

# Markscheme

**May 2023**

**Economics**

**Standard level**

**Paper 2**

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**Notes for examiners:**

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

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

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

1. (a) (i) Define the term *gross domestic product (GDP)* indicated in bold in the text (**Text A**, paragraph 2).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it is the output produced.	1
2	<i>Accurate definition.</i> For an understanding that it is the (market) value of all (final) goods (and services) (or output) produced within an economy/country (over a period of time).	2

- (ii) Define the term *sustainability* indicated in bold in the text (**Text B**, paragraph 4).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i> The idea that it deals with the long-term use of resources <b>OR</b> that it is a situation when there is limited environmental degradation.	1
2	<i>Accurate definition.</i> For an understanding that it is preserving resources (or the environment) so that they can still be used in the future.	2

- (b) (i) Using information from **Table 1**, calculate the change in Uruguay's current account balance between 2018 and 2019. [2]

Current account in 2018:  
 $(18.72 - 19.15) - 3.66 + 0.10 = -3.99$

Current account in 2019:  
 $(18.52 - 17.88) - 3.05 + 0.19 = -2.22$

Change in the current account balance:  
 $(-2.22) - (-3.99) = (\text{US})\$ \text{ billion } 1.77$

**OR**

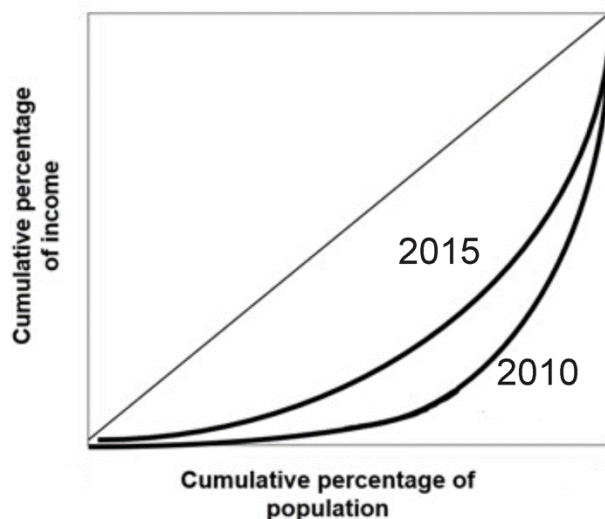
$(1.77/3.99) \times 100\% = 44.36\%$

*Any valid working is sufficient for [1] (eg correct calculation of either initial or final current account balance or if the units are missing).*

- (ii) Using information from **Table 1**, state whether Uruguay is facing a deficit or a surplus in its balance of trade in goods and services in 2019. [1]

the balance of trade is in **surplus**

- (iii) Using information from **Table 2**, sketch the change in Uruguay's Lorenz curve from 2010 to 2015. [2]



*Candidates who label diagrams incorrectly can be awarded a maximum of [1].*

*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/households or percentage of population/households.*

- (c) Using a demand and supply diagram, explain how China might have contributed to the Uruguayan soybean producers' higher (total) revenue (**Text A**, paragraph 2).

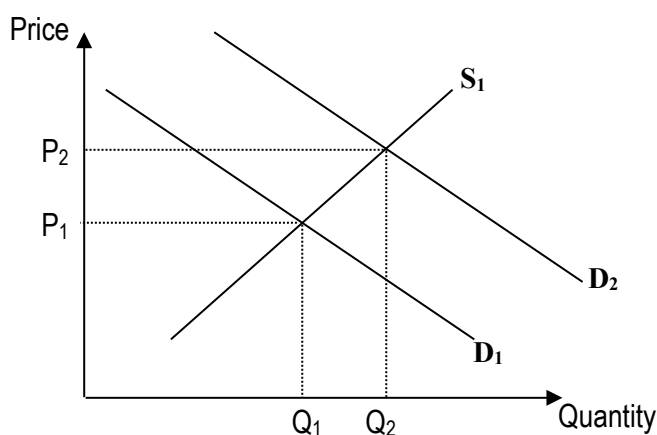
**[4]**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For a demand and supply diagram showing a shift of demand to the right, with an increase in price, quantity and revenue <b>OR</b> an explanation that greater demand from China has led to (higher price and quantity and hence) greater (total) revenue since revenue = $P \times Q$ .	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a demand and supply diagram showing a shift of demand to the right, with an increase in price, quantity and revenue <b>AND</b> an explanation that greater demand from China has led to (higher price and quantity and hence) greater (total) revenue since revenue = $P \times Q$ .	

