Suggested Answers:
2019 J1 H1 Economics December Holiday Homework Practice Paper #1

(a)	With reference to Figure 1, summarise the changes in the prices of crude oil from 2012 to 2016.	[2]
	Synopsis : Generally Falling trend in Global crude oil and Refinement	
	- Falling trend between 2012 and 2016	1m
	- Steepest fall in 2014.	1m
(b)	With reference to Extract 1, and using a supply and demand diagram, account for the crash in global crude oil prices.	[6]
	Synopsis : Oversupply due to rising SS and Falling DD and link to price	
	- Rising SS • "The lifting of Western sanctions on Iran" has led to Iran supply more crude oil in the global market	2m
	- Falling DD • "Driven by economic slowdown in China and Europe", as oil is used as a FOP to produce goods and services, a slowdown in these economy would result in a slowdown in the demand for crude oil. OR • US production of shale oil which is a substitute for crude oil would lead to lower demand for crude oil by the US in the global market.	2m
	- Diagram and explanation using the diagram • Draw a leftward shift in the DD curve as well as a rightward shift in the SS curve and link it to downward pressure on global crude oil price.	2m
(c)	Using appropriate diagram(s), explain why Nigeria 'slid into recession for the first time in more than 20 years'.	[8]
	Synopsis: Recession is a fall in GDP. In Nigeria this was due to a fall in AD and AS. At least 2 reasons for the fall in AD are expected	
	- Fall in AD • "Oil accounts for 69 per cent of Nigeria's exports"…. Due to the fall in the price of crude oil, "The country's crude oil export revenue fell by 33 per cent between 2015 and 2016". Draw demand curve that is price inelastic (explain why?) and show export revenue falling. Link this to a fall in AD due to the "X" component falling. • Introduction of austerity measures (reduction in gov't expenditure and rise in gov't revenue via rising taxes) in response to low oil income. Link to falling G and/or falling C as possibility of rising personal income tax. • Foreign direct investment (FDI) in Nigeria fell by 37 per cent year-on-year in 2016…perhaps due to austerity measures such as rising corporate income tax or maybe due to the falling value of the Naira that reduces business confidence. Link to falling I and hence falling AD	4m
	- Fall in AS • Nigeria removed of oil subsidy which resulted in a "67 per cent increase in petrol price". This led to increase transport cost and hence a rise in cost of producing goods.	2m
	- Diagram and explanation of the diagram	2m

	• The fall in AD and the fall in AS reinforced each other such that GDP fell.		
(d)	Extract 2 and 3 highlights different actions by Nigeria and US in the oil industry.		
	(i)	Explain why Nigeria removed oil subsidy whereas US imposed an oil tax	[4]
		Synopsis: Actions by government are due to their intended impact.	
		- Nigeria removed oil subsidy Nigeria removed its subsidy as there was a loss in government's income due to the falling price of crude oil. The government wanted to control their budget and the removal of subsidy would lower government expenditure and result in improvement in the government budget. Evidence: "In response to fiscal pressure caused by the collapse in crude oil prices, the country announced in May 2016 the removal of oil subsidy that had cost billions of dollars."	2m
		- US imposed an oil tax US imposed an oil tax as it wanted to raise funds for a clean transportation system Evidence: "President Barack Obama is about to unveil an ambitious plan for a "21st century clean transportation system." And he hopes to fund it with a tax on oil."	2m
	(ii)	Using a diagram, explain what determines the size of the increase in the price of a petrol following the removal of fuel subsidy in Nigeria.	[4]
		Synopsis : As the subsidy for fuel is removed, the SS curve of petrol shifts left. This results in a rise in the price in petrol. The extent of the increase in the price of petrol is determined by the extent of the fall in SS (and hence the amount of subsidy removed) as well as the PED for petrol.	
		Explain the impact of the removal of the subsidy in the petrol market. i.e Show on the diagram the fall in supply leads to a rise in price and a fall in equilibrium qty.	2m
		Explain that the rise in the price is dependent on the extent of the fall in supply, which is dependent of the amount of subsidy being removed. The larger the removal of subsidy, the larger the fall in supply and the higher would be the rise in price. OR Explain that the fall in supply due to the removal of subsidy, would lead to a movement along the demand curve for petrol. The extent of the rise in the price of petrol would depend on the PED for petrol. Show that the more price inelastic the demand for petrol, the larger would be the rise in price.	2m
	(iii)	The imposition of "a $10 "fee" on every barrel of oil…. that would be paid by oil companies but would presumably be passed along to consumers". Discuss whether consumers or producers would bear a greater tax burden when a tax is imposed on producers.	[8]
		Synopsis : Detailed explanation of how the imposition of a tax on producers would lead to a fall in the supply curve in the market and hence affect price and quantity. Student need to identify the tax burden on both consumer and producer.	

		There is a need to bring in the concept of PED and PES to help determine the tax burden. A conclusion on the different types of goods that consumer would end up bearing a larger burden or smaller burden of the tax should be highlighted.	
		• Explain that an indirect tax increases COP, causing the supply of the goods to fall. Details on how the market is affected is required. • Show the areas of the consumer and producer tax burdens. • Whether a tax cause consumers to suffer more than producers depends on the relative price elasticities of demand and supply. • IF PED>PES, burden of tax falls more on producers. Diagram to show consumers' burden < producers' burden. One example could be luxury products like cars, where the PED is expected to be large due to the proportion of income that is spent on the good. • IF PED<PES, burden of tax falls more on consumers. Diagram to show consumers' burden > producers' burden. One such example is petrol, where although PES<1, it is expected that PED<1 and hence PED<PES! This could be due to the lack of substitutes to petrol especially for motorist. • Hence the share of burden for different goods would differ depending on the relative price elasticities of demand and supply. L1 | Superficial explanation on the tax burden on consumers and producers. With an attempt to compare tax burden between consumer and producer | 1-3 L2 | Clear understanding that the tax burden shared between consumers and producers is dependent on the price elasticity of demand and supply. | 4-6 E2 | Clear explanation that the tax burden between consumers and producers is dependent on the product being taxed and subjected to the relative price elasticity of demand and supply | 2 E1 | An attempt to conclude that the tax burden between consumers and producers is dependent on the product being taxed and subjected to the relative price elasticity of demand and supply | 1	
(e)	Governments all over the world are preoccupied with issues of unemployment.		
	(i)	Explain the possible effects of unemployment.	[3]
		Synopsis: Students are expected to provide at least two effects of unemployment.	
		- Rising unemployment can lead to lower economic growth. The increasing unemployment leads to falling aggregate disposable income which then leads to reduce purchasing power and hence lower consumption. This leads to falling AD and hence a fall in GDP. - The rising unemployment also leads to a fall in the material SOL as the aggregate disposable income falls. - Rising unemployment could lead to the government raising its expenditure on transfer payments such as unemployment benefits. This could lead to a budget deficit. In addition the greater expenditure on unemployment benefits may lead to an opportunity cost in terms on falling expenditure in other areas such as healthcare. This could	

