

Markscheme

November 2023

Economics

Higher level

Paper 1

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

1. (a) Explain **two** determinants of price elasticity of demand. **[10]**

*Answers **may** include:*

- Terminology: price elasticity of demand, demand.
- Explanation: that price elasticity of demand depends upon a number of determinants and two of them should be explained, such as the number and closeness of substitutes, degree of necessity, proportion of income spent on the good, time and others.
- Diagram: to show price elasticity of demand, for example changing along a straight-line demand curve or diagrams of relatively more or less elastic demand curves.

*A maximum of **[6]** should be awarded if only **one** of the two determinants is addressed.*

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included.
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7–8	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using real-world examples, discuss how a government might respond to a situation in which there is a high concentration ratio in a market.

[15]

Answers may include:

- Terminology: concentration ratio, oligopoly, monopoly, market.
- Explanation: governments might intervene in markets where there is a high concentration ratio because it might indicate abuse of market power from either monopoly or oligopoly firms, leading to higher prices, lower output, and allocative inefficiency. Therefore, the government might intervene in the form of taking ownership, regulation and legislation, and fines.
- Diagram: to show a firm with market power in imperfect competition such as monopoly/collusive oligopoly.
- Real-world example: of where a government has intervened in a market where there is a high concentration ratio. Examples might be government ownership (nationalization) of key industries, price controls in natural monopolies, regulation, legislation and fines imposed on monopoly/oligopoly firms.
- Synthesis (discuss): might be framed around the different policy options open to government and the advantages and disadvantages they might present or how effective they are likely to be. Increased government influence through nationalization, fines and regulations and legislation has advantages and disadvantages. Students might also choose to contest the idea that intervention is necessary, and they might give reasons for where government might allow a highly concentrated market where there were economies of scale or innovation.

Assessment Criteria

Part (b) 15 marks

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4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
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10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
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2. (a) Explain how changes in **two** determinants of investment could lead to an increase in real gross domestic product (GDP). **[10]**

Answers may include:

- Terminology: investment, real gross domestic product (GDP).
- Explanation: of how a change in any of the determinants of investment, such as interest rates, technology, business confidence, business taxes, and level of corporate indebtedness, could lead to increased investment spending. Increased investment spending leads to increases in aggregate demand and increased real GDP. In addition, increased investment, by increasing the quantity of capital goods, a factor of production, leads to increases in long-run aggregate supply in the monetarist/new classical model or increases in Keynesian AS in the Keynesian model (increased real GDP).
- Diagram: showing a shift of aggregate demand and an increase in AS in the Keynesian model **OR** an increase in long run aggregate supply in the monetarist/new classical model. Students may use either a Keynesian **OR** monetarist/new classical approach and still obtain full marks.

*A maximum of [6] should be awarded if only **one** of the two determinants is addressed.*

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss whether gross national income (GNI) is a useful measure of economic well-being.

[15]

Answers may include:

- Terminology: gross national income, economic well-being.
- Explanation: an explanation of the ways in which measures for GNI indicate higher economic well-being (standards of living) through the increases in incomes they measure and the increased living standards they can support.
- Diagram: not needed for this question.
- Real-world example: real-world examples of where GNI statistics are, or are not, a useful way of measuring economic well-being.
- Synthesis (discuss): consideration of where GNI statistics are or are not a good measure of economic well-being. Discussion might include consideration of inequality of income and wealth, externalities, the informal economy, output not put up for sale, unpaid work, statistical error, composition of output, depletion of natural resources and so on. Consideration of alternative measures of economic well-being such as the OECD Better Life Index, Happiness Index and Happy Planet Index.

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.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
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3. (a) Explain how specialization according to comparative advantage leads to beneficial international trade.