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

The use of  $P$  and  $Q$  on the axes is sufficient for a demand and supply diagram. A title is not necessary.

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



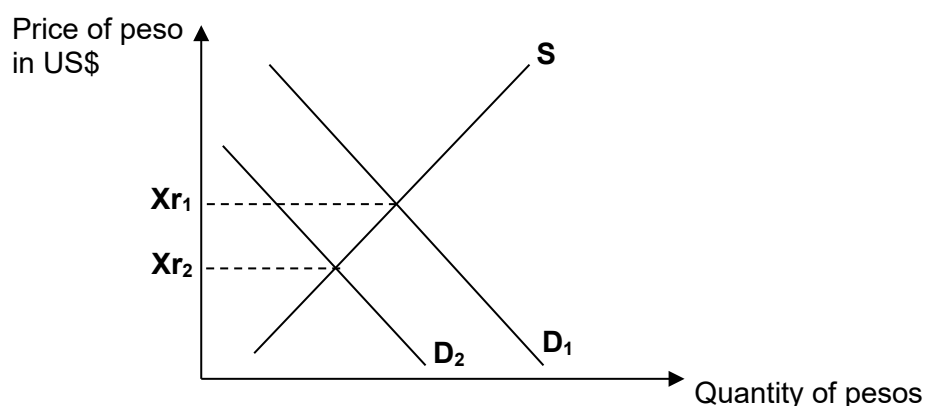
- (d) Using an exchange rate diagram, explain how the end of the commodity boom might have contributed to the depreciation of the peso (**Text A**, paragraph 4).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For an exchange rate diagram showing a shift of the demand curve to the left and a fall in the value of the peso <b>OR</b> an explanation that a fall in exports (revenue) implies that foreigners would need to purchase less peso to pay for the country's exports, decreasing the demand for the peso and leading to fall in the exchange rate (depreciation).	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an exchange rate diagram showing a shift of the demand curve to the left and a fall in the value of the peso <b>AND</b> an explanation that a fall in exports (revenue) implies that foreigners would need to purchase less peso to pay for the country's exports, decreasing the demand for the peso and leading to fall in the exchange rate (depreciation).	

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

For an exchange rate diagram, the vertical axis may be exchange rate, price/value of the peso in US\$, US\$/peso or US\$ per peso (another currency or simply 'another currency' may be used instead of 'US\$'). The horizontal axis should be quantity, or quantity of peso. A title is not necessary.



- (e) Using an appropriate diagram, explain how the MERCOSUR-EU free trade agreement may lead to higher structural unemployment in Uruguay  
(Text B, paragraph 3).

[4]

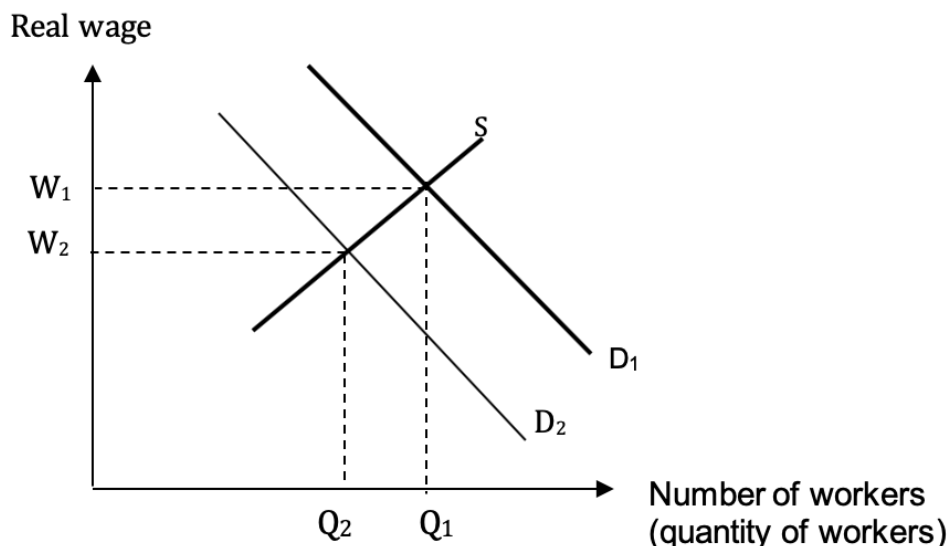
Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For drawing a labour market diagram with demand for labour shifting to the left and a reduction in the number of workers <b>OR</b> for explaining that the (permanent) loss in demand for workers with specific skills (manufacturing sector) leading to workers losing their jobs (due to a lack of demand for their skills).	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For drawing a labour market diagram with demand for labour shifting to the left and a reduction in the number of workers <b>AND</b> for explaining that the (permanent) loss in demand for workers with specific skills (manufacturing sector) leading to workers losing their jobs (due to a lack of demand for their skills).	