		reduce the non-material SOL as the quality of healthcare may deteriorate. - Rising unemployment can also lead to rising crime rates as the unemployed seek for alternative source of income. Some of which could include smuggling, theft an illegal employment. This could lower the non-material SOL -	
	(ii)	Discuss whether Mr Trump's 'greatest job creation measure' is the best way to deal with the unemployment faced by Americans in the US.	[10]
		Synopsis : Need to explain how Mr Trump 'greatest job creation measure' which refers to the significant cut in business tax rate, would lead to a rise in Investments and hence a rise in AD. This would lead to rising GDP and hence creates employment as the demand for labour rises. {Evaluation of the policy is required.} However it is expected that students should use the case study to look for clues on the type of unemployment being faced by the US and whether there is a need to use alternative policies. Where alternative policies are provided, students need to evaluate them as well.	
		- Explain how the significant reduction of business tax rate would lead to a rise in Investments. - Explain how a rise in investment would lead to a rise in AD and hence GDP. Link the rise in GDP to a rise in demand for labour and hence a rise in employment leading to a fall in unemployment. { It would be useful to bring in the labour market and highlight the increasing employment} - Evaluate the reduction in business tax in trying to reduce unemployment ❖ An effective policy as it is likely that the size of the multiplier in US is high and hence it is expected that GDP would rise significantly. ❖ From Table 1, the GDP in the US has been rising steadily, from 2013 to 2017, this could mean positive sentiments of both households and firms. In addition from extract 4, "consumers are expressing the highest levels of confidence in nearly a decade. Hence the reduction in business tax rates might raise investment significantly and hence reduce unemployment significantly ❖ The cause for concern lies in the inflation rate. From Table 1, Inflation was highest in 2017, a significant cut in business tax may lead high inflation in the US. ❖ The significant cut in business tax would lead to a significant fall in government tax revenue. The US is known for their huge budget deficit and the cut in business tax would only lead to larger deficit. As the deficit grow in may be in the need for the US to introduce austerity measures and this would inevitably lead to a rise in unemployment in the long run. ❖ Although unemployment rate has been falling, as seen in table 1, the problem cited by Americans is mainly low wages and structural unemployment. "Those without skills are relegated to low-paying positions". Those in the manufacturing "who once held well-compensated manufacturing jobs" are "being forced to settle for lower-wage service jobs – or no jobs at all." This is because manufacturing "employed fewer" people" and "More than 80	

percent of jobs are now in the service industry". Hence the problem is a mismatch of the skills labour possessed and the skills firms require.

- As the business cut does not tackle structural unemployment, there is a need for an alternative policy that addresses the mismatch of skills. One such policy could be training and upgrading the labour force.
- US may want to consider the policy undertaken by Singapore to address the mismatch of skills such as skillsfuture sg. One item that the US can adopt is skillsfuture credit, where the government helps subsidise training cost so that employee may upgrade their skills and move towards the expanding service sector in the US.
  - ❖ The key consideration of the effectiveness of this approach would be financing the subsidies, especially when there are huge deficit in the US. Furthermore employees may choose not to upgrade especially the elderly as it may be difficult for them to pick up new skills. Or employees may not fully appreciate the benefit of training and do not opt for training.
  - ❖ Firms may not be willing to send workers for training due to the loss of output during training

- Apart from just funding training, the gov't must help ensure that there are 'Skills based modular courses' that consist of short modular courses to help workers in the manufacturing sector acquire relevant skills that are sought after in the service sector.
  - ❖ Once again the same limitation holds in terms of funding these courses as well as getting workers in the manufacturing sector interested in upgrading.

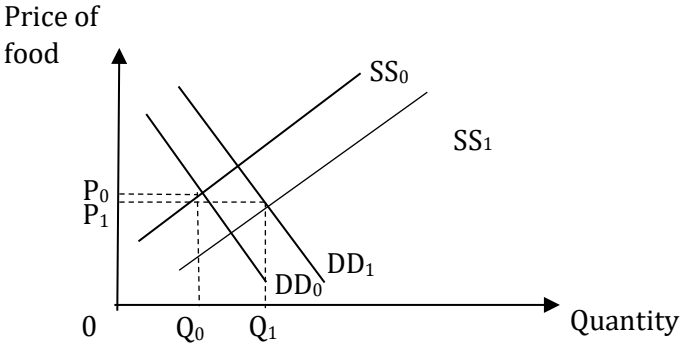
Conclusion

It is important that Mr Trump identify the type of unemployment that Americans are plagued with. Although a cut in business tax may lead to more employment, it does nothing to address root cause of structural unemployment faced by America.

L1	Brief explanation on how the lower business tax would lead to rising unemployment.	1-2
L2	Brief explanation of how the lower business tax as well as an alternative policy may help lower unemployment in the US	3-4
L3	Clear explanation of how lower business tax addresses cyclical unemployment and the as well as clear explanation of an alternative policy that address structural unemployment.	5-7
E2	Evaluation of both policy that is well explained	2-3
E1	An attempt to evaluate any one of the policy	1

Suggested Answers:
2019 J1 H1 Economics December Holiday Homework Practice Paper #2

Answer outline

(a)(i)	**Describe the trend in world food prices from 2011 to 2015** There is generally a falling trend in world food prices from 2011 to 2015 **[1]**, with the sharpest fall from 2014 to 2015 **[1]**.	**[2]**
(ii)	**Using a diagram, account for the trend in world food prices from 2011 to 2015.** **<u>Demand factor: [1]</u>** Extract 1: "unexpected domestic food price fluctuations" → expect prices to rise further in future → demand for food rises OR Extract 1: "developments in rice support policies for the needy" → subsidising consumers → demand for food rises **<u>Supply factor: [1]</u>** Fall in cost of production for food. Extract 1, "Cheap oil contributed to abundant global supplies of food". Oil is an important factor of production for food, as it is used to run tractors, transportation, etc. Cheaper oil will cause COP of food to fall, resulting in increase in supply of food. **Diagram** – combined DD and SS shift **[1]**  Therefore, a ***<u>greater rise</u>*** in supply than demand ***<u>resulted in a fall in price of food</u>***. **[1]**	**[4]**
(b)(i)	**Extract 2 states that 'ideally, Brazil would offset this fiscal contraction with looser monetary policy'. With the help of AD/AS diagrams:** **Explain how Brazil's fiscal policy would lead to a contraction of the economy.** Extract 2, the Brazilian government plans to reduce government expenditure in order to reduce its budget deficit. **[using case evidence 1m]** Identified as contractionary fiscal policy - the fall in government expenditure (G) results in a fall in AD **[1m]** Impact on macroeconomy - fall in RNY; causing a contraction in the economy. **[1m]** AD/AS Diagram **[1]**	**[4]**

