

Markscheme

November 2022

Economics

Standard level

Paper 2

21 pages

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Notes for examiners:

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

2. Whenever relevant, carry over marks must be awarded. If a candidate makes an error in calculation, but then uses the incorrect figure appropriately and accurately in later question parts, then the candidate may be fully rewarded. This is the “own-figure rule” and you should put OFR on the script where you are rewarding this.

3. A candidate may be penalized for not rounding correctly, failing to give answers correct to 2 dp or, in some cases, for not including the appropriate units. However, a candidate may only be penalized ONCE for each type of error across all subparts of (b) questions.

1. (a) (i) Define the term *absolute poverty* indicated in bold in the text (**Text A**, paragraph 1). [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 people are very poor.	1
2	<i>Accurate definition</i> An understanding that it is when people have an income: (one of the following) (i) below \$1.90/\$2.15 a day (or any income level set by the United Nations/World Bank) (ii) below the level required to meet basic physical needs (food, clothing, shelter)	2

- (ii) Define the term *informal economy* indicated in bold in the text (**Text A**, paragraph 1). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition</i> An understanding that it is one of the following: ● economic activity that is not officially recorded ● economic activity that is not regulated ● economic activity that is not taxed.	1
2	<i>Accurate definition</i> An understanding that it is two of the following: ● economic activity that is not officially recorded ● economic activity that is not regulated ● economic activity that is not taxed	2

- (b) (i) Using information from **Table 1**, calculate the unemployment rate for Bangladesh in 2019. [2]

$$\text{Unemployment Rate} = \frac{2.96}{70.1} \times 100 \text{ [1]}$$

$$= 4.22\% \text{ OR } 0.04 \text{ [1]}$$

An answer of 4.22% or 0.04 without working is sufficient for [1].

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

- (ii) Using information from **Table 1**, calculate the price of this shirt in US\$ in 2019. [2]

$$\text{US dollar price} = 400 \times \frac{1}{84.5} = 4.7337 \dots \text{ [1]}$$

$$\text{Price in 2019} = (\$) 4.73 \text{ [1]}$$

An answer of 4.73 without working is sufficient for [1].

For full marks to be awarded, the response must provide valid working. Units (\$) need not be provided since they are stated in the question.

- (iii) State whether the Bangladeshi exchange rate depreciated or appreciated between 2010 and 2019. [1]

(The exchange rate has) depreciated. **[1]**

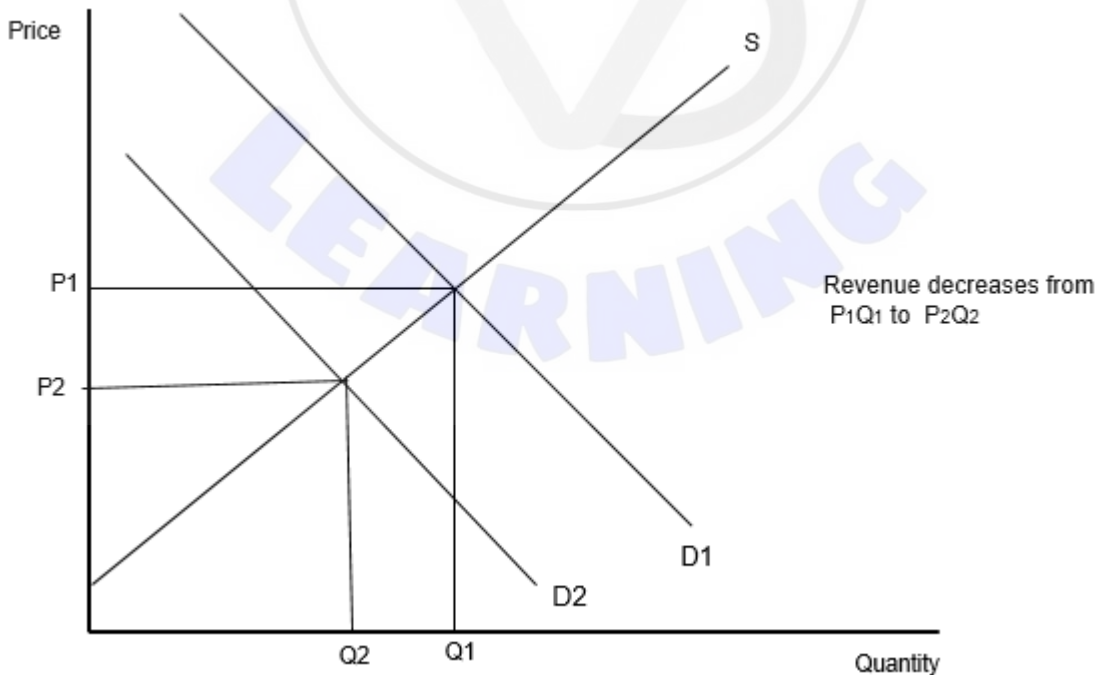
- (c) Using a demand and supply diagram, explain why falling demand will reduce Bangladeshi firms' revenue (**Text A**, paragraph 5). **[4]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	For a correct demand and supply diagram with appropriate labelling, showing the demand curve shifting left and with the change in revenue shown OR for an explanation that a reduction in demand will lower the price and the quantity, leading to lower revenue.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct demand and supply diagram with appropriate labelling, showing the demand curve shifting left and with the change in revenue shown AND for an explanation that a reduction in demand will lower the price and the quantity, leading to lower revenue.	

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.

Candidates may indicate the decrease in (total) revenue with shaded areas or numbers/letters in the diagram (eg a loss of total revenue of $P_1Q_1 - P_2Q_2$ on the diagram below).



(d) Using an international trade diagram for the **US market**, explain how the imposition of a 15 % tariff on imported garments from Bangladesh would affect the revenue earned by Bangladeshi producers (**Text B**, paragraph 2).