Candidates may draw a labour market diagram that assumes the wage rate is fixed (sticky) and state that the difference between the number of workers demanded and supplied illustrates the structurally unemployed. This approach, if properly explained, may be awarded full level 2.

NB Candidates may provide an alternative explanation, which should be fully rewarded. They may draw a supply and demand (or international trade) diagram showing a decrease in the demand (or domestic production) **for machinery (or any other good imported from the EU)** and state that the **decrease in the demand for machinery** would lead to a decrease in the workers who are employed in the industry and whose skills may not be transferable to other industries.

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

The vertical axis may be labelled real wage, real wage rate, wage or price of labour and the horizontal axis labelled quantity of labour or number of workers or just labour.



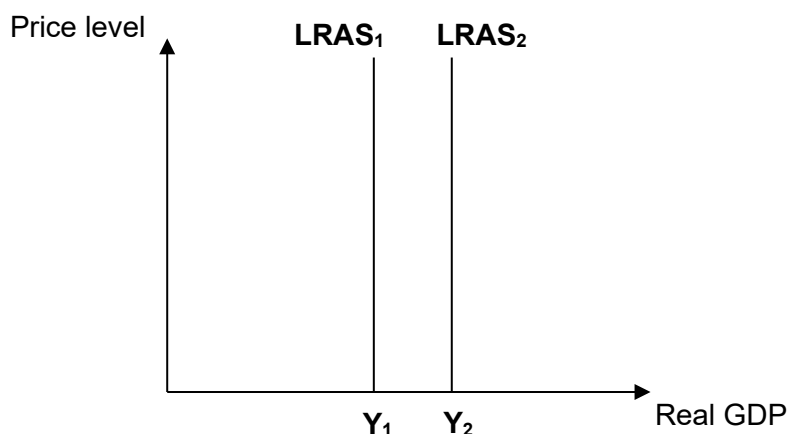
- (f) Using an AD/AS diagram, explain the likely impact of the reduction of the common external tariff on Uruguay's potential (long-term) output (**Text C**, paragraph 1).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For an AD/AS diagram with a LRAS (no AD or SRAS required) shifting to the right and an increase in potential (long-term) output <b>OR</b> for explaining that reducing the common external tariff would increase efficiency (productivity) by increasing competition (between firms) (and/or increase the quantity/quality of resources) and hence lead to an increase in potential (long-term) output (or LRAS).	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an AD/AS diagram with a LRAS (no AD or SRAS required) shifting to the right and an increase in potential (long-term) output <b>AND</b> for explaining that reducing the common external tariff would increase efficiency (productivity) by increasing competition (between firms) (and/or increase the quantity/quality of resources) and hence lead to an increase in potential (long-term) output (or LRAS).	

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

For AD/AS, the vertical axis may be Average (General) Price Level, or Price Level. The horizontal axis may be real output, real national output, real income, real national income, real GDP or real Y. Any abbreviation of the previous terms is acceptable. Alternatively, a Keynesian AS may be drawn with the vertical portion shifting to the right. A title is not necessary.





- (g) Using information from the texts/data and your knowledge of economics, discuss the impact of economic integration on the Uruguayan economy.

