

Economics

Advanced GCE **2886**

Economics of Development

Mark Scheme for June 2010

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1 (a)

- (i) **What evidence from the information provided suggests that Vietnam is a mixed economy?** [2]

There is both state and private activity (1), price set by market (private) (1), 3000 state enterprises operate (command) (1). Any two points identifying 'mixed' elements.

- (ii) **Explain two possible reasons why Doi Moi proved successful.** [4]

Greater efficiency and growth from the operation and incentive of the market (2), increased international competition introducing new technology and innovation (2), government action encouraging orderly transfer with restricted casualties (2), WTO membership allowed benefits from international trade (2). Identification 2 + explanation (2), any two explained points deduced from the data or from background knowledge.

- (b) **Using Fig.1, comment on Vietnam's development performance relative to Thailand and Cambodia.** [4]

GDP pc: overtaken Cambodia, behind Thailand, poverty: overtaken and left Cambodia, less far behind Thailand, secondary: further ahead of Cambodia, now behind Thailand, overall performance better than Cambodia, not yet caught Thailand.

Analysis 2 + comment 2.

- (c) **State and explain two pieces of information, additional to that provided, which would allow a better judgment of Vietnam's level of development.** [4]

Health statistics which indicate longevity or quality of life (2), water and sanitation which influence physical living environment (2), HDI or HPI-1, -2 or alternatives showing combined performances and comparative positions (2), political environment offering democracy and safety (2).

Identification 2 + explanation 2, any 2 explained points from any additional area of development.

- (d) **Discuss which you consider to be most important of the problems still remaining for the Vietnamese government in 2008.** [6]

The candidate must justify whichever problem is selected. Judgment may be based on the scale of the problem, its nature, its implications and the government's ability to respond to it and cope with it. For example globalisation might be suggested as most important because of the relative weakness of any government to oppose the forces at work, because it may affect employment opportunities, cultural attitudes, ownership of assets etc. This makes it more intractable than the other problems. The other problems may be discarded as less important by application of similar criteria, e.g. poorly performing state enterprises might be thought unimportant since the majority are profitable, there is a growing private sector to exert pressure, the government has direct control to bring change, they may fulfil social as well as economic roles. A strong answer will consider more than the one selection.

Up to 3 marks for explanation why problem is most important.

Up to 3 marks for relevant discussion.

- 2 (a) Explain why an economy's national income statistics are considered to be an inadequate measure of its economic development. [10]

National income statistics cover income, output and expenditure of an economy. They are used to identify economic growth when expressed in real terms. Economic development is wider than economic growth and includes non-material aspects of life, which are omitted from national income statistics. Issues such as distribution, patterns of expenditure and negative influences also need to be considered. Composite measures usually give a clearer impression of development.

Level 3 For an explanation of the limitations of national income statistics (7-10)

Level 2 For application of knowledge and critical understanding of the link of national income statistics to development (4-6)

Level 1 For knowledge and understanding of national income statistics and development (1-3)

- (b) Discuss the extent to which developing countries have the same economic problems as developed countries. [15]

Both economies face the same basic economic problem of scarcity although its extent is different. In both cases resources are limited, wants are unlimited and scarcity results. Governments face the challenge of continually rising economic expectations. In terms of the usual economic policy aims (stable prices, low unemployment, economic growth, satisfactory balance of payments, acceptable distribution of income and wealth) the differences are not all one way. Developing countries may have higher rates of economic growth (although from a lower base) and may have a stronger balance of payments on current account. They face greater problems in terms of inflation, higher unemployment and underemployment and significantly higher absolute and relative poverty which link to greater inequality. Developing countries face the problem of achieving development itself. They have less resources with which to tackle the problems. A higher L4 answer will recognise the problem of stereo-typing both developing and developed countries.