[4]

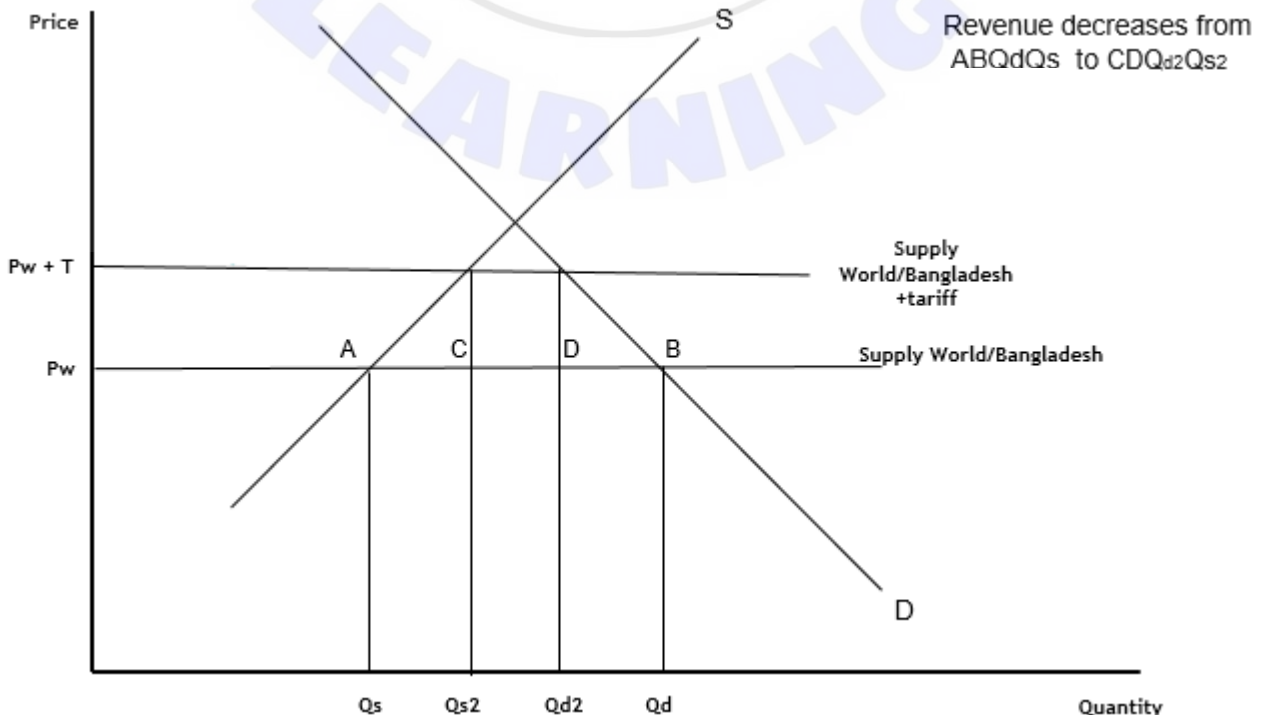
Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram OR an accurate written response.	1–2
	For a correct tariff diagram with appropriate labelling, showing a shift upwards of the world supply curve (world price line) and a fall in imports to the US, and showing a fall in revenue earned by Bangladeshi producers OR for providing an explanation that the tariff causes (higher prices for imports and therefore) imports to decrease, leading to lower revenue for the Bangladeshi producers.	
2	There is a correct diagram AND an accurate written response.	3–4
	For a correct tariff diagram with appropriate labelling, showing a shift upwards of the world supply curve (world price line) and a fall in imports to the US, and showing a fall in revenue earned by Bangladeshi producers AND for providing an explanation that the tariff causes (higher prices for imports and therefore) imports to decrease, leading to lower revenue for the Bangladeshi producers.	

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

The use of P and Q on the axes is sufficient for an international trade diagram. The world supply curve must be labelled *S_w*, or *S_{world}* or *S_{Bangladesh}*, *P_{world}* or *P_{Bangladesh}* or any similar label indicating the horizontal line is the world (Bangladesh) price/supply. A title is not necessary.

Candidates may indicate the fall in revenue through either:

- a reference to the revenue dropping from *ABQ_dQ_s* to *CDQ_{d2}Q_{s2}*
- OR
- a reference to imports (exports) decreasing from *Q_sQ_d* to *Q_{s2}Q_{d2}*



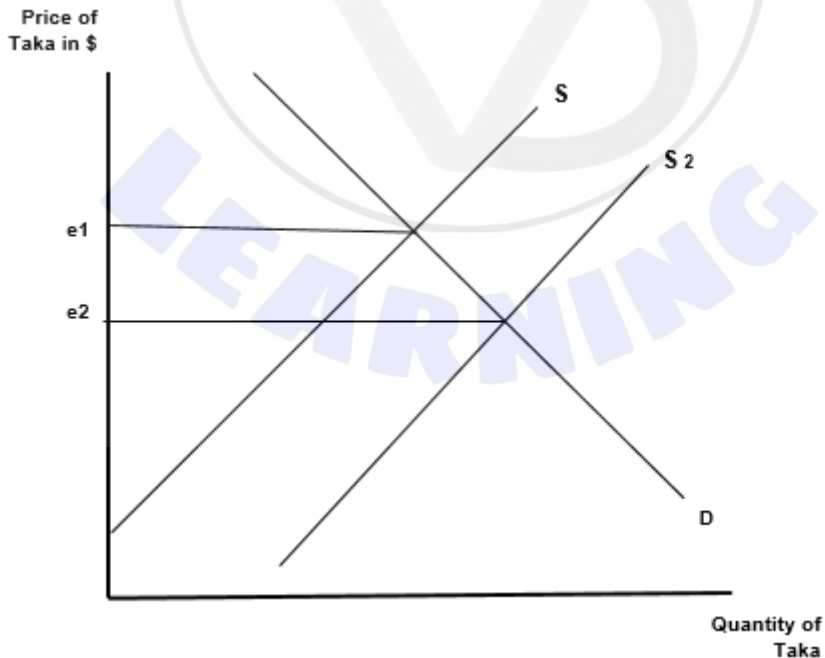
- (e) Using an exchange rate diagram, explain how the change in imports of goods and services from 2010 to 2019 is likely to have affected the exchange rate of the Bangladeshi taka (**Table 1**).