**[15]**

Level		Marks
0	<ul style="list-style-type: none"> <li>The work does not meet a standard described by the descriptors below.</li> </ul>	0
1	<ul style="list-style-type: none"> <li>The response indicates little understanding of the specific demands of the question.</li> <li>Economic theory is stated but it is not relevant.</li> <li>Economic terms are stated but they are not relevant.</li> <li>The response contains no evidence of synthesis or evaluation.</li> <li>The response contains no use of text/data.</li> </ul>	1–3
2	<ul style="list-style-type: none"> <li>The response indicates some understanding of the specific demands of the question.</li> <li>Relevant economic theory is described.</li> <li>Some relevant economic terms are included.</li> <li>The response contains evidence of superficial synthesis or evaluation.</li> <li>The response contains limited use of text/data.</li> </ul>	4–6
3	<ul style="list-style-type: none"> <li>The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>Relevant economic theory is partly explained.</li> <li>Some relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included.</li> <li>The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>The response includes some relevant information from the text/data.</li> </ul>	7–9
4	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is explained.</li> <li>Relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included and explained.</li> <li>The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>The use of information from the text/data is generally appropriate, relevant, and applied correctly.</li> </ul>	10–12
5	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is fully explained.</li> <li>Relevant economic terms are used appropriately throughout the response.</li> <li>Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.</li> </ul>	13–15

*Command term*

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

*Responses may include:*

- a definition of economic integration
  - a definition of a common market
  - a definition of a free-trade agreement
  - diagrams (eg AD/AS, tariff, quota).
- 
- The advantages of membership of the MERCOSUR common market and EU-MERCOSUR free trade agreement:
    - Greater access to a market of 290 million consumers through the MERCOSUR common market and possibility to access the markets of the 27 members of the EU; offer potential for economies of scale for Uruguayan producers who would otherwise be limited to the small size of the domestic market (Text A, paragraph 1 and Text B, paragraph 1).
    - Increase in export revenue has contributed to economic growth and higher real GNI per capita (Text A, paragraphs 2 and 3, Table 2) and poverty reduction (Text A, paragraph 5; Table 2). Although the country benefitted significantly from exports to China, which is not a member of either trade bloc (Text A, paragraph 2).
    - Membership to the EU-MERCOSUR free trade agreement may lead to greater exports to the EU (Text B, paragraphs 1 and 2) and may help restore Uruguay’s growth rate (Text A, paragraph 3). This could be contrasted with the negative/low balance of trade (table 1). But quotas, which cause inefficiencies and higher prices, remain for some items (Text B, paragraph 2).
    - With freedom of movement of labour within MERCOSUR, there are greater employment opportunities. However, the freedom of movement might have contributed to the unemployment rate (Text A, paragraph 5).
    - Uruguay’s tariff-free access to MERCOSUR and the EU makes it an attractive destination for foreign investors (Text A, paragraph 6 and Text B, paragraph 4).
    - A high common external tariff protects Uruguayan producers from cheap imports from China (Text C, paragraph 1).
    - Membership in a trading bloc may allow for stronger bargaining power in multilateral negotiations such as the EU-MERCOSUR free trade agreement.
    - Greater political stability and cooperation.
  - The disadvantages of membership of the MERCOSUR common market and free trade agreement:
    - Uruguay is susceptible to external shocks (Text A, paragraph 3). As Uruguay is over reliant on trade of primary products and is not diversifying its exports (Text A, paragraph 4), this may explain why the Gini index and real GNI per capita have only narrowly improved since the end of the commodity boom (Table 2).
    - Increased production of meat, paper and wood for exports represent a threat to sustainability (Text B, paragraphs 1 and 4).
    - Lowered protectionist measures may lead to more structural unemployment (Text B, paragraph 3) once tariffs are removed/reduced as part of the EU-MERCOSUR free trade agreement.
    - Uruguay has suffered from a loss of sovereignty, which prevents the country from entering bilateral trade agreement(s) and reducing its tariffs (Text C, paragraphs 1 and 2).
    - Challenge to multilateral trading negotiations.

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

2. (a) (i) Define the term *relative poverty* indicated in bold in the text (**Text D**, paragraph 4).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is living below a certain level of income <b>OR</b> being poor in comparison to others.	
2	<i>Accurate definition.</i>	2
	An understanding that it is an income too low to maintain a typical (socially acceptable) standard of living within a country <b>OR</b> an understanding that it is an income below a specified level (poverty line), which is a certain percentage of the median (or average) income within a country.	

- (ii) Define the term *infrastructure* indicated in bold in the text (**Text E**, paragraph 1).