(ii)	**Explain how an expansionary monetary policy would 'offset' this contraction.** Expansionary monetary policy suggested in Extract 2 would involve cutting the interest rate. **[1m]** With a lower interest rate, the **cost of borrowing will fall**. Consumers will be encouraged to spend on big ticket items - (C) will increase. Firms, the expected rate of return will now be higher than the prevailing interest rate, encourages investment expenditure (I) [**1m**] The rise in C and I will cause AD to increase, causing RNY to rise thus 'offsetting' the contraction **[1m].** AD/AS Diagram **[1m]**	**[4]**
(c)	**With reference to Extract 3, explain the expected impact of China's devaluation on its exports revenue and comment on the extent of this impact.** **IMPACT – eg. Positve and Negative outcomes** 1. China's devaluation on will increase its export revenue - positive **[2m]** Weaker yuan, Chinese exports will be cheaper when priced in US currency This will cause a rise in demand for Chinese exports (when valued in yuan) by US consumers and increase Chinese export revenue. 2. The extent of the rise in exports revenue may be limited due to more expensive factor input – negative **[2m]** The weaker yuan will cause commodities that are priced in US dollar to be more expensive in domestic currency. The rise in the price of oil and other commodities will raise the cost of production of manufactured exports would erode price competitiveness gained from devaluation. Overall, the devaluation may not cause a significant rise in net exports. 3. **[Comment]** China's devaluation may not be able to stimulate her exports revenue due to loss in non-price competitiveness **[2m – evidence & judgement]** There is also evidence that the fall in the demand for China's exports could be due to a deterioration in its non-price competitiveness **[1m].** The quality of Chinese exports may be lower and may not be as technologically advanced as those goods that are produced by high income countries. Extract 3: "they are also losing the competitiveness battle to high-income countries that produce higher-end, more sophisticated products." **[1m]** A weaker yuan while lowering the price of exports in foreign currency may not sufficiently increase export revenue as they are not sufficiently close substitutes to their competitors **[1m].** Thus the extent of the rise in export revenue will be rather limited.	[6]

(d)(i)	**Justify the type of unemployment that is observed in Extract 4.** • Structural unemployment - observed in Extract 4 described **[1m]**. • Insufficient high quality jobs in China for young educated job seekers. Many of the jobs available do not match the skills and the qualifications of these young educated jobseekers. **[1m]**	**[2]**
(ii)	**Explain why a government would be concerned with this type of unemployment.** Extract 3, "high youth unemployment causes immediate and long-term economic damage" <u>Short term impact</u> In addition, if these workers are not employed for a long period of time they will need to seek help from the government for financial assistance, which is a **strain on the Chinese government's budget**. **[1m]** The government may have less funds to spend on other sectors of the economy e.g. providing healthcare amenities which may affect **non-material SOL of the citizens**. **[1m]** <u>Long term impact</u> When youths are unemployed for a long period, skills become obsolete due to lack of lack of application and use, they become less productive due to gap in employment history. This may impact the country's productive capacity in the long run, causing a slowdown in the rise in AS curve and will cause a slowdown in potential growth. **[1m]**	**[3]**

(e)	**Discuss the possible consequences of an economy falling into the 'middle income trap'.**
	
	Direction word: Discuss 'consequences' **(-) (+)**
	
	The middle income trap occurs for some economies that make significant progress in reducing extreme poverty and experience structural change and growth but then find it difficult to make the climb from being a middle-income country to achieve high-income fully-developed status.
	
	Negative consequences:
	
	• Extract 3: *"The design and workmanship of Chinese products are not of the same quality. Some Chinese consumers have reached a level of income to allow them to buy higher-end products, but they often perceive Chinese automobile brands, for example, as being inferior to foreign brands, even those that were actually manufactured in China."* → import expenditure rises → fall in net exports → fall in AD → fall in RNY → fall in actual growth
	• Extract 3: *"China has experienced periodic labour shortages that are putting upward pressure on costs"* → rise in wages → rise in COP → fall in SRAS
	  o fall in RNY → fall in actual growth
	  o rise in GPL → inflation
	• Fall in domestic and foreign investment (Fall in actual and potential growth)
	• Outflow of skilled labour in search of higher incomes (fall in potential growth)
	• Loss of national income due to failure to move up value chain
		[8]

Positive consequences:

- Extract 3: *"Ramping up domestic demand is also important as an expanding middle class can use its increasing purchasing power to buy high-quality, innovative products and help drive growth."* → rise in consumption expenditure → rise in AD → rise in RNY → rise in income → rise in purchasing power → rise in quantity of goods and services available for consumption → rise in material SOL
- With rising income → lesser risk of rising income inequality due to high speed growth

Evaluation:

- **In the ST** negative consequences may not be severe. However, if tepid growth persists it would result in relocation of firms and an inability to attract FDI, - leads to further fall in growth
- the economy may also be made more vulnerable to external shocks which could result in economic contraction (due to loss of competitiveness)

Knowledge, Understanding, Application and Analysis		
L2	• Question requirements are interpreted accurately. • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. • Appropriate diagrams are used to support economic analysis, where relevant. • Very well developed 2-sided answer with economic framework OR • Well-developed 1 sided answer (max 4 marks)	4-6
L1	• Question requirements are interpreted inaccurately. • Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis. • Inappropriate or wrong diagrams are used.	1 - 3
Evaluation		
E	Evaluative comments are well-explained and supported by economic analysis.	2
	Unexplained evaluative comments.	1

(f) **Evaluate the effectiveness of supply-side policies in addressing the macroeconomic problems facing China.** **[12]**

Identify problems facing Chinese economy (at least 2)

- Sluggish growth (middle income trap)
- Structural Unemployment
- Cost push inflation (due to labour shortage)

Supply side policies (2 measures)

1. **ST SS-side policies** - (to lower CoP)

- eg, wage controls, subsidies, etc.

2. **LT SS-side policies – (for Growth and employment)**
   - **Training, education** – addresses structural unemployment
   - **Provide grants,** etc. for RnD to improve process and product innovation. Leads to better price and non-price competitiveness, increases export rev, hence net export (X-M), increase in RNY, employment.

Limitations

- Time is needed for such supply side policies to take effect. Workers need time to be trained and industries need time to become more competitive. Success of training depends on workers' attitude.
- Rise in government expenditure for training, providing grants and subsidies → opportunity cost → especially when China's expenditure in R&D is second-largest in the world after US (Extract 5)

4. **Conclusion/synthesis/Judgement**

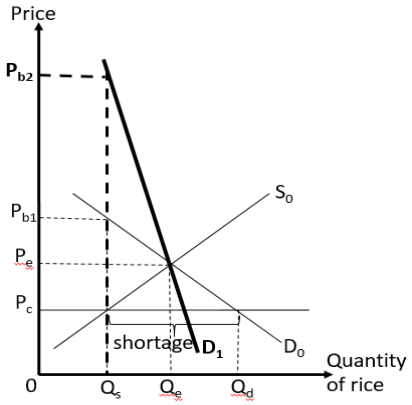
Knowledge, Understanding, Application and Analysis		
L3	• Question requirements are interpreted accurately. • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. • Appropriate diagrams are used to support economic analysis, where relevant. • Two-sided answer and supported by case material. • Policies address the root cause of the problem. • No overlap of policy measures with other parts of CSQ [max 9 marks]	6 - 9
L2	• Addresses some question requirements accurately. • Some appropriate economic concepts, theories and principles are used. Economic analysis is accurate but incomplete. • Attempts to address the context of the question but is incomplete. • Appropriate diagrams are used but might not be explained or used to support economic analysis. • One-sided answer without any evaluation of policies.	3 - 5
L1	• Question requirements are interpreted inaccurately. • Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis. • Inappropriate or wrong diagrams are used.	1 – 2
Evaluation		
E2	Evaluative comments are well-explained and supported by economic analysis.	2-3
E1	Unexplained evaluative comments.	1