[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 OR an accurate written response.</i>	1–2
	For a correct exchange rate diagram with appropriate labelling, showing the supply curve shifting right and the equilibrium exchange rate falling OR for an explanation that increasing imports leads to a higher supply of the Bangladeshi taka, as importers need to sell Bangladeshi taka and buy foreign currencies, which causes a depreciation of the exchange rate.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct exchange rate diagram with appropriate labelling, showing the supply curve shifting right and the equilibrium exchange rate falling AND for an explanation that increasing imports leads to a higher supply of the Bangladeshi taka, as importers need to sell Bangladeshi taka and buy foreign currencies, which causes a depreciation of the exchange rate.	

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 (or P) of taka in other currencies, other currency/taka or other currency per taka. The horizontal axis should be quantity or Q or quantity of taka. A title is not necessary.



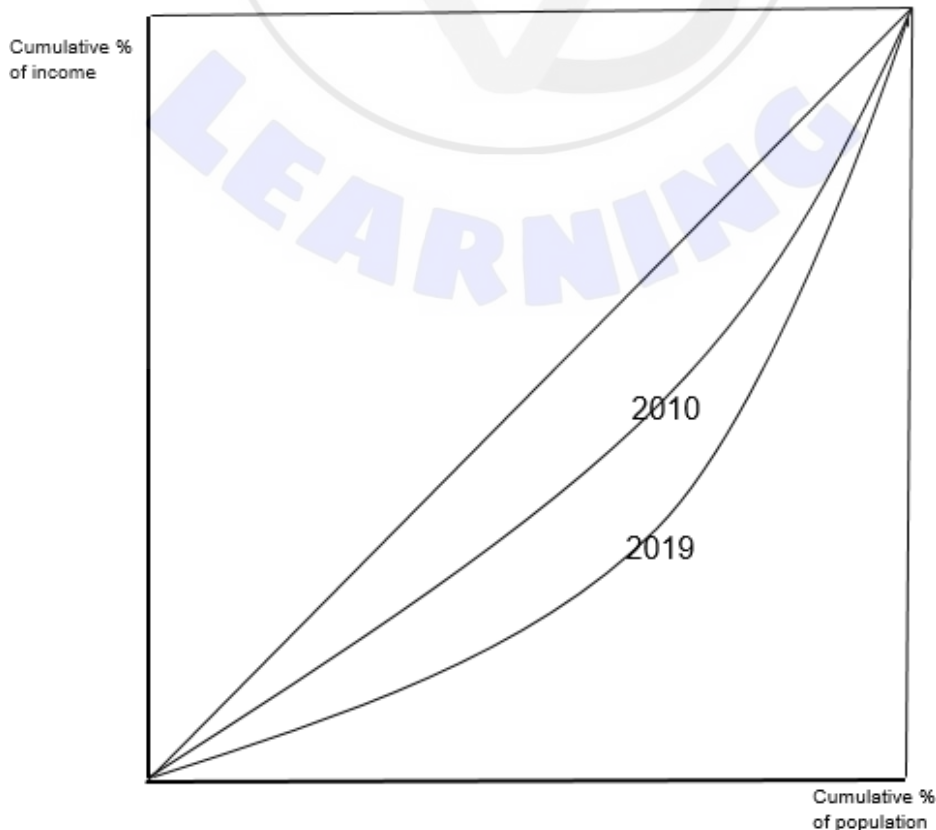
- (f) Using a Lorenz curve diagram, explain what happened to the distribution of income in Bangladesh between 2010 and 2019 (**Table 2**). **[4]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	For a correct Lorenz curve diagram with appropriate labelling, with 2 curves showing a shift away from the line of (perfect/absolute) equality OR an explanation that an increase in the Gini coefficient implies that the distribution of income has become more unequal.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For a correct Lorenz curve diagram with appropriate labelling, with 2 curves showing a shift away from the line of (perfect/absolute) equality AND an explanation that an increase in the Gini coefficient implies that the distribution of income has become more unequal.	

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

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/people/households or percentage of population/people/households. The diagonal line need not be labelled. A title is not necessary.

The shift of the Lorenz curve can be shown by labelling each curve (e.g. '2010' and '2019') or by an arrow.



- (g) Using information from the text/data and your knowledge of economics, discuss the extent to which the ready-made garments (RMG) sector in Bangladesh contributes to achieving the Sustainable Development Goal: “Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all”.