[2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague response.</i>	1
	The idea that it is (any <b>one</b> of the following is sufficient): <ul style="list-style-type: none"> <li>• large scale public systems (services and facilities) of a country</li> <li>• necessary for economic activity</li> <li>• adding to the capital stock of a nation</li> <li>• usually supplied by the government</li> <li>• generates significant positive externalities.</li> </ul>	
2	<i>Accurate response.</i>	2
	The idea that it is (any <b>two</b> of the following is sufficient): <ul style="list-style-type: none"> <li>• large scale public systems (services and facilities) of a country</li> <li>• necessary for economic activity</li> <li>• adding to the capital stock of a nation</li> <li>• usually supplied by the government</li> <li>• generates significant positive externalities.</li> </ul>	

- (b) (i) Using the information in **Table 3**, calculate the inflation rate in Cameroon in 2019. [1]

Inflation in 2019:  $[(118.6-115.8)/115.8] \times 100\% = 2.42\%$

*An answer of 2.42% without workings is sufficient for [1]*

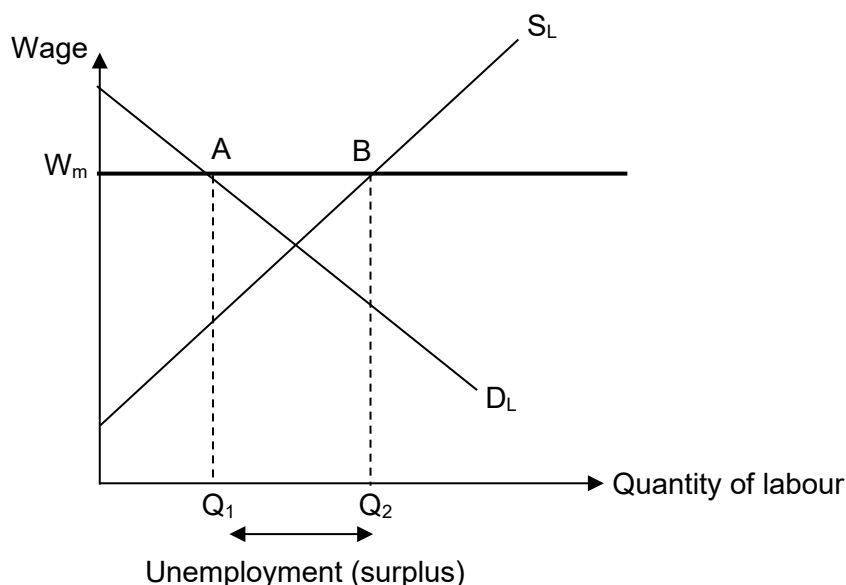
- (ii) Using the information in **Table 3** and your answer to (b)(i), calculate the real interest rate in Cameroon in 2019. [1]

real interest rate in 2018:  $7.94 - 2.42 = 5.52\%$

OFR applies.

*An answer of 5.52% without workings is sufficient for [1]*

- (iii) Using an appropriate diagram, illustrate the unemployment which may arise from the imposition of a minimum wage (**Text E**, paragraph 3). [3]



*The vertical axis may be labelled real wage, real wage rate, wage or price of labour and the horizontal axis labelled quantity of labour or number of workers or just labour. A title is not necessary.*

*Award [2] for a fully labelled labour diagram showing a wage above the market equilibrium. Award [1] for the illustration of the unemployment – which may be done by referring to 'AB', 'Q<sub>1</sub>Q<sub>2</sub>' or by annotating the unemployment (surplus) on the diagram.*

