



# **MARKSCHEME**

**May 2013**

**ECONOMICS**

**Higher Level**

**Paper 1**

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*In addition to the assessment criteria, use the paper-specific markscheme below. Award up to the maximum marks indicated.*

## SECTION A

### Microeconomics

1. (a) Explain how welfare loss may result from monopoly power. [10 marks]

Answers **may** include:

- definitions of welfare loss, monopoly power, allocative efficiency market failure
- theory of the firm: monopoly market structure explaining how price is higher and output lower due to barriers to entry, allowing loss of productive and allocative efficiency at profit maximising output
- diagram to show the above, highlighting welfare (deadweight) loss under monopoly
- examples of welfare loss under monopoly.

### Assessment Criteria

#### Part (a) 10 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	1–3
2 There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	4–6
3 There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	7–8
4 There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	9–10

- (b) **Discuss the effectiveness of government policies (legislation and regulation) to reduce monopoly power.**

**[15 marks]**

**N.B.** It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of monopoly power and legislation (anti-monopoly, anti-collusion, merger prevention *etc.*) and regulation (lower prices and larger quantities for consumers, fair prices for natural monopolies)
- theory of how a monopolist's control of price or output might be reduced by legislation or regulation in the interests of the consumer
- diagram to show a comparison of monopoly and perfect competition; diagram to illustrate price regulation showing monopoly charging a price which is equal to average cost
- examples of legislation, regulation, and also other solutions such as nationalization, privatization and trade liberalization
- synthesis and evaluation (discuss).

Discussions **may** include: effectiveness of policies against the sources of monopoly power, *eg* reduction of legal barriers to entry, control of anti-competitive behaviour. Where natural monopoly occurs, restrictive policies might not be in the consumer's interest. Government policies might be rendered less effective by globalization. Government policies might move a market from monopoly towards a market structure which gives rise to allocative efficiency.

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

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	<b>0</b>
1 There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2 There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
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4 There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	<b>13–15</b>

2. (a) **Using diagrams, explain how the incidence of an indirect tax may be affected by the price elasticity of demand.**

*[10 marks]*

Answers **may** include:

- definitions of an indirect tax, price elasticity of demand, incidence of taxation
- theory of how relative price elasticities influence the proportionate sharing of an indirect tax burden between producers and consumers
- diagrams to show incidence of an indirect tax on consumers and producers for goods with elastic and inelastic demand curves, showing that the more elastic the demand, the greater the incidence on the producer, and vice versa
- examples of goods with differing price elasticities of demand and the resulting differences in their incidence of taxation.

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- (b) To what extent might the problems of negative externalities of consumption be resolved by the use of indirect taxation? *[15 marks]*

**N.B.** It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of negative externalities of consumption, indirect taxation
- theory of externalities with its implications for overconsumption/under-pricing and the opportunity to attempt to correct misleading market signals through an indirect tax
- diagrams to show a negative externality of consumption being abated by the use of indirect taxation
- examples of (demerit) goods, with negative externalities of consumption, which are subject to indirect taxes
- synthesis and evaluation (to what extent).

Consideration of the merits of the statement **may** include: the difficulty of setting indirect taxes at the correct level to reduce the negative externality to the social optimum/redress specific damage. Candidates **may** choose to set this response in the context of market failure.

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

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.



### Assessment Criteria

#### Part (b) 15 marks

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## SECTION B

### Macroeconomics

3. (a) Explain why the market system may not result in an equitable distribution of income.

*[10 marks]*

Answers **may** include:

- definitions of market system, equitable distribution of income
- theory of why market systems may not result in an equitable distribution of income, for example private ownership of factors of production in the face of minimal intervention by the government may lead to unequal returns
- diagram to show an indicator of income equality/inequality, *ie* a Lorenz Curve diagram or a diagram showing income distribution by quintiles, deciles *etc*
- examples of economies with more unequal distribution of income, (*eg* Brazil), or less unequal distribution of income (*eg* Sweden).

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- (b) **Evaluate government policies to promote equity in terms of their effects on efficiency in the allocation of resources.**

*[15 marks]*

**N.B.** It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of equity, efficiency in the allocation of resources
- theory of how government policies (taxation, government expenditure on merit goods and subsidies and transfer payments) may promote equity but possibly reduce efficiency in the allocation of resources
- diagrams to show indirect taxes and subsidies and their implications for efficiency in the allocation of resources
- examples of government policies to promote greater income equality in particular countries and their effects on the achievement of efficiency
- synthesis and evaluation.

Evaluation **may** include: consideration of the trade off between equity and efficiency, and whether transfer payments and progressive taxation reduce incentives to work. Government provision of merit goods may be less efficient than private provision. The use of indirect taxes and/or subsidies may move the economy closer to, or further away from, the position of allocative efficiency. Poverty reduction and investment in human capital may be consistent with the achievement of both improved income equality and efficiency.

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

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

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4. (a) **Explain how labour market reforms may be used to promote economic growth.**

*[10 marks]*

Answers **may** include:

- definitions of labour market reforms, economic growth
- explanation of how making labour markets more flexible may lead to an increase in efficiency and economic growth
- diagram to show the labour market (AD/AS or ADL/ASL) leading to economic growth
- examples of labour market reforms, both interventionist and market-oriented, such as reducing unemployment benefits, reducing the power of labour unions and abolishing minimum wages, expenditure on education and training, introduction of minimum wages to increase participation rates, to increase consumption and promote economic growth.