[15]

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"> ● The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> ● The response indicates little understanding of the specific demands of the question. ● Economic theory is stated but it is not relevant. ● Economic terms are stated but they are not relevant. ● The response contains no evidence of synthesis or evaluation. ● The response contains no use of text/data.
4–6	<ul style="list-style-type: none"> ● The response indicates some understanding of the specific demands of the question. ● Relevant economic theory is described. ● Some relevant economic terms are included. ● The response contains evidence of superficial synthesis or evaluation. ● The response contains limited use of text/data.
7–9	<ul style="list-style-type: none"> ● The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. ● Relevant economic theory is partly explained. ● Some relevant economic terms are used appropriately. ● Where appropriate, relevant diagram(s) are included. ● The response contains evidence of appropriate synthesis or evaluation but lacks balance. ● The response includes some relevant information from the text/data.
10–12	<ul style="list-style-type: none"> ● The specific demands of the question are understood and addressed. ● Relevant economic theory is explained. ● Relevant economic terms are used appropriately. ● Where appropriate, relevant diagram(s) are included and explained. ● The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. ● The use of information from the text/data is generally appropriate, relevant, and applied correctly.
13–15	<ul style="list-style-type: none"> ● The specific demands of the question are understood and addressed. ● Relevant economic theory is fully explained. ● Relevant economic terms are used appropriately throughout the response. ● Where appropriate, relevant diagram(s) are included and fully explained. ● The response contains evidence of effective and balanced synthesis or evaluation. ● The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.

Command term

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

Answers may include:

- Definition of sustainable economic growth
- Definition of full (and productive) employment
- An explanation of the links between growth and inclusivity/equality
- Diagrams (e.g AD/AS, poverty cycle...)

Positive consequences of the RGM sector towards achieving SDG #8 may include:

- Provides opportunities for women to get employment (**Text A**, paragraph 2; **Table 2**)
- Reduces the wage gap between men and women (**Text A**, paragraph 2)
- Both the above will lead to more equality and result in better health and education for families (**Text A**, paragraph 1; **Table 2**)
- Facilitates the movement of the economy towards the manufacturing sector, which promotes growth and reduces poverty (**Text A**, paragraph 2; **Table 2**)
- Despite high GDP growth and rising GNI per capita, unemployment is increasing due to the rising labour force (which is rising faster than the population). Therefore, the sector is needed to provide jobs (**Table 1**)
- Can take advantage of preferential trade agreements because Bangladesh is a designated Economically Least Developed Country (ELDC) (**Text B**, paragraph 2)
- Rising exports will increase AD and real GDP (**Text B**, paragraphs 1 and 2; **Table 1**)
- As wages in China increase, there is the possibility that exports, providing revenue and foreign exchange, will increase significantly (**Text B**, paragraph 1)
- *Could* attract FDI from China, which will provide funds, possibly helping to break the poverty cycle (**Text C**, paragraph 2)
- FDI will provide foreign exchange to buy imports, which exceed exports and are growing faster than exports. Imports (eg of capital and raw materials) are essential for growth (**Text C**, paragraph 3; **Table 1**)
- As more “green” firms are established, they will improve the environment and promote more exports (**Text A**, paragraph 6)
- If the sector can market itself more effectively (eg with more branding) and diversify, it can compete better globally (**Text C**, paragraph 2).

Negative consequences of the RGM sector towards achieving SDG #8 may include:

- Workers are sometimes exploited and work in unsafe conditions (**Text A**, paragraph 3)
- Job security is low and the need to reduce costs may make it lower (**Text A**, paragraph 5)
- The bigger firms (possibly MNCs) and stricter safety regulations are driving out the smaller firms which may lead to reduced competition as large firms may dominate the market. This may result in higher profits for the larger firms (and thus lead to inequality) and labour being exploited (**Text A**, paragraph 3)
- Exports are too specialized, which raises risks if demand or supply conditions change. Therefore, need to diversify to keep growth sustained (**Text A**, paragraph 5; **Text B**, paragraph 1; **Text C**, paragraph 2)
- There is a lot of competition from other countries, which puts pressure on firms (**Text A**, paragraph 4; **Text C**, paragraph 1)
- When Bangladesh is no longer eligible for preferential trade agreements as an ELDC, export earnings may decrease (**Text B**, paragraph 2) and therefore growth may not be sustained
- More FDI may lead to more worker exploitation and/or damage to the environment (**Text C**, paragraph 2)
- More manufacturing leads to increasing urbanization, which may cause negative externalities of production, such as congestion and pollution (**Table 2**) and therefore growth may be unsustainable.

2. (a) (i) Define the term *budget deficit* indicated in bold in the text (**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>	1
	The idea that the government is spending too much OR that the government goes into debt.	
2	<i>Accurate definition</i>	2
	An understanding that it occurs when government spending is greater than government revenue/taxation revenue.	

- (ii) Define the term *portfolio investment* indicated in bold in **Table 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 using money to gain a return	
2	<i>Accurate definition</i>	2
	An understanding that it is savings and/or the purchase of financial assets/investments (such as shares/bonds/bank deposits) (to gain a return in a given year).	

- (b) (i) Using information from **Text E and Table 3**, calculate the income elasticity of demand for health care in Uruguay between 2010 and 2018. [3]

$$\frac{1590-1031}{1031} = 0.5422 \text{ (or 0.54) (or stated from text) (or 54.22\% or 54\%) [1]}$$

$$\frac{15910-10440}{10440} = 0.5239 \text{ (or 0.52) (or 52.39\% or 52\%) [1]}$$

$$YED = \frac{0.5422}{0.5239} = 1.03 \text{ [1]}$$

OR

$$YED = \frac{0.54}{0.52} = 1.04 \text{ [1]}$$

Any valid working should be rewarded with [1]. OFR applies.

An answer that is not correct to 2 decimal places loses 1 mark.

- (ii) Using information from **Table 6**, calculate the current account balance in 2019. [2]

$$16.3 - 12.9 - 2.65 = 0.75 \text{ [1]}$$

$$\text{Balance} = (\text{US})\$ 0.75 \text{ billion OR } (\text{US})\$ 750 \text{ million [1]}$$

Any valid working should be rewarded with [1].