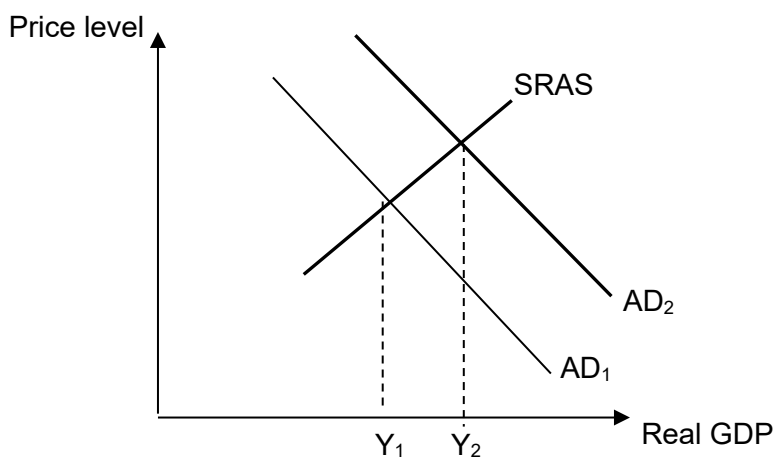
- (c) Using an AD/AS diagram, explain how expansionary fiscal policy has supported economic growth in Cameroon (**Text D**, paragraph 3).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For an AD/AS diagram showing a shift of the AD to the right and an increase in the real GDP <b>OR</b> an explanation that expansionary fiscal policy implies that government spending is increasing (and/or that lower taxes would increase consumption and investment) which is (are) a direct component(s) of AD and this would lead to an increase in real GDP (economic growth).	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an AD/AS diagram showing a shift of the AD to the right and an increase in the real GDP <b>AND</b> an explanation that expansionary fiscal policy implies that government spending is increasing (and/or that lower taxes would increase consumption and investment) which is (are) a direct component(s) of AD and this would lead to an increase in real GDP (economic growth).	

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

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



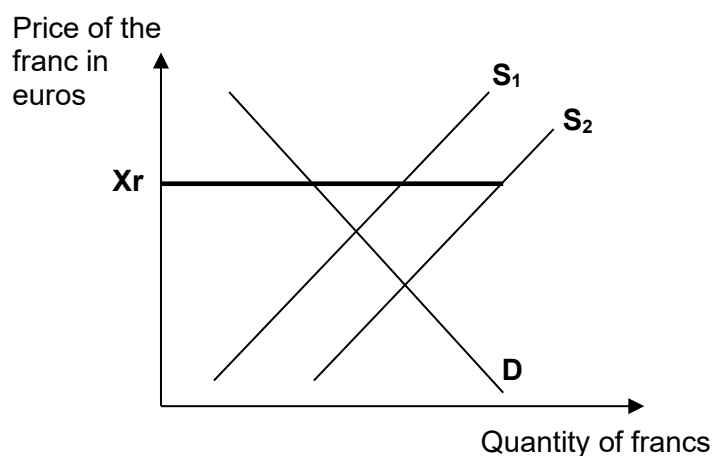
- (d) Using an exchange rate diagram, explain how capital flight may increase the overvaluation of the franc (**Text D**, paragraph 6).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For an exchange rate diagram showing a fixed exchange rate and an increase in supply due to the capital flight <b>OR</b> an explanation that the capital flight implies that more francs are sold on the international market, which worsens/causes the overvaluation.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For an exchange rate diagram showing a fixed exchange rate and an increase in supply due to the capital flight <b>AND</b> an explanation that the capital flight implies that more francs are sold on the international market, which worsens/causes the overvaluation.	

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

For an exchange rate diagram, the vertical axis may be exchange rate, price/value of the (CFA) franc in euros, euros/(CFA) franc or euros per (CFA) franc. The horizontal axis should be quantity, or quantity of (CFA) francs. A title is not necessary.



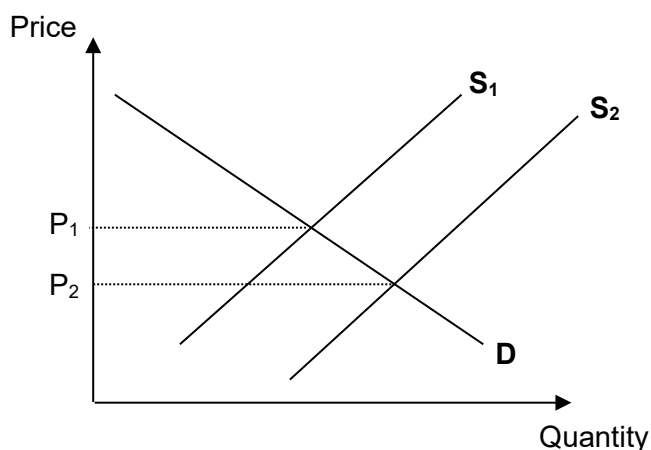
- (e) Using a demand and supply diagram, explain how government subsidies may help to keep food prices low (**Text E**, paragraph 4).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For a demand and supply diagram showing a shift of the supply curve to the right and a fall in price <b>OR</b> an explanation that government subsidies may help reduce (the farmers') cost of production and hence lead to greater supply and lower prices.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For a demand and supply diagram showing a shift of the supply curve to the right and a fall in price <b>AND</b> an explanation that government subsidies may help reduce (the farmers') cost of production and hence lead to greater supply and lower prices.	

