SL Answers December 2020

Essay

Section B

Macroeconomics

3.   (a)   Explain why structural unemployment may occur in an economy.   **[10]**

*Answers **may** include:*
- definitions of unemployment and structural unemployment
- diagram to show the decline in employment caused by structural factors such as a fall in demand for labour in a particular market
- explanation of how the structural changes in the economy, such as capital replacing labour in a market, lead to unemployment because workers do not have the skills or geographical mobility to get a new job quickly
- examples of where structural changes in the economy lead to structural unemployment.

(b)   Discuss the view that the best way to reduce unemployment is through education and training.   **[15]**

*Answers **may** include:*
- definition of unemployment
- diagram to show how education and training reduces unemployment such as an increase in the supply of available labour increasing employment and LRAS shifting to the right explanation that education and training increases the skill level of unemployed workers and increases their opportunities for employment
- examples of where education and training has reduced unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of how education and training might be appropriate for structural unemployment, but might not be as effective with demand-deficient and frictional unemployment. There could be consideration of the cost and effectiveness of government run education and training. There could also be consideration that alternative policies are more effective than education and training in reducing certain types of unemployment.

4.   (a)   With reference to the income, output and expenditure approaches, explain
             how the real gross national product (GNP)/gross national income (GNI) per
             capita of a country can be measured.   **[10]**

             *Answers **may** include:*
             - definitions of real GNP/GNI per capita, income, output and expenditure
               approaches
             - diagram to show the circular flow of income
             - explanation of how the income, output and expenditure approaches are
               used to calculate GDP and adding net property income gives GNI/GNP.
               This is adjusted to get real GNP/GNI per capita by allowing for inflation and
               population
             - examples of the components of the income, output and expenditure
               approaches.

      (b)   Discuss the view that a rise in the GNP/GNI per capita will always lead to a
             rise in living standards in a country.   **[15]**

             *Answers **may** include:*
             - definition of living standards
             - diagram(s) of AD/AS, PPC
             - explanation that a rise in GNP/GNI per capita leads to rising real incomes,
               better public services and rising employment which leads to rising
               living standards
             - examples of where rising GNP/GNI per capita leads to rising living standards
             - synthesis or evaluation (discuss).

             Discussion **may** include: consideration of how rising GNP/GNI per capita
             might lead to situations that have a negative impact on living standards such
             as negative externalities and widening income inequality. It is also difficult to
             assess rising living standards because it is affected by non-monetary factors.
             It may also be argued that a rise in GNP/GNI per capita can be accompanied
             by inflation, reducing the potential rise in living standards.

2

Assessment Criteria

Part (b) 15 marks

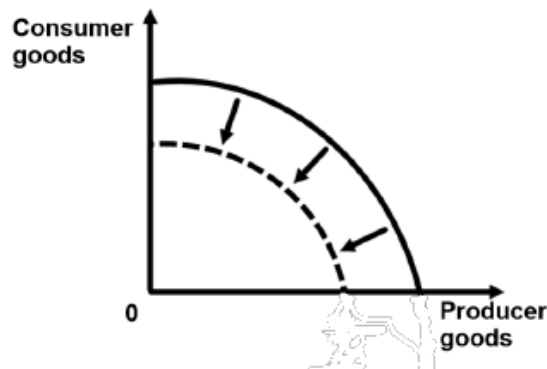| Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	

3

Data Response

Section B

3. (a) (i) Define the term *fiscal policy* indicated in bold in the text (paragraph ❸). [2]

Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	0
1	*Vague definition.* The idea that fiscal policy involves (any **one** of the following is sufficient): • using changes in government spending • using changes in taxation • to achieve macroeconomic objectives (relating to inflation and/or unemployment and/or economic growth and/or equity).	1
2	*Accurate definition.* An explanation that fiscal policy involves (any **two** of the following is sufficient): • using changes in government spending • using changes in taxation • to achieve macroeconomic objectives (relating to inflation and/or unemployment and/or economic growth and/or equity).	2

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

Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	0
1	*Vague definition.* The idea that it is (any **one** of the following is sufficient): • large scale public systems (services and facilities) of a country • necessary for economic activity • adding to the capital stock of a nation • usually supplied by the government.	1
2	*Accurate definition.* An explanation that it is (any **two** of the following is sufficient): • large scale public systems (services and facilities) of a country • necessary for economic activity • adding to the capital stock of a nation • usually supplied by the government.	2

4

(b) Using a production possibilities curve (PPC) diagram, explain the effects of the violence in Timor-Leste on production possibilities (potential output) (paragraph ❷). [4]

Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	0
1	*There is a correct diagram **or** an accurate written response.* For drawing a correctly labelled PPC diagram, showing an inward shift of the PPC **or** for an explanation that violence would have resulted in a reduction in quantity and/or quality of any identified factors of production leading to a fall in production possibilities (potential output).	1–2
2	*There is a correct diagram **and** an accurate written response.* For drawing a correctly labelled PPC diagram, showing an inward shift of the PPC **and** for an explanation that violence would have resulted in a reduction in quantity and/or quality of any identified factors of production leading to a fall in production possibilities (potential output).	3–4

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

For a PPC, the axes could be two alternative products, one on each axis, eg Good A & Good B or Schools & Motor Cars; or two groups of products, eg Consumer Goods and Producer Goods. A title is not necessary.