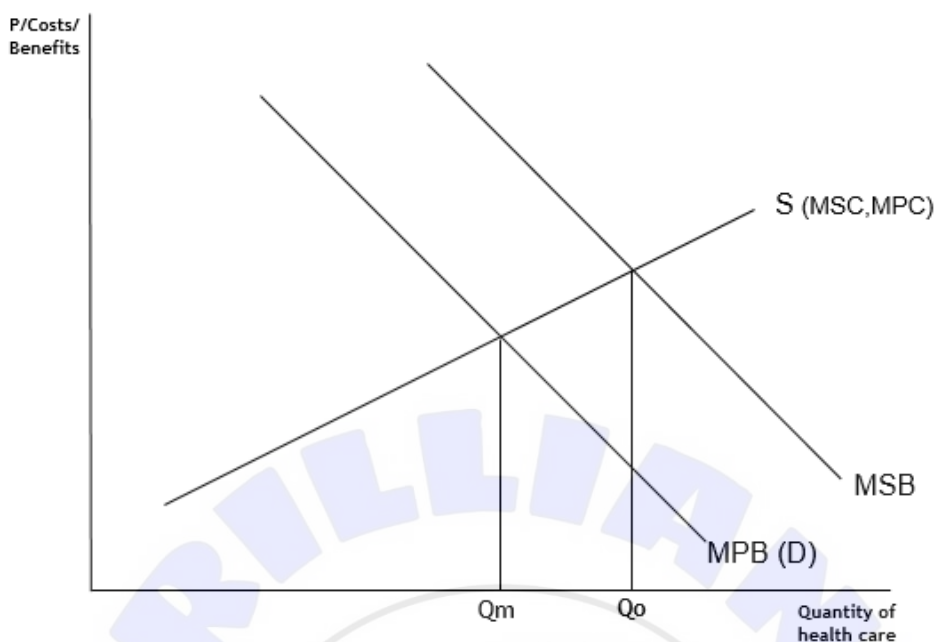
An answer of 0.75 or 750, without workings or without units, is sufficient for [1].

- (c) Using an externalities diagram, explain why the government should subsidize health care (**Text E**). **[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
	<p>For a correct externalities diagram with appropriate labelling, showing MSB higher than MPB and the divergence between the quantity of healthcare at the market equilibrium (where MPB=MPC) and social optimum (where MSB=MSC)</p> <p>OR for an explanation that because health care has positive (consumption) externalities (is a merit good) and that government intervention (the provision of subsidies) is required to achieve one of the following:</p> <ul style="list-style-type: none"> ● reduce the misallocation of resources ● reduce inefficiency (achieve a socially efficient outcome) ● reduce/remove the welfare loss 	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	<p>For a correct externalities diagram with appropriate labelling, showing MSB higher than MPB and the divergence between the quantity of healthcare at the market equilibrium (where MPB=MPC) and social optimum (where MSB=MSC)</p> <p>AND for an explanation that because health care has positive (consumption) externalities (is a merit good) and that government intervention (the provision of subsidies) is required to achieve one of the following:</p> <ul style="list-style-type: none"> ● reduce the misallocation of resources ● reduce inefficiency (achieve a socially efficient outcome) ● reduce/remove the welfare loss 	

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

The vertical axis may be price, but could be costs or benefits. The horizontal axis is quantity. P and Q are sufficient. The supply curve can be labelled S and/or MSC and/or MPC. A title is not necessary.



A diagram may additionally show the supply curve shifting downwards due to subsidies being given. This is acceptable.

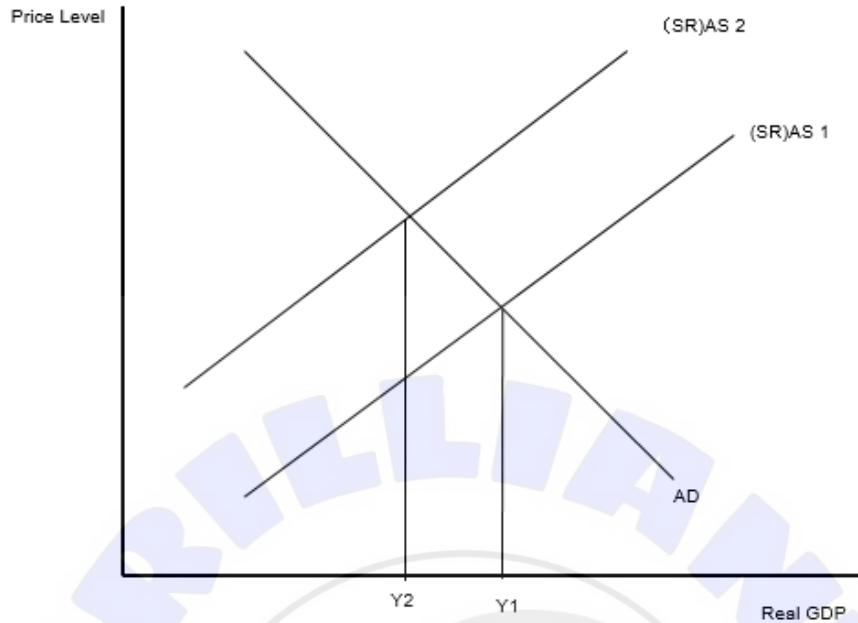
- (d) Using an AD/AS diagram, explain how climate-related shocks, such as droughts, could affect real GDP growth (Text F, paragraph 1).

[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 a correct AD/AS diagram with appropriate labelling, showing the AS curve shifting leftwards (upwards) leading to a fall in real GDP OR for an explanation that the drought will reduce AS through reduced production (or higher costs) and reduce (the growth of) real GDP.	
2	There is a correct diagram AND an accurate written response.	3–4
	For a correct AD/AS diagram with appropriate labelling, showing the AS curve shifting leftwards (upwards) leading to a fall in real GDP AND for an explanation that the drought will reduce AS through reduced production (or higher costs) and reduce (the growth of) real GDP.	