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

The use of *P* and *Q* on the axes is sufficient for a demand and supply diagram. A title is not necessary.



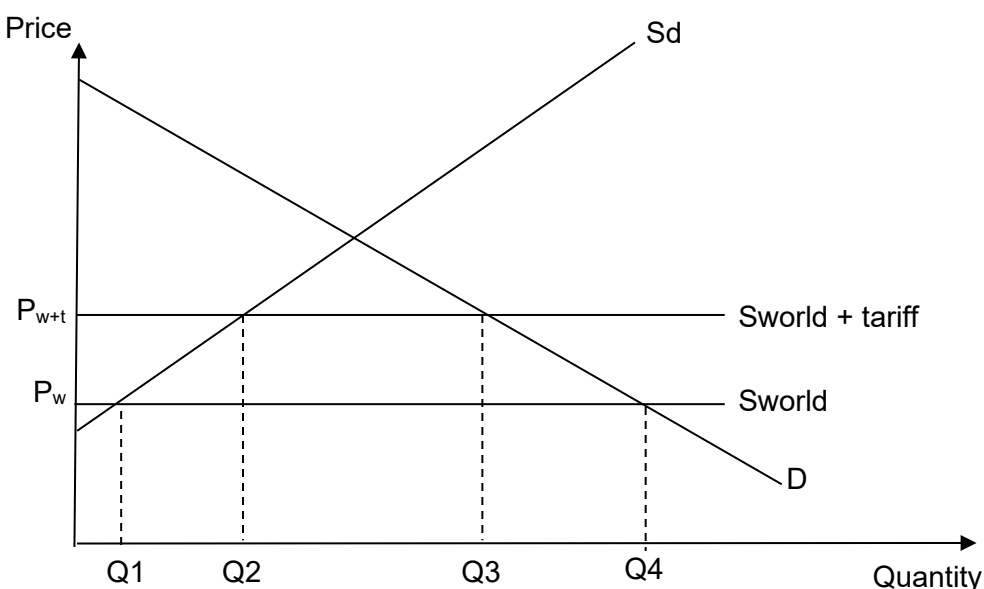
- (f) Using an international trade diagram, explain the effect of removing tariffs on the imports of fertilizer into Cameroon (**Text F**).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram <b>OR</b> an accurate written response.</i>	1–2
	For drawing a correctly labelled trade diagram, with a downward shift of the world (or UK and/or EU) supply curve, a decrease in price, and an increase in the level of imports <b>OR</b> for an explanation that removing the tariff will result in a decrease in the price of fertilizer and hence an increase in the quantity of imports due to an increase in the quantity demanded and/or decrease in the domestic quantity supplied.	
2	<i>There is a correct diagram <b>AND</b> an accurate written response.</i>	3–4
	For drawing a correctly labelled trade diagram, with a downward shift of the world (or UK and/or EU) supply curve, a decrease in price, and an increase in the level of imports <b>AND</b> for an explanation that removing the tariff will result in a decrease in the price of fertilizer and hence an increase in the quantity of imports due to an increase in the quantity demanded and/or decrease in the domestic quantity supplied.	

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

The use of  $P$  and  $Q$  on the axes is sufficient for an international trade diagram. World supply may also be labelled  $S(EU)$  or  $S(UK)$  or  $S(EU+UK)$  or just  $P(W)$  or  $P(UK)$  or  $P(EU)$  or  $P(EU+UK)$ . The domestic demand and supply curves can just be labelled  $D$  and  $S$ . A title is not necessary.





- (g) Using information from the texts/data and your knowledge of economics, discuss the need for a balance between market-oriented policies and government intervention to promote economic development in Cameroon.