Suggested Answers:
2019 J1 H1 Economics December Holiday Homework Practice Paper #3

(a)		**Give a possible reason for the different real GDP per capita between Malaysia and Indonesia.** Malaysia has a higher GDP per capita than Indonesia. [1] Possible reason (choose 1) [1]: • Indonesia has a larger population size than Malaysia • better utilisation of resources in Malaysia	**[2]**
(b)	**With reference to Extract 1,**		
	(i)	**explain the effect of an increase in economic activity on the equilibrium price and quantity in the electricity market.** Increase in economic activity → demand for electricity rise [1] → rise in equilibrium price and quantity [1]	**[2]**
	(ii)	**explain the effect of the subsidy reform on the equilibrium price and quantity in the electricity market.** Subsidy reform → reduction in subsidy → rise in COP → fall in supply [1] → rise in equilibrium price and fall in equilibrium quantity [1] *Markers' Comments: Some did not realize that the "reform" was a reduction rather than an imposition of a subsidy. Thus, shifted the SS curve in the wrong direction.*	**[2]**
	(iii)	**explain the combined effects of the increase in economic activity and subsidy reform on the equilibrium price and quantity in the electricity market.** Demand rise from increased in economic activity rise more than supply falls from subsidy reform since electricity use continued to grow and electricity is essential [1] → rise in equilibrium price and quantity [1] *Markers' Comments: Most were able to conclude that price would definitely rise and that the change in quantity would depend on the relative shift. To gain full credit students had to state which shifted more (in their view) and support their answer with evidence from the extract.*	**[2]**
(c)		**With reference to Extract 2, discuss whether price control on rice will necessarily keep Indonesian consumers' purchasing power high.**	**[8]**

Intro

- Define price control → price ceiling
- Prelude to answer



Thesis: Price control on rice keeps Indonesian consumers' purchasing power high

- Price ceiling, P_c → price below equilibrium P_e → cheaper → able to buy other goods → higher pp
- Effective only if price is below equilibrium price level

Anti-Thesis: Price control on rice DOES NOT KEEP Indonesian consumers' purchasing power high

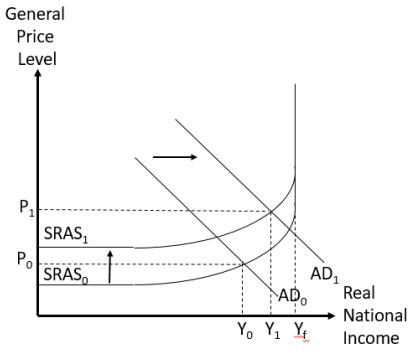
- Shortage at Price Pc since quantity demanded Qd is greater than quantity supplied Qs for an essential good like rice → possibility of black market when policing is not effective → rise in price to P_{b1} → reduce pp
- PED<1 since there is high degree of necessity for rice since it is a staple diet for Indonesians, being Asians → in the black market, the price is even higher at P_{b2} compared to P_{b1} → reduce pp for such an essential food item
- *"price control measures on basics such as fuel and rice, aimed at keeping inflation low"* → higher price of commodities other than fuel and rice will not keep pp high
- Low income → reduce pp

Conclusion

Short term effective but not long term since only some can consume (0Qs instead of 0Qe) and have higher pp

Markers' Comments: Weaker responses - Had no idea how price controls work. A few placed the price ceiling above the equilibrium price, rendering it ineffective. Most were able to explain the THESIS fairly well. The ANTI-THESIS was not handled well. Most merely stated that black markets would appear, but did not relate this to 'purchasing power'. Most were also not able to correctly identify the black market price in the diagram.

Knowledge, Understanding, Application and Analysis		
L2	• Question requirements are interpreted accurately where there are 2 sides to the argument. • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. • Appropriate diagram such as price ceiling is used to support economic analysis, where relevant.	4 – 6
L1	• Question requirements are interpreted inaccurately. • Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis.	1 – 3

			• Inappropriate or wrong diagrams are used.	
		Evaluation		
		E	Evaluative comments are well-explained and supported by economic analysis.	2
			Unexplained evaluative comments.	1
(d)		**Using an AD/AS diagram, explain whether the weaker Rupiah will reduce Indonesia's national income.** <u>Weaker Rupiah reduces Indonesia's national income [2]</u> Extract 2 Para 2: *"A weak currency could put pressure on firms reliant on imported raw materials."* Weaker Rupiah → rise in price of imported inputs in Rupiah → rise in COP → fall in SRAS → fall in RNY <u>Weaker Rupiah does not reduce Indonesia's national income [2]</u> Extract 2 Para 2: *"…encourage more exports to take advantage of a weak rupiah."* • Weaker Rupiah → fall in price of exports in foreign currency → demand for exports rise → rise in exported quantity → rise in export revenue • Weaker Rupiah → rise in price of imports → since PED>1 due to availability of substitutes → more than proportionate fall in quantity → import expenditure falls • Net export rises → AD rises → rise in RNY <u>Judgment [1]</u> Fall in SRAS < Rise in AD (diagram) → Indonesia being resource rich may not be dependent on imported inputs → RNY rise  *Markers' Comments: Although most were able to see the effect on AD, the effect on AS was not clearly explained. This stemmed from a poor understanding of the factors that affect AD and AS.*	**[5]**
(e)		**Using the table, Extracts 3 and 4, to what extent can you conclude that Malaysia's living standards are better than Indonesia's?** <u>Intro</u> • Living standards can be divided into material and non-material standard of living. Material standard of living measures the quantity and quality of goods and services accruing to each person in the country while non-material standard of living measures the intangibles and focuses on the quality of life. • To conclude if Malaysia has a better SOL than Indonesia, we will have to look at the indicators given. <u>Thesis: Malaysia has better SOL than Indonesia</u> **Table 1**	**[10]**

- Malaysia's GDP per capita > Indonesia's → each household in Malaysia has greater income → able to consume more g&s → higher material SOL
- Longer life expectancy for Malaysians → could be due to better quality healthcare → higher non-material SOL

Extract 3 & 4

- Indonesia's air pollution results in shorter life span as the haze results in people to contract diseases such as respiratory illnesses and lung cancer compared to water pollution in Malaysia where people just experience a disruption to supply of clean water → Indonesia's quality of life is much worse than Malaysia's → lower non-material SOL in Indonesia than Malaysia

Extent: Indonesia's pollution is at a much worse extent since it cuts life span and in some district, as much as 5.6 years, tallying with the lower life expectancy. However, Malaysia has higher material SOL only because of the larger population size in Indonesia. Only 11% of Malaysia's basin is polluted so Malaysia's non-material SOL is affected much less than Indonesia's since relatively small proportion of the Malaysian population is affected

<u>Anti-Thesis: Malaysia does not have better SOL than Indonesia</u>

Table 1

- Malaysia's Gini coefficient > Indonesia's → greater income inequality in Malaysia → poorer income distribution → lower material SOL
- Higher gasoline price in Malaysia → gasoline is an essential for running vehicles for the transportation of g&s so with a higher price of gasoline, cost of businesses rise and so SRAS falls and GPL rises → higher cost of living compared to in Indonesia → lower material SOL for Malaysians
- Older retirement age → work longer → lesser amount of time for leisure → lower non-material SOL for Malaysians

Extent: Malaysia having a lower SOL is marginal since the higher value Gini coefficient, more expensive gasoline price and longer retirement age are different from Indonesia only by a little

Stand: It is to a large extent that Malaysia has better living standards than Indonesia. Reason: Malaysia has better resource utilization as seen by the higher industrial production growth rate → able to produce more goods and services at a faster rate → more goods are available for consumption for Malaysians → higher material SOL for Malaysia than Indonesia

However, in comparing on pollution, info on Malaysia's air pollution as well as Indonesia's water pollution could be provided to have a fairer side-by-side comparison of the same type of pollution.