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

For an AD/AS diagram, the vertical axis may be Average (General) Price Level, or Price Level. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. Any abbreviation of the previous terms is acceptable. A title is not necessary.



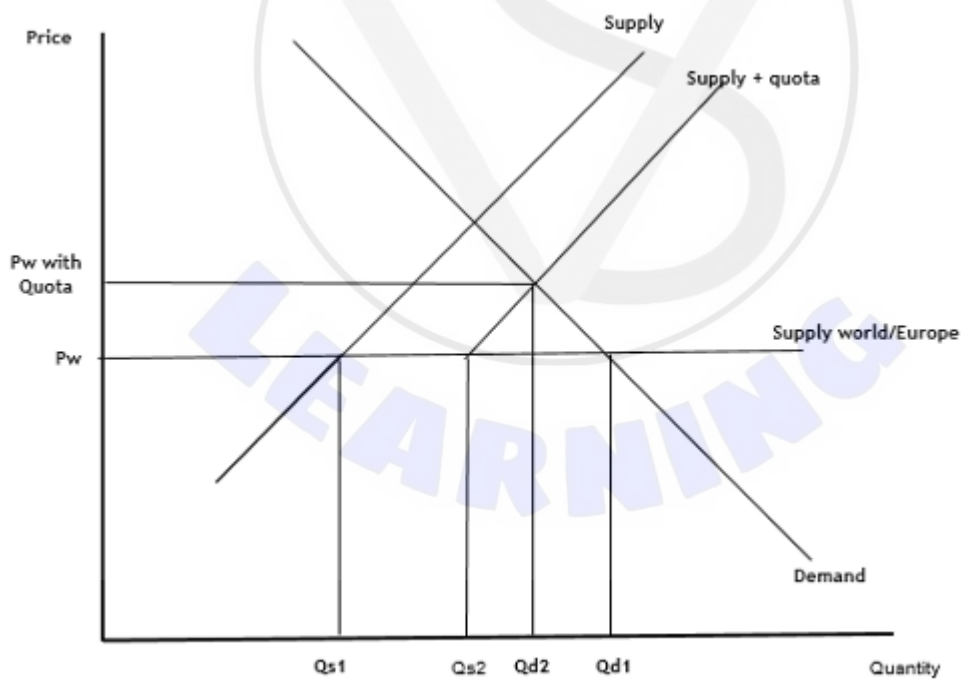
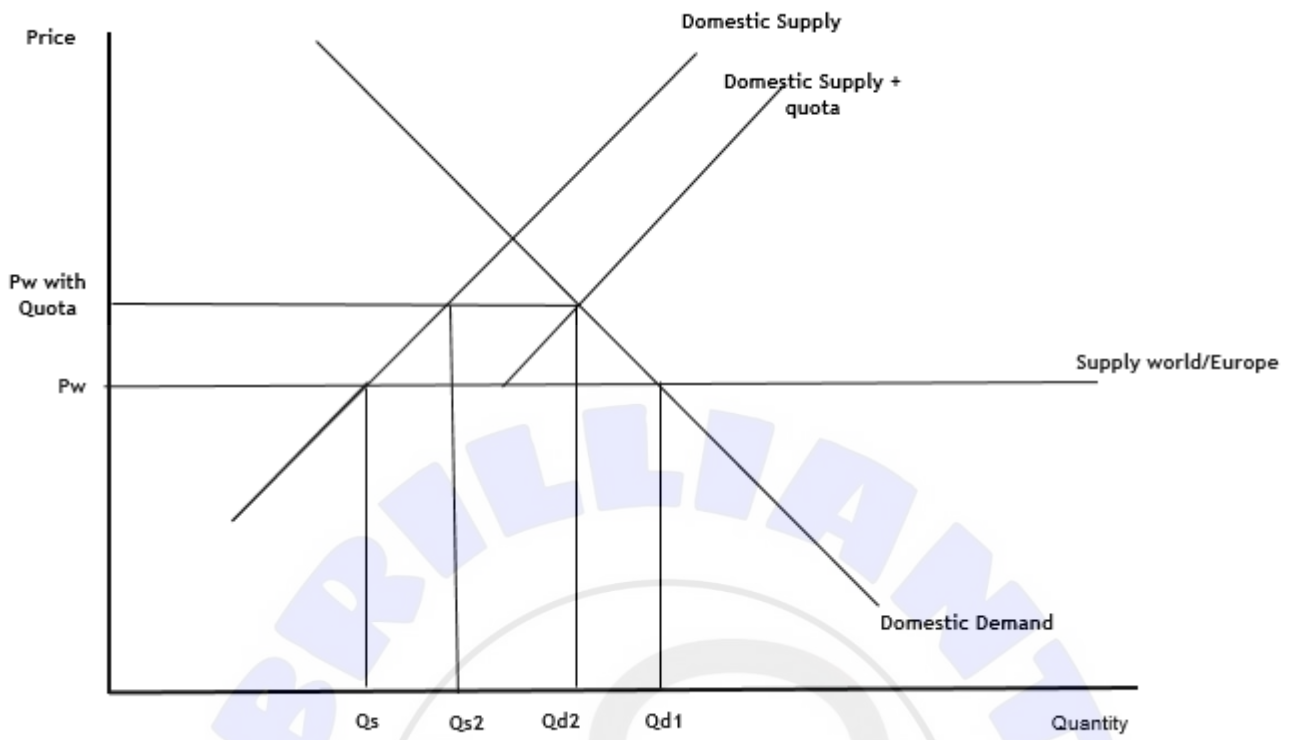
An answer may alternatively draw a Keynesian AS curve or an LRAS curve, with the curve shifting left/ upwards. This is acceptable, if appropriately explained.