### Assessment Criteria

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- (b) **“Market-oriented supply-side policies will always be more effective in promoting economic growth than demand-side policies.” To what extent do you agree with this statement?**

*[15 marks]*

*N.B.* It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of market-oriented policies (as against interventionist policies), demand-side policies and economic growth
- theory of Aggregate Demand and Aggregate Supply and how either may be used to increase real GDP
- diagrams to show increased real GDP resulting from changes to AD and AS
- examples of market-oriented supply-side policies and demand-side policies
- synthesis and evaluation (to what extent).

Consideration of the merits of the statement may include: discussion of the term effectiveness in the context of economics. Candidates may distinguish the effectiveness of each policy in the short run and the long run.

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

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.



### Assessment Criteria

#### Part (b) 15 marks

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**November 2013**

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

## SECTION A

### Microeconomics

1. (a) Using a price ceiling diagram, analyse the impact a maximum price might have on the market for food. [10 marks]

Answers **may** include:

- definitions of a price ceiling or maximum price
- an analysis of the possible impacts of a price ceiling. Shortages, inefficient resource allocation, welfare impacts, underground parallel markets and non-price rationing. A consideration of the impacts on various stakeholders
- diagram of a market supply and demand diagram showing a maximum price as specified in the question
- examples of markets where such price controls have been used or might be used in hypothetical situations.

### Assessment Criteria

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- (b) **Discuss the policies a government might use to make food more affordable to low income groups.**

*[15 marks]*

**N.B.** It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of identified policies and subsidies
- explanation of the use of subsidies, state provision of basic foodstuff and price controls. Diagrams to illustrate intervention, such as the use of subsidies and price ceilings
- examples of the application of the policies
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of the advantages and disadvantages of the selected policies, impacts on stakeholders, short term and long term consequences.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

### Assessment Criteria

#### Part (b) 15 marks

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2. (a) **Explain why governments impose indirect taxes.**

*[10 marks]*

Answers **may** include:

- a definition of indirect tax
- an explanation of possible reasons for the application of indirect taxes, to collect revenue, to correct externalities or discourage the consumption of demerit goods
- a diagram showing the application of an indirect tax
- examples of the use of indirect taxes.

### Assessment Criteria

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**(b) Discuss *two* possible government responses to threats to sustainability. [15 marks]**

**N.B.** It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definition of sustainability
- an explanation of two possible policies such as legislation, carbon taxes, cap and trade schemes and funding for clean technology. A consideration of the limitations / strengths of government responses generally
- diagrams to show the application of the policies selected
- examples of the application of policies
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of the advantages and disadvantages of the selected policies, impacts on stakeholders, short term and long term consequences.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

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## SECTION B

### Macroeconomics

3. (a) **Explain how changes in the size of the circular flow depend on the relative size of injections and leakages.**

*[10 marks]*

Answers **may** include:

- definitions of the circular flow, injections and leakages
- an explanation of how when leakages exceed injections the size of the circular flow will diminish and the economy will tend towards recession and unemployment. An explanation of how when injections are greater than leakages the size of the circular flow will tend to increase and the economy will tend towards expansion and inflation
- a diagram of the circular flow
- examples of situations where this may have occurred or might occur.

### Assessment Criteria

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- (b) **Evaluate the use of national income statistics for making comparisons of the standard of living over time.**

*[15 marks]*

**N.B.** It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of national income and standard of living
- an explanation of the merits of national income statistics when used for comparisons over time. A consideration of the impact of changing output, changing price levels and the need to use real values, distribution of income, reliability of the data, the usefulness of national income as a reliable indicator of the standard of living, changing working conditions, changed life expectancy and other quality of life indicators, innovation and new products, environmental conditions, defence expenditure, size of underground economy, value of non-marketed output. A consideration of HDI as an alternative measure
- examples of how statistics might be used
- synthesis or evaluation.

Evaluation **may** be: alternative measurements, strengths and weaknesses of using national income statistics for making comparisons of the standard of living over time.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

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4. (a) **Explain why measuring the rate of inflation using a consumer price index (CPI) may not be accurate.** *[10 marks]*

Answers **may** include:

- definition of rate of inflation, consumer price index
- an explanation of why inflation rates may be difficult to measure such as the different patterns of consumption different income earners may have. Different regions may experience different rates. Data or sampling may be inaccurate
- examples of the potential inaccuracies of measuring the rate of inflation using the CPI.

A diagram is not necessary to achieve *[10 marks]*.

### Assessment Criteria

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**(b) Evaluate *two* government policies to reduce inflation.**

**[15 marks]**

**N.B.** It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of the two policies provided: fiscal policy, monetary policy, supply side policy
- an explanation of the use of fiscal policy, monetary policy or supply side policy to reduce inflation
- a diagram to illustrate the application of policies to deal with inflation
- examples to illustrate arguments
- synthesis or evaluation.

Evaluation **may** be: to make an appraisal by weighing up the strengths and limitations of the two policies discussed.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

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