Markers' Comments: Most were aware of the main arguments and the main points to use. However, presentation of the arguments were weak and evaluative skills were sorely lacking.

Knowledge, Understanding, Application and Analysis

<table>
<tr><td></td><td></td><td>
<table>
<tr><td>L3</td><td>• Question requirements are interpreted accurately where there are 2 sides to the argument of Malaysia or Indonesia having a better SOL in terms of both its material and non-material aspects discussed in both sides of the argument.
• Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence.
• Appropriate diagrams are used to support economic analysis, where relevant.</td><td>5 - 7</td></tr>
<tr><td>L2</td><td>• Addresses some question requirements accurately where there are 2 sides to the argument but both aspects of material and non-material SOL may not be discussed for each side of the argument.
• Some appropriate economic concepts, theories and principles are used. Economic analysis is accurate but incomplete.
• Attempts to address the context of the question but is incomplete.
• Appropriate diagrams are used but might not be explained or used to support economic analysis.</td><td>3 - 4</td></tr>
<tr><td>L1</td><td>• Question requirements are interpreted inaccurately.
• Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis.
• Inappropriate or wrong diagrams are used.</td><td>1 – 2</td></tr>
<tr><td colspan="3">Evaluation</td></tr>
<tr><td>E2</td><td>Evaluative comments such as including the ‘extent’ of SOL are well-explained and supported by economic analysis</td><td>2-3</td></tr>
<tr><td>E1</td><td>Unexplained evaluative comments.</td><td>1</td></tr>
</table>
</td><td></td></tr>
<tr><td>(f)</td><td></td><td>Extract 4 mentioned that the “Irrigation and Drainage Department launched the Integrated River Basin Management programme nationwide to ensure that there is enough clean water, as well as reduce the risk of floods and increase environmental conservation.”

Explain a possible opportunity cost of the government’s spending on such a programme.

• Define opportunity cost → Value of the next best alternative forgone [1]
• Possible opportunity cost → Fall in expenditure on the healthcare/education/defence sector or infrastructure development. [1]

Markers’ Comments: Poor/absent definition of ‘opportunity costs’. Most were able to get 1 mark.</td><td>[2]</td></tr>
<tr><td>(g)</td><td></td><td>Using Extracts 5 and 6, assess the measures that Malaysia should take to achieve sustained growth.</td><td>[12]</td></tr>
</table>

- Define sustained growth → positive economic growth without inflationary pressures
- Briefly mention measures → Measures should be a mix of demand and supply-side policies tackling both short and long-term growth

<u>Measures & Limitations</u>

- **Ease Monetary Policy** (Extract 5, Para 1: "*next economic downturn is oncoming and urged the government to… easing the monetary policy.*") → expansionary monetary policy → reduce cash reserve ratio → increase money supply → fall in i/r (Figure 1) → fall in cost of borrowing
  - Returns to savings fall → lower opportunity cost in spending → rise in consumption expenditure
  - Expected profitability rise → rise in investment expenditure (Figure 2)
  - Rise in C, I → rise in AD → rise in RNY (Figure 3) → actual growth

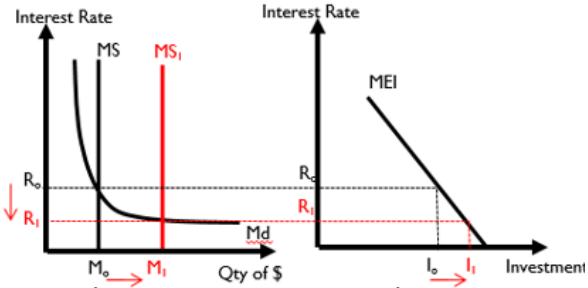


Figure 1 Figure 2

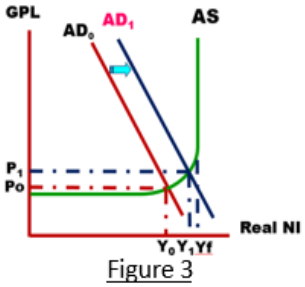


Figure 3

  - Limitation: Investment is interest inelastic due to weak business sentiments (when there is a fall in i/r, investment rises less than proportionately seen in Figure 4 → smaller rise in AD → small rise in RNY → small rise in actual growth)/liquidity trap (there is a limit as to how much money supply can increase as a further increase from MS to MS1 in Figure 5 results in no change in i/r and this means there will be no changes in I, AD and RNY)

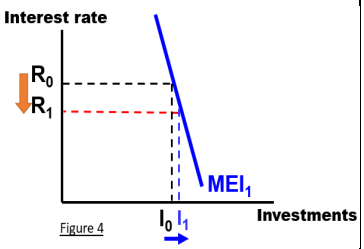


Figure 4

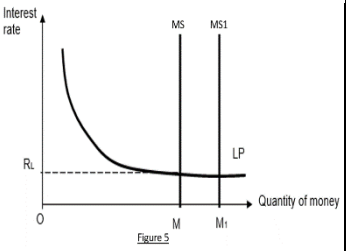


Figure 5

  - Limitation: US-China trade war → hit household and business sentiments (Extract 5, Para 2) → fall in C, I → fall in AD → fall in RNY → limits effectiveness of MP to achieve actual growth

- **Expansionary Fiscal Policy** → fall in income tax → rise in disposable income → rise in pp → rise in C → rise in AD → rise in RNY → actual growth (Figure 3)
  - Limitation: Rising prices due to rising AD → inflation

- Limitation: Fall in govt development expenditure (Extract 5, Para 1: "*The softer growth, given the fall in government development expenditure…*") → Fall in G → fall in AD → fall in RNY → limits effectiveness of FP to achieve actual growth

- **SR Supply-side Policy** → remove GST (Extract 5, Para 3: "*AllianceDBS Research points out that fiscal reforms such as the removal of GST …provide favourable domestic demand conditions that will support private consumption growth*" → fall in COP → rise in SRAS → rise in RNY → actual growth

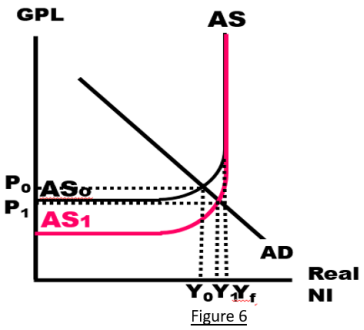


Figure 6

  - Limitation: Fall tax revenue collected → worsen budget balance

- **LR Supply-side Policy** → rise in G in higher quality education (Extract 6, Para 2) & encourage women to be in labour force → rise in quality and quantity of labour (Extract 6, Para 3: "*…government's recent budget includes measures to increase paid family leave and mandate that any government-linked company have at least 30 percent female representation on its board.*" → rise in productive capacity → rise in LRAS → rise in full employment level → potential growth