**[15]**

Level		Marks
0	<ul style="list-style-type: none"> <li>The work does not meet a standard described by the descriptors below.</li> </ul>	0
1	<ul style="list-style-type: none"> <li>The response indicates little understanding of the specific demands of the question.</li> <li>Economic theory is stated but it is not relevant.</li> <li>Economic terms are stated but they are not relevant.</li> <li>The response contains no evidence of synthesis or evaluation.</li> <li>The response contains no use of text/data.</li> </ul>	1–3
2	<ul style="list-style-type: none"> <li>The response indicates some understanding of the specific demands of the question.</li> <li>Relevant economic theory is described.</li> <li>Some relevant economic terms are included.</li> <li>The response contains evidence of superficial synthesis or evaluation.</li> <li>The response contains limited use of text/data.</li> </ul>	4–6
3	<ul style="list-style-type: none"> <li>The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>Relevant economic theory is partly explained.</li> <li>Some relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included.</li> <li>The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>The response includes some relevant information from the text/data.</li> </ul>	7–9
4	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is explained.</li> <li>Relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included and explained.</li> <li>The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>The use of information from the text/data is generally appropriate, relevant, and applied correctly.</li> </ul>	10–12
5	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is fully explained.</li> <li>Relevant economic terms are used appropriately throughout the response.</li> <li>Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>The use of information from the text/data is appropriate, relevant, and is used to formulate a reasoned argument supported by analysis/evaluation.</li> </ul>	13–15

*Command term*

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

*Responses may include:*

- a definition of economic development
- a definition of government intervention/interventionist policies
- a definition of market-oriented policies
- diagrams (eg AD/AS, poverty cycle).

**Intervention which may lead to development**

- Military intervention to bring stability to regions experiencing conflicts (Text D, paragraph 2).
- The high interest rates help maintain the fixed exchange rate which brings stability (Text D, paragraph 6).
- The policies under the Growth and Employment Strategy would help increase human capital and increase productivity, which may help many break the poverty cycle and increase LRAS and export revenues (which could result in higher incomes) (Text E, paragraphs 1, 3 and 4).
- Better infrastructure would bring in FDI/increased investment (Text E, paragraph 1).
- The higher minimum wage helps increase workers’ well-being but comes with the possibility of unemployment and may make it difficult for the authorities to reduce the size of the informal sector (Text E, paragraph 3).
- Subsidies help to keep electricity, food and fuel prices low and accessible (Text D, paragraph 4; Text E, paragraph 4).

**Limitations of intervention**

- Fiscal deficits and government debt may increase (Text D, paragraphs 2 and 3).
- Some forms of intervention are too short-term such as subsidies (Text D, paragraph 4) or may not be sustainable in the long-term (Text D, paragraph 2).
- There is an opportunity cost to intervention (Text D, paragraph 4).
- Subsidies for fuel can increase external costs (Text D, paragraph 4).
- Intervention through higher interest rates to support the overvalued currency (Text D, paragraph 6) will have a contractionary impact on the economy and this could limit the impact of expansionary fiscal policy (Text D, paragraph 3).
- High interest rates also mean that entrepreneurs have more difficulty in obtaining loans (Table 3).
- The fixed (over-valued) exchange rate raises export prices, which hampers trade (but does contribute to lower prices of fertilizers etc) (Text D, paragraph 6).
- Military intervention may reduce freedoms and development (Text D, paragraph 2).

**Market-oriented policies which may lead to development**

- Deregulation/decrease in bureaucracy may lead to an increase in investment (Text D, paragraph 5). This may help promote local entrepreneurship.
- Membership in free trade groups allows for higher export revenue which would lead to economic growth. The EU and UK currently account for almost half of trade with Cameroon (Table 3).
- The removal of tariffs on fertilizers (Text F) would help decrease farmers’ costs and lead to more competitive exports (Text E, paragraph 2). This could also help decrease the need for subsidies in the long-term (Text E, paragraph 3).
- Removal of tariffs on capital goods (Text F) may lead to higher productivity and/or reduce costs for firms.

**Limitations of market-oriented policies**

- Membership of free trade groups may worsen/not reduce Cameroon's persistent trade deficit if imports increase more than exports (Text D, paragraph 6).
- Without adequate provision of infrastructure and provision of education, the country will continue to lack diversification of economic activities. Economic growth may not be sustained due to the volatility of commodity prices (Text D, paragraph 2).
- Some policies such as tax incentives and subsidies may not benefit those working in the informal sector. Such policies would thus have limited effectiveness in reducing poverty due to the size of the informal economy (Text D, paragraph 3) and level of poverty (Text D, paragraph 4).
- Relative poverty may continue to increase due to disparities in benefits from export-led growth (Text D, paragraph 4).

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

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