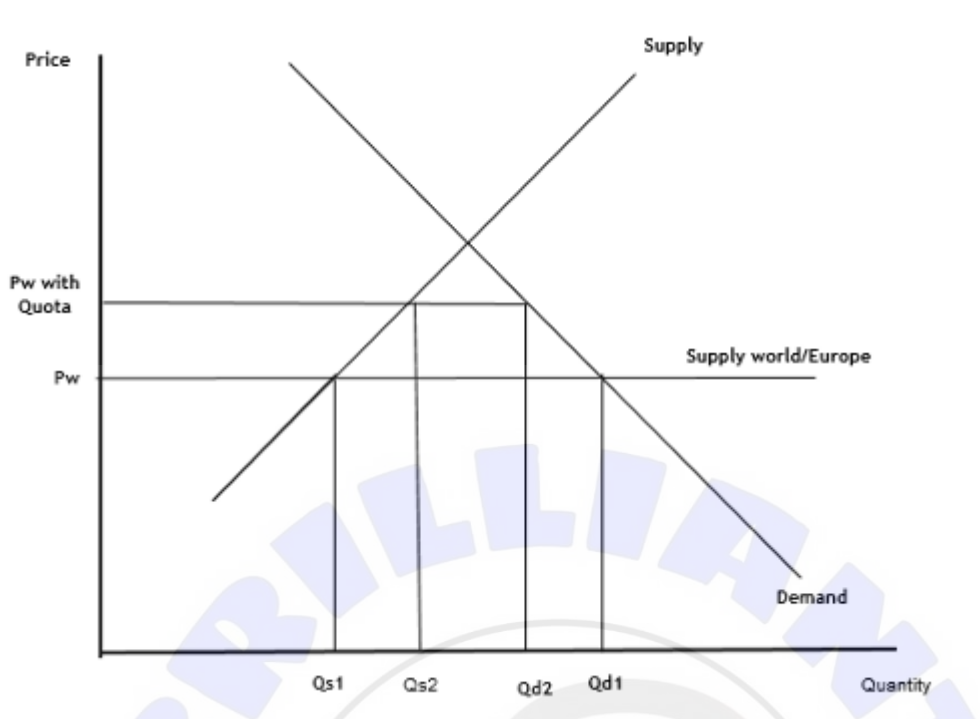
- (e) Using an international trade diagram, explain the effect on consumers in Uruguay if a quota is imposed on cheese imports from the EU (Text F, paragraph 2). [4]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram OR an accurate written response.	1–2
	For a correct quota diagram with appropriate labelling, showing the quota, the rise in price and the fall in quantity demanded OR for an explanation that the quota causes the price for consumers to rise and the quantity that they demand (or the consumer surplus) to decrease.	
2	There is a correct diagram AND an accurate written response.	3–4
	For a correct quota diagram with appropriate labelling, showing the quota, the rise in price and fall in quantity demanded AND for an explanation that the quota causes the price for consumers to rise and the quantity that they demand (or the consumer surplus) to decrease.	

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

The use of P and Q on the axes is sufficient for an international trade diagram. The world supply curve must be labelled Sw, or S_{world} or S_{Europe}, P_{world}, P_W, P_{Europe} or any similar label indicating the horizontal line is the world (European) price/supply. ‘Domestic’ can be omitted on the other curves. The vertical line to Q_{s2} can be omitted or differently positioned (ie at the intersection of Domestic S+quota and Sw). A title is not necessary.





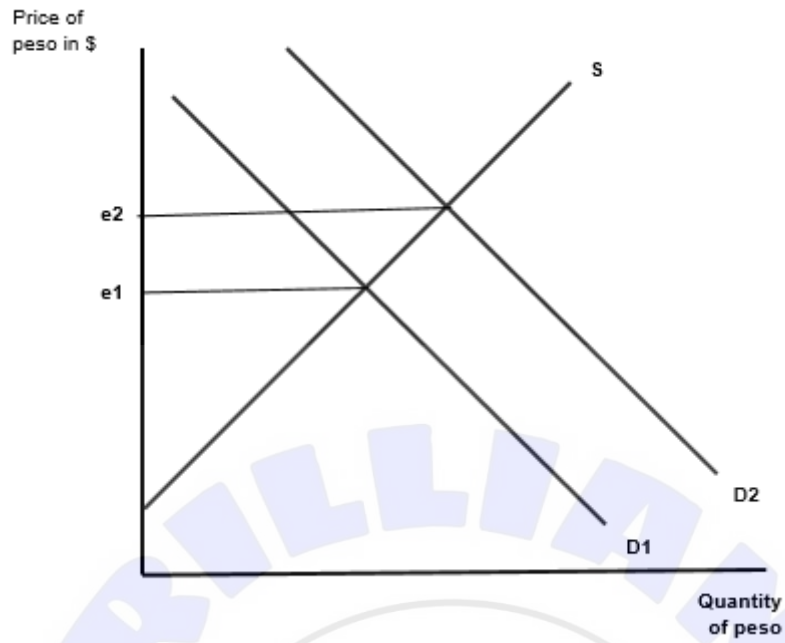
The explanation and/or the diagram may alternatively indicate the loss of consumer surplus. This is acceptable.

- (f) Using an exchange rate diagram, explain how the central bank in Uruguay can use reserve assets to prevent the depreciation of the peso (**Text F**, paragraph 3). **[4]**

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram OR an accurate written response.	1–2
	For a correct exchange rate diagram with appropriate labelling, showing the demand curve shifting right and the equilibrium exchange rate rising OR for an explanation that the central bank can sell its reserves to buy pesos which causes the exchange rate to rise.	
2	There is a correct diagram AND an accurate written response.	3–4
	For a correct exchange rate diagram with appropriate labelling, showing the demand curve shifting right and the equilibrium exchange rate rising AND for an explanation that the central bank can sell its reserves to buy pesos which causes the exchange rate to rise.	

