

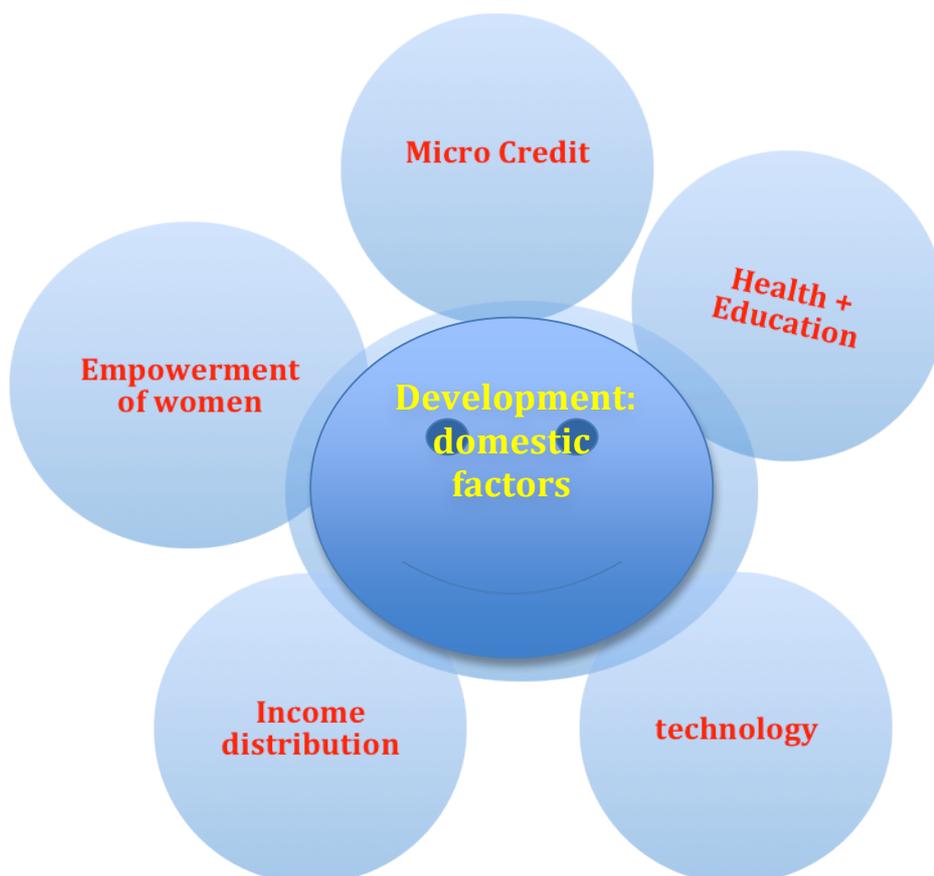
## **8 themes in development:**

1. development + growth
2. measuring development
3. **domestic factors**
4. international trade
5. FDI
6. Aid
7. indebtedness
8. aid or trade?

Webnote 432- grade weight 4

## **Development: 5 domestic factors**

**NB you need examples here. The terms define themselves with the exception of 'micro credit' but the data response will have the data for you!**



5. (a) Define the following terms indicated in bold in the text:

. (i) human resources (paragraph **4**) level

0 Wrong definition

1 Vague definition The idea that it is people.

2 Precise definition An explanation that it is the labour force of a country or the human capital of a country.

. (ii) investment (paragraph **6**). level

0 Wrong definition

1 Vague definition Spending on equipment or machinery.

2 Precise definition An explanation that it is the addition of capital stock to the economy or expenditure on capital equipment. [0 marks] to be given for an explanation of financial investment.

resources can lead to an increase in the potential output of a country.

level

. 0 Inappropriate answer

. 1 Identification of appropriate theory For drawing a correctly labelled diagram (PPF or LRAS) showing an increase in potential output (outward shift of the PPF or a shift to the right of the LRAS curve) or for providing an explanation that investment in human resources, such as education, can result in greater skills and knowledge and increase the potential output of a nation.

. 2 Correct application of appropriate theory For drawing a correctly

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(b) Using an appropriate diagram, explain how investment in human resources can lead to an increase in the potential output of a country.

level

- . 0 Inappropriate answer
- . 1 Identification of appropriate theory For drawing a correctly labelled diagram (PPF or LRAS) showing an increase in potential output (outward shift of the PPF or a shift to the right of the LRAS curve) or for providing an explanation that investment in human resources, such as education, can result in greater skills and knowledge and increase the potential output of a nation.
- . 2 Correct application of appropriate theory For drawing a correctly labelled diagram (PPF or LRAS) showing an increase in potential output (outward shift of the PPF or a shift to the right of the LRAS curve) and for providing an explanation that investment in human resources, such as education, can result in greater skills and knowledge and increase the potential output of a nation.

Candidates who show a PPC diagram with a movement from a point inside the curve towards the PPC should receive [0 marks] for the diagram.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For a PPC, the axis could be two alternative products, one on each axis, e.g. Good A and Good B or schools and cars, or two groups of products, e.g. consumer goods and producer goods. A title is not necessary.

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

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(c) Using an AD/AS diagram, explain how an increase in investment expenditure can, potentially, increase employment (paragraph ⑥).

level

- . 0 Inappropriate answer
- . 1 Identification of appropriate theory For drawing a correctly labelled diagram showing a shift to the right in the AD curve or for providing an explanation that investment expenditure is a component of aggregate demand and so an increase in investment expenditure will increase aggregate demand and output, ceteris paribus, and so, potentially create new jobs to produce the extra output.
- . 2 Correct application of appropriate theory For drawing a correctly labelled diagram showing a shift to the right in the AD curve and for providing an explanation that investment expenditure is a component of aggregate demand and so an increase in investment expenditure will increase aggregate demand and output, ceteris paribus, and so, potentially create new jobs to produce the extra output.

Alternatively, candidates could draw an outward shift of an LRAS curve and explain that increased investment may also be explained as a supply side policy and the new jobs are created in order to produce the extra output.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

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

[4 marks]

(d) Using the information from the text/data and your knowledge of economics, evaluate the role of micro-credit as an instrument of economic development in Venezuela.

Responses may include: a definition of economic development a definition of micro-credit the poverty cycle may be broken micro-credit stimulates economic activity economic growth and this may lead to economic development it can contribute to a reallocation of resources (paragraph ①)it encourages innovation and develops new markets it promotes a culture of entrepreneurship it helps families generate income (paragraph ③)increased standards of living it empowers women (paragraph ④)it reduces poverty and contributes to a more equitable distribution of income it rebuilds the confidence of people (paragraph ③)it stimulates appropriate use of technology it is an investment in human capital (human resources) it involves minimal state invention it is not enough, on its own, to have a significant impact on the economic development of a nation (paragraph ⑤)it adds to individual debt it is often provided at above market rates in order for the schemes to be self-supporting it will not succeed unless the appropriate infrastructure is in place and appropriate information is made available to the recipients it arguably, does not help the “poorest of the poor” of a nation.

Answers that make no reference to the text cannot be rewarded beyond level 2.

Candidates must relate the points in the answer to the concept of economic development, as stated in the question.

It is not enough to paraphrase the text, the text must be used as the basis to develop relevant economic argument.

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

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to: consider short-term versus long-term consequences examine the impact on different stakeholders discuss advantages and disadvantages prioritize the arguments.(paragraph ④),production,

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