanation of one disadvantage. Possible disadvantages of tied aid include:</p> <ul style="list-style-type: none"> • does not necessarily allow the purchase of the cheapest products • may not be invested in a way that increases domestic supply • may cause a decrease in domestic supply as imports compete with domestic production • may not lead to increased employment opportunities • may be using inferior quality material or labour being supplied by the donor country • may limit choice • may make Bhutan dependent on Indian imports • may subject Bhutan to political exploitation by India • may result in inappropriate technology being used. 	
2	<i>The written response is accurate.</i>	3–4
	<p>For an explanation of two disadvantages. Possible disadvantages of tied aid include:</p> <ul style="list-style-type: none"> • does not necessarily allow the purchase of the cheapest products • may not be invested in a way that increases domestic supply • may cause a decrease in domestic supply as imports compete with domestic production • may not lead to increased employment opportunities • may be using inferior quality material or labour being supplied by the donor country • may limit choice • may make Bhutan dependent on Indian imports • may subject Bhutan to political exploitation by India • may result in inappropriate technology being used. 	

- (c) Using a production possibilities curve (PPC) diagram, explain how rising numbers of university graduates will affect Bhutan’s potential output (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 drawing a correctly labelled PPC diagram showing an outward shift of the PPC and indication of the movement from one curve to the other OR for an explanation that rising numbers of university graduates means an increase in the quality and/or quantity of labour, thereby causing an increase in Bhutan’s potential output.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a correctly labelled PPC diagram showing an outward shift of the PPC and indication of the movement from one curve to the other AND for an explanation that rising numbers of university graduates means an increase in the quality and/or quantity of labour, thereby causing an increase in Bhutan’s potential output.	

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

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.



- (d) Using information from the text/data and your knowledge of economics, evaluate the government policies being used to promote economic development in Bhutan. **[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 economic development
- definition of any of the government policies mentioned in the discussion (interventionist supply-side policies, diversification, deregulation, etc).

Strengths of policies:

- may reduce market failure through the provision of hydroelectricity (paragraph ①)
- increased power supplies (paragraph ④)
- exploiting hydropower generates government revenue (paragraph ④)
- increasing export revenue, helping to achieve high GDP growth rates of 11.7% (paragraph ④)
- number of university graduates is growing each year, supporting an increase in quality of labour (paragraph ⑤)
- creation of government jobs reduces unemployment (paragraph ⑤)
- government is promoting tourism which may diversify the economy away from over-reliance on hydroelectricity (paragraph ⑤)
- potential growth of private sector with more graduates (paragraph ⑥)
- promotion of tourism as an alternative to government employment (paragraph ⑥)
- deregulation leading to increased FDI (paragraph ⑥)
- promotion of agriculture as an alternative to government employment (paragraph ⑥).

Limitations of policies:

- overdependence on India for funding, creating a significant government debt, 118% of real GDP (paragraph ②)
- high debt means burden to future generations (paragraph ②)
- overdependence on tied aid and Indian companies leading the work (paragraph ③)
- the provision of government jobs may lead to crowding out in the private sector (paragraph ④)
- returns on investment in human capital may be muted if graduates leave the country due to the lack of employment opportunities (paragraph ⑤)
- emphasis on agriculture may result in limited growth opportunities for exports in the future, because in competition with many other economies and low income elasticities of demand for primary products.

To reach level 3, students must clearly link their arguments to specific government policies undertaken by the government of Bhutan.



4. (a) (i) Define the term **absolute poverty** indicated in bold in the text (paragraph ②). [2]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	Vague definition. The idea that it is when a person struggles to survive OR that income is below a certain threshold level (such as \$1.90 per day).	1
2	Accurate definition. An explanation that it is when people live below a certain level of income that is necessary to meet basic needs.	2

- (ii) Define the term **foreign direct investment (FDI)** indicated in bold in the text (paragraph ④). [2]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	Vague definition. The idea that it is investment between countries.	1
2	Accurate definition. 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. 	2

- (b) Explain **two** reasons why Chinese companies may have been attracted into Peru (paragraph 4).