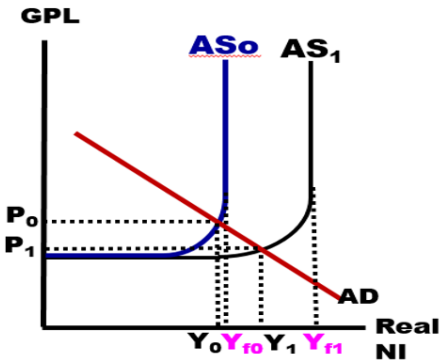


Figure 7

  - Limitation: Takes time → skills will be redundant again when structure of economy changes → unE, opp cost → fall in expenditure in other areas such as healthcare
  - Limitation: Lower capital spending (Extract 5) → Fall in quantity of capital → prevents rise in productive capacity → prevents rise in LRAS → prevents rise in full employment level → limits potential growth

- Demand-side policy and LR supply-side policy → rise in AD & LRAS
  - Rise in RNY → actual growth
  - Rise in Yf → potential growth
  - Fall in GPL → fall in inflation rate
  - Sustained growth achieved

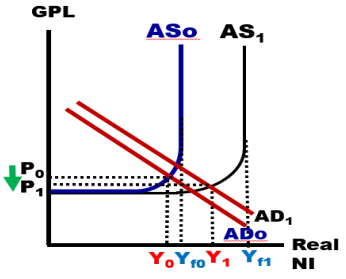


Figure 8

Evaluation

- **[Appropriateness]** Short term measures are necessary to spur short term growth first and that it should be to boost consumption since *"possibility of a recession will be driven more by external*

noises as opposed to domestic issues" → need to have expansionary FP

- **[Feasibility]** Growth cannot be sustained unless there is long term growth → supply-side measures are needed but need to have sufficient revenue to finance higher quality education and this can be done with a rise in RNY in the said expansionary FP which will result in rise in taxable income → rise in tax revenue
- Both short term demand-side measure and long term supply-side measures are crucial to achieve sustained growth in Malaysia

Markers' Comments: Most responses showed little familiarity with the basic macro policy tools available to a government. Many were rambling and failed to organise their essay well. Many identified manipulation of GST as part of shifting the AD rather than the AS.

Knowledge, Understanding, Application and Analysis		
L3	• Question requirements are interpreted accurately where there are explanation of two measures (AD & LRAS) and its limitations to achieve sustained growth. • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence pertaining to Malaysia's case while explaining the measures and limitations. • Appropriate diagrams that include a combined shift in AD and LRAS are used to support economic analysis.	6 - 9
L2	• Addresses some question requirements accurately where there are explanation of measures and its limitations but incomplete in doing so. • Some appropriate economic concepts, theories and principles are used. Economic analysis is accurate but incomplete. • Attempts to address the context of the question but is incomplete. • Appropriate diagrams are used but might not be explained or used to support economic analysis.	3 - 5
L1	• Question requirements are interpreted inaccurately. • Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis. • Inappropriate or wrong diagrams are used.	1 – 2
Evaluation		
E2	Evaluative comments are well-explained and supported by economic analysis.	2-3
E1	Unexplained evaluative comments.	1

Suggested Answers:
2019 J1 H1 Economics December Holiday Homework Practice Papers #4

4.1

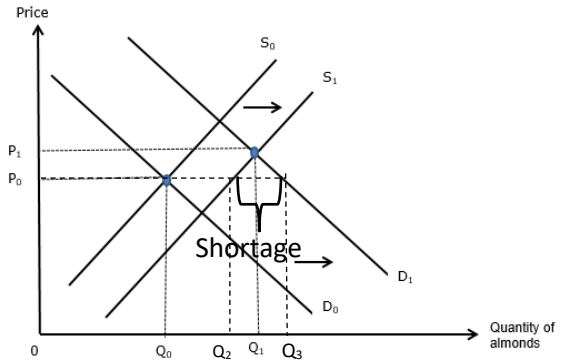
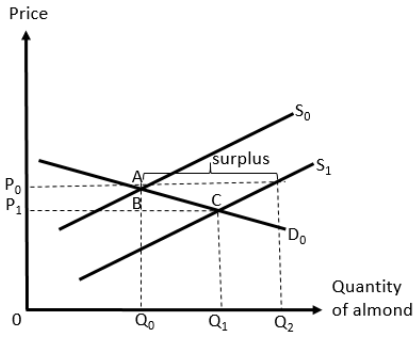
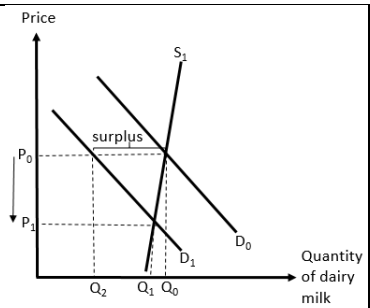
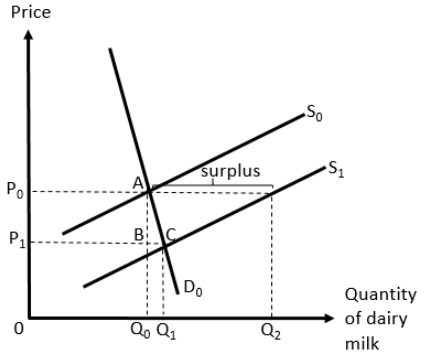
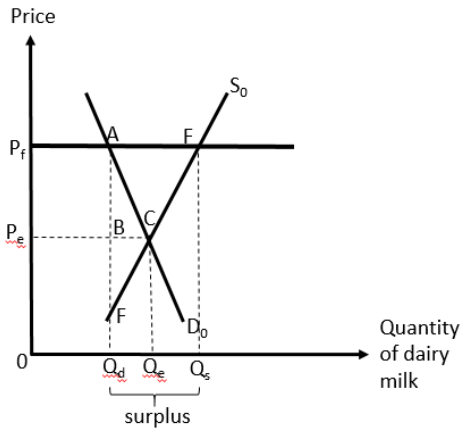
(a)	**(i)**	With reference to Figure 1, describe the trend of almond prices from 1994 to 2014.	**[2]**
		<u>General trend [1]</u> The trend of almond prices has been generally **increasing** from 1994 to 2014. [1m] <u>Anomaly [1]</u> • Falling almond prices from 1995 to 2001 OR • Falling almond prices from 2005 to 2008	
	(ii)	With reference to the data and using a demand and supply diagram, account for the change in almond prices from 1994 to 2014.	**[5]**
		Introduction: State that (from part ai) the trend in almond prices has been generally increasing from 1994 to 2014. <u>Explain one demand factor [1]</u> • A favourable change in taste and preferences towards eating almonds due to the nutritional value of almonds as mentioned in Extract 1: *"Nutritionists make a strong case that almonds are the best single food a person could eat."* → increase demand for almonds → demand curve shifts to the right from D_0 to D_1 in figure 1 below. <u>Explain one supply factor [1]</u> • As more farms are converted into almond groves, there is an increase in the number of producers of almond → increase in supply for almonds → supply curve shifts to the right from S_0 to S_1 in figure 1 below. <u>Justify extent of shift [1]</u> • The extent of increase in demand is likely to be more than the increase in supply due to the *"unprecedented amounts"* of almonds being consumed due to the perceived nutritional value of almond in one's diet and the shift away from dairy milk consumption towards almond milk consumption which raises the derived demand for almonds • Demand curve (D_0 to D_1) shifts to the right more than supply curve (S_0 to S_1) • Due to a shortage (Q_2Q_3) at original price P_0 → upward pressure on price [1]  	