Level 4 For a discussion of the similarities and differences in the problems faced by the different economies. (9-15)

Level 3 For an analysis of the nature of economic problems at the different stages of development (6-8)

Level 2 For the application of knowledge and critical understanding of the nature and prevalence of economic problems (3-5)

Level 1 For knowledge and understanding of economic problems (1-2)

- 3 (a) **Explain the contribution of the Harrod-Domar model to an understanding of the process of development.** [10]

The model is stated as the rate of growth of GNP is determined by the savings ratio and the capital to output ratio or $g = s/k$. Growth of output would influence the employment level. To achieve a faster rate of growth the savings ratio needs to increase or the capital to output ratio needs to fall. These could be elements of government policy or foreign aid. Both of these needs are problematic for developing economies with low incomes and inefficient production methods. The model is limited in its assumptions of a closed economy and a fixed capital to output ratio, tends to be simplistic and is a model of growth rather than development.

Level 3 For an explanation of the contribution of the Harrod-Domar model to the understanding of the process of development (7-10)

Level 2 For application of knowledge and critical understanding of the Harrod-Domar model (4-6)

Level 1 For knowledge and understanding of the Harrod-Domar model (1-3)

- (b) **Discuss the desirability for a developing country of concentrating its government expenditure on health and education.** [15]

Expenditure on health and education would raise the quality of human resources and productivity. This would directly raise measures of development such as the HDI. It would depend upon the country's ability to implement improved facilities with appropriate equipment and qualified staff. More limited targets might concentrate on school based education and health care aimed at illnesses, such as malaria and measles which have cheap and effective cures. AIDS/HIV treatment might be considered an important priority. Any government expenditure will have an opportunity cost. In this case it might be argued that lack of employment, poor living conditions and poverty are more significant and in their turn limit health and education levels. Policy might be directed to creating work and improving housing conditions. Other alternative expenditure might also be justified. A higher L4 answer will appreciate the need to examine individual circumstances.

Level 4 For a discussion of the desirability of health and education expenditure (9-15)

Level 3 For an analysis of the results of health and education expenditure (6-8)

Level 2 For the application of knowledge and critical understanding of the purpose of health and education spending (3-5)

Level 1 For knowledge and understanding of health and education levels in developing countries (1-2)

- 4 (a) Explain the problems for developing countries which result from changes in the flows of international capital. [10]

Flows of international capital can be for real or portfolio investment and may be inflows or outflows. Developing countries generally experience inflows of foreign capital, which give ownership and income flow difficulties. This may create dependency and balance of payments difficulties. More dangerous is capital flight as foreign capital is withdrawn from a country, which harms international confidence and may provoke problems of crisis proportions in exchange markets. This has been evident in Asia and South America. The movement of hot money can be a problem but is more likely to affect developed economies. Local residents may also shift finance abroad for more stability and better rewards, so contributing to the savings gap.

Level 3 For an explanation of problems caused by changes in the flows of international capital (7-10)

Level 2 For application of knowledge and critical understanding of the nature of the flows of international capital (4-6)

Level 1 For knowledge and understanding of the flows of international capital (1-3)

- (b) Discuss whether the growth of multilateral and bilateral free trade agreements has been of benefit to developing countries. [15]

Free trade agreements between two or more countries can set conditions from a loose free trade area to a customs union. While major agreements such as NAFTA and MERCOSUR are well known there is a movement by the US and China to agreements with individual countries. Membership may benefit a developing country through trade creation and wider access to markets. This may foster more international investment and technology transfer. It may also give them advantages over non-members. Failure to join an area may disadvantage a developing country. Even as a member there may be trade diversion, a lack of balance of benefits and the imposition of strict conditions, not all of which may work to a developing country's benefit. Narrow agreements may prevent the movement to multilateral free trade. The terms of the agreement may determine the degree of benefit. A higher L4 answer will show awareness of recent trends.

Level 4 For a discussion of the impact of multilateral and bilateral trade agreements on developing countries (9-15)

Level 3 For an analysis of the effects of multilateral and bilateral trade agreements (6-8)

Level 2 For the application of knowledge and critical understanding of multilateral and bilateral trade agreements (3-5)

Level 1 For knowledge and understanding of multilateral and bilateral trade agreements (1-2)

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Question	AO1	AO2	AO3	AO4
1ai	1	1		
1aii	2	1	1	
1b			2	2
1c	2	1	1	
1d			2	4
2a	3	3	4	
2b	2	3	3	7
3a	3	3	4	
3b	2	3	3	7
4a	3	3	4	
4b	2	3	3	7
Total	10	9	13	13

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