[4]

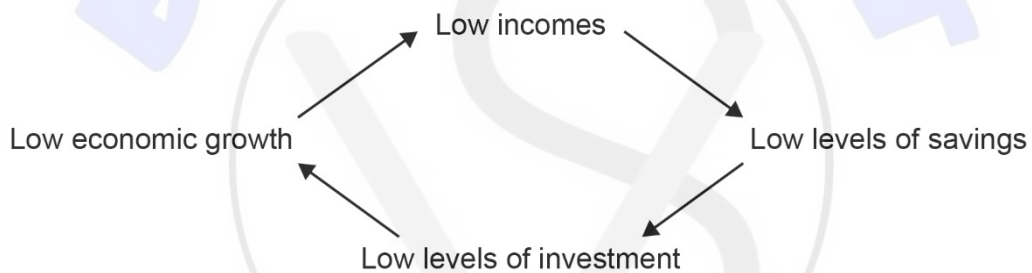
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>The written response is limited.</i>	1–2
	<p>For explaining one of the following reasons:</p> <ul style="list-style-type: none"> • sensible macroeconomic policies promote a stable business environment • reforms of environmental regulations designed to increase investment • rising employment and/or income increases the potential sales of Chinese Companies • Peru’s government is expected to increase public investment, making it easier for Chinese companies to move goods and resources, reducing costs • low political risk reduces uncertainty and promotes a stable business environment • access for Chinese companies to geographically-specific resources to increase production • lower wages of workers. 	
2	<i>The written response is accurate.</i>	3–4
	<p>For explaining any two of the following reasons:</p> <ul style="list-style-type: none"> • sensible macroeconomic policies promote a stable business environment • reforms of environmental regulations designed to increase investment • rising employment and/or income increases the potential sales of Chinese Companies • Peru’s government is expected to increase public investment, making it easier for Chinese companies to move goods and resources, reducing costs • low political risk reduces uncertainty and promotes a stable business environment • access for Chinese companies to geographically-specific resources to increase production • lower wages of workers. 	

(c) Using a poverty cycle diagram, explain how increased foreign direct investment might break the cycle (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
	For drawing a poverty cycle diagram (including investment), beginning and ending in an indicator of poverty OR an explanation of how FDI will break the cycle (by closing the savings gap which would increase the level of investment, by providing employment opportunities which raise income).	
2	There is a correct diagram AND an accurate written response.	3-4
	For drawing a poverty cycle diagram (including investment), beginning and ending in an indicator of poverty AND an explanation of how FDI will break the cycle (by closing the savings gap which would increase the level of investment, by providing employment opportunities which raise income).	

Example of poverty cycle (any cycle, starting and ending with an indicator of poverty, is acceptable):



- (d) Using information from the text/data and your knowledge of economics, evaluate the factors that may allow Peru to continue to achieve high rates of economic growth in the future.

[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
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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 economic growth.

Factors affecting economic growth:

- deregulation should increase investment (paragraph ①) and so will lead to an increase in AD and thus economic growth, however, there are the dangers of pollution and poorer working conditions (paragraph ①)
- growth could be limited if loose environmental regulations cause, for example, pollution that harms health and therefore workers' productivity (paragraph ①)
- growth in employment and income (paragraph ②) should lead to increases in consumption and so AD, however, this will only continue if the economy keeps growing
- higher mining export volumes (paragraph ③) should continue to provide economic growth, however, this will be dependent on continued growth in the global economy
- FDI (paragraph ④) could fill the investment gap, shifting AD and increasing economic growth, however, FDI has several negative aspects and its continuation will be dependent on the situation in the economies providing it, eg “deceleration of China’s economic growth (paragraph ⑦)
- free trade (paragraph ⑤), with continued trade surpluses, will provide continued economic growth, but is once again dependent on the state of the world economy and on the trade policies of other countries
- increased public investment (paragraph ⑥) should create economic growth, but will it be enough to outweigh “the lower growth rate in the mining sector and weak private investment” (paragraph ⑥)
- external shocks in commodities prices (paragraph ⑦) could negatively affect future export earnings
- a further deceleration of China’s economic growth (paragraph ⑦) could affect demand for commodities from the main trading partner and FDI (paragraph ④)
- unpredictability in world capital markets (paragraph ⑦) could affect investment
- the threat of tight (contractionary) monetary policy in the US (paragraph ⑦) could lead to a slowdown in the US economy and hence reduce the demand for commodities from the second main trading partner (paragraph ④)
- tight (contractionary) monetary policy in the US (paragraph ⑦) could lead to an outflow of savings to the US, reducing funds available for investment in Peru.

To reach level 3, students must be aware of the particular situation in the economy of Peru, not just present a discussion of growth factors in general.