		Figure 1 [1m for diagram] Equilibrium price increases from P_0 to P_1 → rise in almond prices	
(b)	**(i)**	Extract 1 mentions that "farmers are actually converting their dairy farms into almond groves." From this, what can we infer about the relationship between almond and dairy products?	**[1]**
		Almond and dairy products are in competitive supply. [1m]	
	(ii)	Explain the effect of 'dairy sales doing poorly' (Extract 1) on the revenue of almond farmers.	**[4]**
		As mentioned in Extract 1 where *"…dairy sales are doing so poorly that farmers are actually converting their dairy farms into almond groves."* → supply for almond increases [1] → since quantity supplied Q_2 is greater than quantity demanded Q_0 at price P_0, there is a surplus which exerts a downward pressure on price → price falls → since PED>1 due to the availability of other types of nuts as a source of protein [1] → quantity rises more than proportionately → almond farmers' revenue rises from area P_0AQ_00 to P_1CQ_10 as the loss in revenue P_0ABP_1 is smaller than the gain in revenue BCQ_1Q_0 [1] [1] diagram  	
(c)		Extract 1 claims that there are "concerns over growth hormones and antibiotics in dairy milk to a rise in dairy allergies". Using demand and supply analysis, explain the big swing in milk prices.	**[4]**
		Explain the term "big swings in milk prices" Milk prices are highly volatile. Price volatility can be seen in terms of sharp price change (magnitude of price change) and the fact that price changes very often (frequency of price changes). State and justify the likely PES of milk [1] • Supply for milk likely to be price inelastic, for a given change in milk prices, *"the number of cows and the amount of milk they produce do not change so quickly"* as mentioned in Extract 2 ceteris paribus as it takes a long time for farmers to respond to convert their dairy farms to almond groves. Explain how change in demand results in the volatility in milk price • Fall in demand for milk due to adverse change in taste and preferences towards milk due to *"concerns over growth hormones and antibiotics in milk to a rise in dairy allergies, and growing awareness of the environmental impact as well as animal welfare*	

		issues associated with milk, people are increasingly saying "see ya!" to dairy." as mentioned in Extract 1. [1] • A fall in demand of milk with $PES_{milk} < 1$ → since quantity supplied Q_0 is greater than quantity demanded Q_2 at price P_0, there is a surplus which exerts a downward pressure on price → price falls more than proportionately from P_0 to P_1 compared to fall in quantity from Q_0 to Q_1 → greater price volatility when $PES_{milk} < 1$ [1] Diagram [1] 	
(d)		Extract 2 refers to "a global glut of milk". With the use of a diagram, explain the effect of this on the revenue of dairy farmers.	**[4]**
		Global glut of milk → rise in supply of dairy [1] → since quantity supplied Q_2 is greater than quantity demanded Q_0 at price P_0, there is a surplus which exerts a downward pressure on price → fall in price → since PED<1 due to high degree of necessity in drinking milk due to the nutrition it brings/habitual consumption [1] → quantity rises less than proportionately → dairy farmers' revenue fall from area P_0AQ_00 to P_1CQ_10 as the loss in revenue P_0ABP_1 is greater than the gain in revenue BCQ_1Q_0 [1] [1] diagram 	
(e)		Discuss whether imposing a price floor is effective to address the likely suffering of dairy farmers.	**[10]**
		Command Word: Discuss whether (2-sided and make a stand) *Content:* • *Explain the problem → farmers' suffering* • *Explain how price floor works* • *Effectiveness & ineffectiveness of price floor in addressing problem* *Context: Milk* <u>Introduction</u> As mention in Extract 2: *"…the global glut of milk got even worse. In view of this, situation the dairy farmers are likely to suffer. This may prompt governments to subsidise the farmers or impose price floor."* → global glut of milk → rise in supply of milk → fall in price → with PED<1 → quantity rises less than proportionately → farmers' revenue falls → income of farmers fall → farmers suffer <u>Thesis: Price floor is effective in addressing the likely suffering of farmers</u>	

A price floor is a legally established minimum price usually set above the market equilibrium price. It is binding when it is set above the market price and sellers cannot sell or charge below the set price.



With a price floor, government's objective is to support incomes of farmers at a higher level than would be the case at market clearing prices at P_e. With a price floor, quantity transacted is at Q_d with price P_f. With the price floor, farmers receive a higher price P_f than P_e when selling milk. Since demand for milk is price inelastic due to habitual consumption/high degree of necessity in providing one with calcium, this will then increase their revenue from $0P_eCQ_e$ to $0P_fAQd$ as the gain in revenue P_eP_fAB is greater than the loss in revenue BCQ_eQ_d. Therefore, price floor is effective in reducing the suffering of farmers since their income increases due to the rise in revenue from selling milk.

Since price floor's price is at price P_f, quantity supplied Q_s is greater than quantity demanded Q_d creating a surplus. In the case that the government buys this surplus, the farmers' revenue increases even more to $0P_fFQ_s$, further reducing their suffering. This means that price floor is effective for the farmers.

<u>Anti-thesis: Price floor is not effective in addressing the likely suffering of farmers</u>

- Although the revenue of farmers increase, this need not necessarily mean all farmers' income increase since quantity of milk transacted is only at Qd so some other farmers continue to suffer
- The surplus QdQs of milk produced could be discarded if not bought by the government and since milk is a perishable item, it cannot be stored for long resulting in wastage. This is made worse since more resources were allocated for production since quantity supplied is at Qs but only Qd amount of milk is transacted → wastage of scarce resources
- Should the government buy up the surplus, this also means that government expenditure increases → opportunity cost → less expenditure in other areas such as healthcare

<u>Evaluation/Stand</u>

- Although the price floor is effective in increasing farmers' revenue therefore income of some farmers, not all dairy farmers will benefit. Providing a price floor is also a distortion to the market since milk did not transact at equilibrium price Pe and quantity Qe and therefore there will be a deadweight loss of area ACF which means farmers' surplus is not maximised → price floor is not effective in addressing the suffering of farmers all the time.
- In the short period of time, supply of milk is price inelastic since only some FOP can be altered but overtime, supply of milk could be price

elastic and this will increase the surplus even further → greater wastage to farmers' resources

- As price floor may not be effective, an alternative policy such as subsidy could be better since more milk could be sold.