(c)   Explain why the gross national income (GNI) per capita for Timor-Leste is lower than
       the gross domestic product (GDP) per capita (Figure 1).   **[4]**

Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	**0**
1	*The written response is limited.* For showing an awareness of the difference between GNI and GDP **or** for an explanation that if the GNI per capita is lower than the GDP per capita, then this means that the net income from abroad is negative (or that foreign owners of productive resources in Timor-Leste are earning more income than owners from Timor-Leste are earning in foreign countries).	**1–2**
2	*The written response is accurate.* For showing an awareness of the difference between GNI and GDP **and** for an explanation that if the GNI per capita is lower than the GDP per capita, then this means that the net income from abroad is negative (or that foreign owners of productive resources in Timor-Leste are earning more income than owners from Timor-Leste are earning in foreign countries).	**3–4**

6

(d) Using information from the text/data and your knowledge of economics, compare and contrast the Human Development Index (HDI) data for Singapore and Timor-Leste in terms of their relevance for economic development.   [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	*The work does not reach a standard described by the descriptors below.*	0
1	*Few relevant concepts are recognized.* There is basic knowledge/understanding.	1–2
2	*Relevant concepts are recognized and developed in reasonable depth.* There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	*Relevant concepts are recognized and developed in reasonable depth.* There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term
Compare and contrast requires candidates to give an account of similarities and differences between two (or more) items or situations, referring to both (all) of them.

Responses may include:
- definition of HDI (Figure 1) and its components
- explanation of economic development
- the high Singapore HDI value (0.901) suggests that it is a "very high human development" country (Figure 1) whereas the lower Timor-Leste HDI figure (0.62) suggests that it is a "medium human development" country (Figure 1)
- the high Singapore HDI ranking (9) suggests that it is a "very high human development" country whereas the lower Timor-Leste HDI ranking (128) suggests that it is a "medium human development" country
- Singapore has significantly higher GDP per capita
- an explanation of how higher income per capita contributes to higher levels of economic development
- the data does not account for different levels of income inequality and absolute or relative poverty
- Singapore has higher life expectancy at birth suggesting better health of its people
- an explanation of how better health allows for higher levels of economic development
- Singapore has significantly higher mean years of schooling and higher expected years of schooling suggesting higher levels of education
- an explanation of how higher levels of education contributes to higher levels of economic development
- Singapore is already highly developed (paragraph ❶), so increases in HDI figures and economic development become more marginal
- not all factors affecting development are incorporated within the HDI.

7

References to other material in the data:
- Timor-Leste only gained independence in 2002, so the country has only existed for 11 years. This makes comparison difficult (paragraph ❷)
- foreign direct investment is much higher in Singapore and can contribute to higher economic growth, which may be used to achieve economic development
- Timor Leste's relatively small urban population in comparison with Singapore (Figure 1) and endowment of natural resources (paragraph ❸) suggests an economy more reliant on primary commodities which can present problems for economic development
- developments in Timor-Leste such as increased government spending on infrastructure, development of skills and institutional changes (paragraph ❸) could lead to a higher HDI ranking in coming years and also greater development.

Any reasonable discussion.

8

4. (a) (i) List two of the Millennium Development Goals (paragraph ❸).   [2]

Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	0
1	*There is limited understanding.* One goal is accurately listed or two goals are partially listed.	1
2	*There is clear understanding.* Two of the following goals are accurately listed: • eradicate extreme poverty and hunger • achieve universal primary education • promote gender equality and empower women • reduce child mortality • improve maternal health • combat HIV/AIDs, malaria and other diseases • ensure environmental sustainability • develop a global partnership for development.	2

(ii) Define the term *economic growth* indicated in bold in the text (paragraph ❹).   [2]

