Paper 3 (HL only) – markschemes

Question 1

a i Current transfers = −16.3 − (−17.0 − 7.5 + 2.5) = − 16.3 +17.0 +7.5 − 2.5) = 5.7 billion Rvl

Marks allocation

Any valid working **[1]**

Correct response without workings **[1]**

ii Balance on financial account = 4.5 + 1.7 + 3.5 + 4.7 = 14.4 billion Rvl; this is positive therefore there is a surplus in this account.

Marks allocation

For correct calculation **[1]**

For stating surplus **[1]**

iii Debits are outflows of money; credits are inflows. When the debits and credits are added up they are equal to zero since in the balance of payments the inflows must be equal to the outflows. This means that any surplus in the balance of payments represents an excess of credits over debits, while any deficit represents an excess of debits over credits. Therefore any excess of credits plus any excess of debits must also be equal to zero. This can be seen in Table 1 where the deficit in the current account is matched by the surpluses in the other two accounts so that the balances on the three accounts add up to zero. This is seen by −16.3 +1.9 + 14.4 = 0.

Marks allocation

For a limited response **[1–2]**

For an accurate response **[3–4]**

iv The balance of trade in goods

Marks allocation

For stating balance of trade in goods **[1]**

v Reserve assets appear as a credit of 3.5 billion Rvl. This means that the central bank of Riverland is selling foreign currencies and buying Rvl, so that Rvl of this amount are coming into Riverland. Since the central bank is intervening in the foreign exchange market, Riverland is likely to have a managed or fixed (pegged) exchange rate system.

Marks allocation

For identifying managed or fixed exchange rate system **[1]**

For stating that the credits indicate selling of foreign reserves **[1]**

vi If the central bank did not intervene, there would be an excess of debits over credits in the overall balance of payments amounting to 3.5 billion Rvl. The reason is that the balance on financial account would then be 10.9 billion, which when added to the other two balances would give 10.9 + 1.9 − 16.3 = − 3.5 billion Rvl. In the absence of any central bank intervention or any other change in the balance of payments, the Rvl would depreciate. The diagram should show the market for Rvl where there is a fall in demand for Rvl leading to a fall in the value of the currency. The horizontal axis may be labeled *Q* of Rvl. The vertical axis may be labeled *P* of Rvl, or other currency / Rvl. Note that the Rvl must be in the denominator.

Marks allocation

For drawing a correctly labelled Rvl diagram showing a leftward shift of Rvl demand and the exchange rate falling **[2]**

For explaining that without intervention there would be a deficit causing a depreciation **[2]**

vii Multiplier $= \frac{1}{\frac{1}{4}} = 4$

$-205 \times 4 = -820$ or decrease in GDP of 820 million Rvl

Marks allocation

For correctly calculating the multiplier **[2]**

For the correct response **[1]**

viii unemployment rate $= \frac{number\ of\ unemployed}{labour\ force} \times 100 = \frac{375\,000}{2\,500\,000} \times 100 = 15.0\,\%$

Marks allocation

Any valid working **[1]**

Correct response without workings **[1]**

b Possible policies **may** include (but are not limited to):

- expenditure-switching policies such as trade protection, depreciation
- expenditure-reducing policies such as contractionary fiscal or monetary policies
- supply-side policies intended to increase export competitiveness
- a combination of policies

For full marks the response must

- *identify and fully explain a policy*
- *use economic theory effectively to back up the recommended policy*
- *use economic terms correctly*
- *use information from the text or data appropriately to support the arguments*
- *contain effective synthesis of evaluation*

Question 2

a i $5 to $10: $PED = \frac{\%\Delta Q}{\%\Delta P} = \frac{\frac{25-30}{30}}{\frac{10-5}{5}} = \frac{\frac{-5}{30}}{\frac{5}{5}} = -\frac{1}{6}$ or 1/6 or 0.17

$20 to $25: $PED = \frac{\%\Delta Q}{\%\Delta P} = \frac{\frac{10-15}{15}}{\frac{25-20}{20}} = \frac{\frac{-5}{15}}{\frac{5}{20}} = \frac{\frac{-1}{3}}{\frac{1}{4}} = -\frac{-4}{3}$ or 1 1/3 or 1.33

Marks allocation

For each correct *PED* calculation with workings **[1]**

ii

P ($)	5	10	15	20	25	30
Q (kg)	30	25	20	15	10	5
TR ($)	150	250	300	300	250	150

Marks allocation

For every two correct responses **[1]**

iii At low prices, $PED < 1$, so that as *P* increases *TR* increases. This is because the fall in *Q* is proportionately smaller than the increase in *P*, causing *TR* to increase. At high prices $PED > 1$, so that as *P* increases *TR* decreases. This is because the fall in *Q* is now proportionately larger than the increase in *P*, causing *TR* to fall.

Marks allocation

For stating the relationship between *P* and *TR* depending on *PED* **[2]**

For correctly using the data in parts i and ii to explain this **[2]**

iv rate of growth in real GDP $= \frac{5100-5000}{5000} \times 100 = 2.0\%$

rate of growth in real GDP *per capita* $= \frac{1980-2000}{2000} \times 100 = -1.0\%$

Marks allocation

For each correct answer **[1]**

v This is occurring because the population is growing faster than real GDP, therefore the amount of output available per person is decreasing.

Marks allocation

For correct explanation **[2]**

vi

Annual income (Snl)	Upper Snowland average tax rate	Lower Snowland average tax rate
25 000	5750 / 25 000 × 100 = 23%	5750 / 25 000 × 100 = 23%
36 000	8280 / 36 000 × 100 = 23%	7200 /36 000 × 100 = 20%

Marks allocation

For every two correct answers **[1]**

vii The overall tax system, which here consists of both direct and indirect taxes, is proportionate in Upper Snowland, meaning that as income increases the fraction of income paid as tax is constant, whereas in Lower Snowland it is regressive, meaning that as income increases the fraction of income paid as tax decreases. It is possible that Lower Snowland relies more heavily on indirect taxes, which are always regressive. Since indirect taxes are always regressive, this means that Upper Snowland's direct taxes must be progressive, meaning that the fraction of income paid as tax increases as income increases. Therefore Upper Snowland's tax system is more appropriate as a method to make the distribution of income more equal.

Marks allocation

For identifying proportionate or regressive taxation in each state **[2]**

For explaining which has a more equal distribution of income **[2]**

viii A Lorenz curve diagram with the horizontal axis labeled as cumulative percentage of population and the vertical axis labeled as cumulative percentage of income, showing two Lorenz curves. The curve further away from the line of perfect equality is Lower Snowland and the one that is closer is Upper Snowland.

Marks allocation

For drawing an appropriately labelled Lorenz curve diagram **[1]**

For correctly identifying which curve corresponds to which state **[1]**

b Possible policies **may** include (but are not limited to):

- investment in human capital
- transfer payments
- targeted government spending on goods and services
- universal basic income
- policies to reduce discrimination
- minimum wages
- a combination of policies

For full marks the response must

- *identify and fully explain a policy*
- *use economic theory effectively to back up the recommended policy*
- *use economic terms correctly*
- *use information from the text or data appropriately to support the arguments*
- *contain effective synthesis of evaluation*