Knowledge, Understanding, Application and Analysis		
L3	• Question requirements are interpreted accurately. (Effectiveness and ineffectiveness of price floor) • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. • Appropriate diagrams are used to support economic analysis, where relevant.	5 - 7
L2	• Addresses some question requirements accurately. • Some appropriate economic concepts, theories and principles are used. Economic analysis is accurate but incomplete. • Attempts to address the context of the question but is incomplete. • Appropriate diagrams are used but might not be explained or used to support economic analysis.	3 - 4
L1	• Question requirements are interpreted inaccurately. • Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis. • Inappropriate or wrong diagrams are used.	1 – 2
Evaluation		
E2	Evaluative comments are well-explained and supported by economic analysis.	2-3
E1	Unexplained evaluative comments.	1

4.2

(a)		Using Table 1, describe the trend in Brazil's real GDP from 2012 to 2016.	[2]
		There is a decreasing trend in real GDP from 2012 to 2016. [1] However, there is a rise in GDP from 2012 to 2014. [1] or There is an increasing trend in real GDP from 2012 to 2014 [1] while there is a decreasing trend in real GDP from 2015 to 2016 [1].	
(b)		With reference to data, explain the difficulties in measuring GDP.	[4]
		<u>Non-marketed transaction</u> • *"'Volunteer' digital services such as contributing to Wikipedia or open source software are not even counted in principle because they are conceptually similar to cooking at home or volunteering at school"* • *"The informal sector encompasses the production and exchange of goods and services that are not illegal in themselves such as housekeeping and plumbing services; however, all or part of that activity is deliberately concealed from the tax authorities."* → omitted from NI accounting because it is near impossible to measure the value of the transaction or goods or services generated for these activities → understate the value of GDP → difficult to measure GDP <u>Wrongly accounted transaction</u> • *"…digital sector all kinds of new activities and jobs are emerging, but these do not fit into the existing classification of sectors. People select the classification they think suits their business best, so it is not obvious where newer industries such as video games or software development sit in the statistics…"* → there could be double accounting as economic activity could be classified into more than one category → double counting → overstate the value of GDP → difficult to measure GDP <u>Non-reported transaction</u> • *"however, all or part of that activity is deliberately concealed from the tax authorities. The illegal economy, meanwhile, includes activities such as prostitution and weapons and drug-trafficking that are against the law."* → make use of available resources in an economy to produce goods and services and generate factor incomes when sold in the market but are not included in NI statistics → 'underground economy' → information on these non-reported transactions and their illegal earnings are not reported to the relevant authorities and are thus not included in NI calculations → understate the value of GDP → difficult to measure GDP <u>Availability and Reliability of Data</u> • *"Ensuring online retail sales (now more than 15% of the total excluding petrol) are included in the figures would be one example. Providing a service through digital platforms such as Airbnb, and online activities such as providing blogs or open source content, offer different instances of new behaviour, not easily captured in current statistics. In theory, the work involved and income made from renting out a spare room this way should be recorded, but might not be."* → Depending on and systematic accounting practices used, the task of capturing information could be made more difficult → understate the value of GDP → difficult to measure GDP	

		Choose any 2 difficulties **2 marks each**	
(c)	(i)	State **two** factors, other than per capita income, that are included in the computation of Human Development Index.	[2]
		Educational attainment [1] and life expectancy [1].	
	(ii)	Using evidence from the case study and/or your own knowledge, discuss whether the standard of living in Brazil has worsened from 2012 to 2016.	[12]
		<u>Introduction</u> • Standard of living (SOL) comprises of both the material and non-material SOL. Material SOL measures the quantity and quality of goods and services accruing to each person in the country while non-material SOL measures the intangibles and focuses on the quality of life. • To know if the SOL in Brazil has worsened overtime, we will use the economic indicators provided to assess <u>Thesis: SOL in Brazil has worsened from 2012 to 2016</u> • Based on Table 1, Brazil's real GDP has decreased from 2012 to 2016. indicating that there is lower level of goods and services made available in Brazil so residents are able to consume less goods and services in 2016 compared to 2012 → material SOL worsened • In addition, the underground economy, that includes both the informal and illegal economy, will shrink slightly in 2014 (Extract 4). This would mean that the true GDP value is decreasing → material SOL worsened • Rio's air quality is still very bad due to over usage of vehicles, affecting the health of people exposed to the air pollution (Extract 5) → fall in quality of life → non-material SOL worsened • Moreover, the unemployment rate has increased over the years from 7.4% to 11.4%, and could trigger a hike in crime rates as residents are cash-stripped, implying that a fall in income has pushed some people to resort to commit crimes → fall in quality of life → non-material SOL worsened <u>Anti-Thesis: SOL in Brazil has not worsened throughout from 2012 to 2016</u> • Based on Table 1, Real GDP has increased from 2012 to 2014 indicating that there are more goods and services made available in Brazil therefore increasing their material standard of living during this 3 years. • The higher expectancy at birth of 75.0 years in 2016 compared to 73.8 years in 2012 indicates that the Brazilians are enjoying better healthcare standards, higher accessibility to safe drinking water and clean sanitation → rise in quality of life → rise in non-material SOL <u>Evaluative Conclusion</u> • Overall, the data has largely showed that material SOL has decreased, whereas some aspects of non-material SOL has increased in Brazil. Hence, the SOL in Brazil has worsened from 2012 to 2016. • It is likely that the SOL in Brazil has worsened throughout due to the nature of being a developing country where it has lower growth and high unemployment worsening the material SOL of its citizens. Brazil also faces many challenges such as activities in the illegal economy,	

pollution and slums which the government has to grapple with. With a negative growth and high unemployment, is it difficult for the government to have the resources to finance policies to reduce the challenges it face. Until, then, Brazil's SOL could continue to worsen.

or

- The SOL in Brazil has not worsened as based on Table 1, the Human Development Index (HDI), a composite measure that assesses both material and non-material SOL, has improved from 0.734 to 0.756 over the years. This means that GDP per capita rose which means each Brazilian has greater amount of goods and services possessed thereby increasing their material SOL. There is an improvement in literary rate too which means there could be a greater level of education attained which increases the skills of Brazilians and increases their quality of life, therefore their non-material SOL. A greater level of education attained would also allow them to be in a higher paying job due to the higher skills they have. A greater income will enable them to purchase more goods and services and so increases their material SOL. An improvement in life expectancy means that there are better healthcare standards and this improves their quality of life and non-material SOL.
- However, more data such as population growth if given, could ascertain real GDP per capita and give a more accurate assessment. Data such as working hours could also depict if Brazilians do have leisure time indicative of their quality of life, therefore non-material SOL.

Knowledge, Understanding, Application and Analysis		
L3	• Question requirements are interpreted accurately. (Explained that SOL for both material and non-material has worsened or not worsened) • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. • Appropriate diagrams are used to support economic analysis, where relevant.	6 - 9
L2	• Addresses some question requirements accurately. • Some appropriate economic concepts, theories and principles are used. Economic analysis is accurate but incomplete. • Attempts to address the context of the question but is incomplete. • Appropriate diagrams are used but might not be explained or used to support economic analysis.	3 - 5
L1	• Question requirements are interpreted inaccurately. • Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis. • Inappropriate or wrong diagrams are used.	1 – 2
Evaluation		
E2	Evaluative comments are well-explained and supported by economic analysis.	2-3
E1	Unexplained evaluative comments.	1