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 (or *P*) of peso in other currencies, other currency/ peso or other currency per peso. The horizontal axis should be quantity or *Q* or quantity of peso. A title is not necessary.



The diagram may show that the peso is depreciating initially, due to a decline in demand (or an increase in supply). The depreciation is then reversed by the demand curve shifting right. If appropriately explained, this can be fully rewarded.

- (g) Using information from the text/data and your knowledge of economics, evaluate the effectiveness of the government’s macroeconomic policies in achieving economic growth **and** economic development in Uruguay.

[15]

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"> ● The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> ● The response indicates little understanding of the specific demands of the question. ● Economic theory is stated but it is not relevant. ● Economic terms are stated but they are not relevant. ● The response contains no evidence of synthesis or evaluation. ● The response contains no use of text/data.
4–6	<ul style="list-style-type: none"> ● The response indicates some understanding of the specific demands of the question. ● Relevant economic theory is described. ● Some relevant economic terms are included. ● The response contains evidence of superficial synthesis or evaluation. ● The response contains limited use of text/data.
7–9	<ul style="list-style-type: none"> ● The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. ● Relevant economic theory is partly explained. ● Some relevant economic terms are used appropriately. ● Where appropriate, relevant diagram(s) are included. ● The response contains evidence of appropriate synthesis or evaluation but lacks balance. ● The response includes some relevant information from the text/data.
10–12	<ul style="list-style-type: none"> ● The specific demands of the question are understood and addressed. ● Relevant economic theory is explained. ● Relevant economic terms are used appropriately. ● Where appropriate, relevant diagram(s) are included and explained. ● The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. ● The use of information from the text/data is generally appropriate, relevant, and applied correctly.
13–15	<ul style="list-style-type: none"> ● The specific demands of the question are understood and addressed. ● Relevant economic theory is fully explained. ● Relevant economic terms are used appropriately throughout the response. ● Where appropriate, relevant diagram(s) are included and fully explained. ● The response contains evidence of effective and balanced synthesis or evaluation. ● The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.

A maximum of [9] should be awarded if only economic growth or only economic development is discussed.

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.

Answers may include:

- Definition of development
- Definition of growth
- An explanation of the links between growth and development
- Definition of supply-side policies
- Definition of fiscal policy
- Definition of monetary policy
- Diagram(s) (e.g. AD/AS, poverty cycle, PPC...).

Supply-side policies: strengths may include:

- Interventionist supply-side policies can be used to increase spending on infrastructure and on education (**Text D**, paragraph 4)
- Can increase competition and efficiency in state-owned enterprises (or maybe privatize them) to lower prices (**Text D**, paragraph 5)
- Can make the labour market more flexible and able to supply labour to new and growing sectors (**Text D**, paragraph 6)
- Can attract more FDI (**Text D**, paragraph 7)
- By promoting certain sectors, can diversify exports (**Text F**, paragraph 2)
- Surplus on trade balance has increased significantly maybe due to supply-side policies (**Table 4**)

Supply-side policies: limitations may include:

- Market-based policies (such as the abolition of the minimum wage and reductions in unemployment benefits) may increase inequality and poverty if labour market is deregulated (**Text D**, paragraph 6)
- Time lags before they are effective
- May damage the environment

Fiscal policies: strengths may include:

- Used to redistribute income by progressive taxes and transfer payments which promote equality, lowering the Gini coefficient (**Text D**, paragraph 2; **Table 5**)
- Used to subsidise education and health care which has raised the HDI (**Text D**, paragraph 1; **Text E**, **Table 5**)

Fiscal policies: limitations may include:

- Growth rate has fallen and unemployment has risen (despite growing budget deficits) (**Table 4**)
- Budget deficits mean that government has had to borrow funds, which raises debt (**Text D**, paragraph 3)
- New budget guidelines require the government to raise taxes and/or reduce spending which will have a negative impact on growth (**Text D**, paragraph 3)
- Some of the spending (for example on higher education) has benefitted the rich more than the poor (**Text D**, paragraph 2)

Synthesis: limited effectiveness on growth but can be targeted at development.

Monetary policies: strengths may include:

- Have kept inflation at a reasonably low level (**Table 4**)
- Have been able to set a target rate of inflation and plans to lower it (**Text D**, paragraph 3)
- Have been able to lower interest rates which should expand AD through increased investment/consumption (**Table 4**)

Monetary policies: limitations may include:

- The reduction in interest rates so far does not seem to have expanded growth, implying limited effects on investment (**Table 4**)
- Further reductions in interest rates, if expansionary policies are needed, will become more difficult as interest rates are now already relatively low (**Table 4**).

Trade policies: strengths may include:

- Increase in exports due to greater diversification (Text F, paragraph 2)
- Increase in exports due to greater market access based EU/Mercosur tariff reduction agreement (Text F, paragraph 2)
- Cheaper imports due to lower tariffs will reduce consumer prices (maybe aiding the poor) (Text F, paragraph 2)
- Central Bank exchange rate policies aimed at appreciation will make importing capital goods/technology cheaper (Text F, paragraph 3)
- Rising surplus on balance of trade will add to growth through increasing AD (Table 4)

Trade policies: limitations may include:

- Increase in imports due to EU/Mercosur tariff reduction agreement, which could harm development in rural areas (Text F, paragraph 2)
- Central Bank exchange rate policies aimed at appreciation could harm export competitiveness (Text F, paragraph 3)
- Over-reliance on the export of agricultural goods may lead to unpredictable growth outcomes (Text F, paragraph 1)