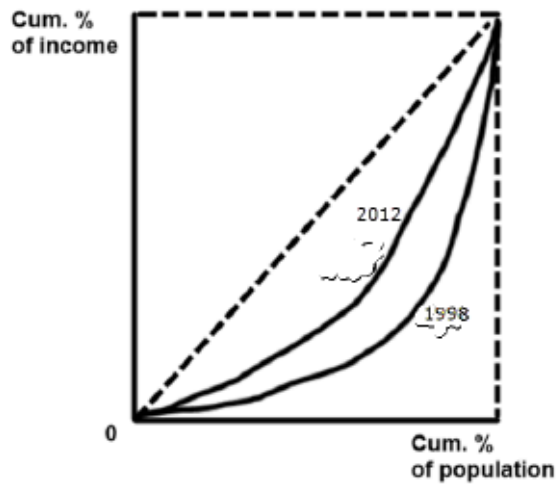| Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	0
1	*Vague definition.* The idea that it is a growing economy (or an increase in GDP).	1
2	*Accurate definition.* An explanation that it is **one** of the following: • an increase in real output (over time) • an increase in real GDP • an increase in potential output.	2

Note: The term "over time" is not necessary for **[2]**.

9

(b) Using a Lorenz curve diagram, explain what happened to income inequality in
The Gambia between 1998 and 2012 (Figure 1). [4]

Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	0
1	*There is a correct diagram or an accurate written response.* For drawing a correctly labelled Lorenz curve diagram showing the Lorenz curve to be shifting towards the line of perfect equality or for explaining that The Gambia's Gini coefficient has fallen meaning that The Gambia's income distribution is more equal shown by the inward shift in the Lorenz curve.	1–2
2	*There is a correct diagram and an accurate written response.* For drawing a correctly labelled Lorenz curve diagram showing the Lorenz curve to be shifting towards the line of perfect equality and for explaining that The Gambia's Gini coefficient has fallen meaning that The Gambia's income distribution is more equal shown by the inward shift in the Lorenz curve.	3–4

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

For the vertical axis, the label may be cumulative percentage of income or percentage of income. For the horizontal axis, the label may be cumulative percentage of population or percentage of population. A title is not necessary.

(c)   Explain why the servicing of international debt may have an opportunity cost for
      economic development (paragraph ❾).   [4]

Level		Marks
0	*The work does not reach a standard described by the descriptors below.*	0
1	*The written response is limited.* For a correct definition of opportunity cost (or an implied understanding) or for an explanation that when governments have to pay back their debts (with interest), then this reduces their ability to spend money on areas that might improve economic development, such as education or healthcare.	1–2
2	*The written response is accurate.* For a correct definition of opportunity cost (or an implied understanding) **and** for an explanation that when governments have to pay back their debts (with interest), then this reduces their ability to spend money on areas that might improve economic development, such as education or healthcare.	3–4

11

(d) Using information from the text/data and your knowledge of economics, evaluate two trade strategies The Gambia might employ to achieve economic growth. [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	*The work does not reach a standard described by the descriptors below.*	0
1	*Few relevant concepts are recognized.* *There is basic knowledge/understanding.*	1–2
2	*Relevant concepts are recognized and developed in reasonable depth.* *There is clear knowledge/understanding.* *There is some attempt at application/analysis.*	3–5
3	*Relevant concepts are recognized and developed in reasonable depth.* *There is clear knowledge/understanding.* *There is effective application/analysis.* *There is synthesis/evaluation, supported by appropriate theory and evidence.*	6–8

Command term
Evaluate requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses may include:
Import substitution:
- definition of import substitution
- problems of producing the replacements for exports because of size of country (paragraph ❶), lack of diversification (paragraph ❶), lack of an educated work force (paragraph ❸)
- it may lead to retaliation from other countries
- it should reduce import expenditure and thus improve net exports
- it should increase employment
- it may lead to inefficiencies of domestic firms and global resource misallocation
- it may lead to higher domestic prices and inflation.

Export promotion:
- definition of export promotion
- the economy is already open (paragraph ❶), so is it a viable strategy
- the main areas of exports are limited (paragraph ❺) and so there is a need for diversification
- it may create greater income inequality, worsening the Gini coefficient (Figure 1)
- it may lead to increases in exports, improving the current account balance and contributing to increased employment and economic growth
- it may lead to domestic inefficiencies if it relies heavily on industrial policies (for example subsidies).

12

Trade liberalization:
- definition of trade liberalization
- possibility of benefits from increased exports
- it may lead to greater unemployment
- it may lead to greater income inequality and poverty due to inability to compete with increases in imports
- loss of tariff revenue.

Bilateral and regional preferential trade agreements:
- definition of types of trade agreements
- movements in Africa towards this
- the need for political stability and the problems of warfare in Africa
- benefit from regional economic integration (paragraph ❶).

Diversification:
- definition of diversification
- benefits of diversification, especially since The Gambia suffers from lack of it
- lack of an educated workforce (paragraph ❺)
- lack of capital and foreign direct investment (Figure 1).

Any reasonable evaluation.