[10]

Answers may include:

- Terminology: comparative advantage, specialization, international trade.
- Explanation: specialization based on comparative advantage may lead to better resource allocation, leading to lower prices, more output, greater choice, more employment, economic growth and higher standards of living. An explanation of the main advantages that are associated with international trade.
- Diagram: linear production possibilities curves (PPC) showing differing opportunity costs and the potential gains from specialization and trade as a result of comparative advantage.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss the advantages **and** disadvantages of trading blocs. **[15]**

Answers may include:

- Terminology: trading blocs.
- Explanation: explanation of the advantages of trade bloc membership such as trade creation, greater access to markets (economies of scale), free movement of labour and greater employment possibilities, stronger bargaining power in multilateral negotiations, greater political stability and cooperation, living standards and growth. Disadvantages of trading bloc membership including trade diversion, loss of sovereignty and challenge to multilateral trading negotiations.
- Diagram: a trade protection diagram which identifies advantages and disadvantages of free trade between members of a bloc.
- Real-world example: examples of one or more of the world's trading blocs and the advantages and disadvantages of trading bloc membership.
- Synthesis (discuss): the members of the bloc may experience disadvantages if significant trade diversion takes place. If non-members with absolute and comparative advantage are restricted in their ability to trade or excluded by prohibitive tariffs, then consumers and businesses will face additional costs. Discussion of whether the advantages outweigh the disadvantages of trading bloc membership. Overall assessment.

*A maximum of [9] should be awarded if only advantages **or** disadvantages is addressed.*

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.*

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Assessment Criteria

Part (b) 15 marks

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Markscheme

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Economics

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

1. (a) Explain how the availability of substitutes for a good **and** whether a good is a necessity affect its price elasticity of demand. **[10]**

Answers **may** include:

- Terminology: substitutes, necessities, price elasticity of demand.
- Explanation: that the greater the number of close substitutes there are for a good, the more price elastic the demand for it tends to be and the demand for necessities tends to be more inelastic.
- Diagram: to show demand curves with different price elasticities of demand.

*A maximum of [6] should be awarded if **only** substitutes **or** necessities in the question item is addressed.*

Assessment Criteria

Part (a) 10 marks

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9–10	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using real-world examples, examine the importance of price elasticity of demand to firms **and** to governments.

[15]

Answers may include:

- Terminology: price elasticity of demand.
- Explanation: of how firms can use PED to increase their total revenue and governments can use PED to increase the revenues from indirect taxation and/or to address a market failure such as reducing the consumption of demerit goods.
- Diagram: using demand and supply diagrams to show changes in total revenue and tax revenue when demand is inelastic and elastic.
- Real-world examples: of price changes with different price elasticities of demand that lead to increasing total revenue and tax revenue.
- Synthesis (examine): consideration of the problems for firms and governments of using price elasticity of demand to increase total revenue and tax revenue, such as the impact of time on price elasticity of demand, the problems of measuring price elasticity of demand, situations where a change in price would not lead to a rise/fall in total revenue/tax revenue, and other factors that might affect revenue, such as changes in consumer income.

*A maximum of [9] should be awarded if **only** firms **or** governments in the question item is addressed.*

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
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2. (a) Explain the effects of an improvement in technology **and** an increase in the number of skilled workers on the full employment level of output (potential output). **[10]**

Answers may include:

- Terminology: full employment level of output, potential output.
- Explanation: of how improvements in technology increase the quality of capital and an increase in the number of skilled workers increases the quality and/or quantity of labour. Both increase the potential output and cause the long-run aggregate supply curve to shift outwards increasing the full employment level of output.
- Diagram: to show the long-run aggregate supply curve/PPC curve shifting outwards increasing the full employment level of output.

*A maximum of [6] should be awarded if **only** an improvement in technology **or** an increase in the number of skilled workers in the question item is addressed.*

Assessment Criteria

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- (b) Using real-world examples, evaluate the view that economic growth will always lead to an improvement in living standards in a country. **[15]**

Answers may include:

- Terminology: economic growth, living standards.
- Explanation: that economic growth leads to rising incomes and employment as real GDP rises enabling greater consumption of goods and services and possible improvements in healthcare, education and infrastructure as tax revenues rise.
- Diagram: using a PPC or AD/AS diagram to show economic growth.
- Real-world examples: of how economic growth has led to rising living standards in a country.
- Synthesis (evaluate): consideration of the negative impact of economic growth on living standards in a country, such as environmental costs and a widening in the distribution of income, degree to which government invests in merit goods and infrastructure and use of the word “always”. The answer could also consider non-monetary factors that affect living standards, such as community life, leisure time, and crime rates.

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.*

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13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.

3. (a) Explain how a country might use trade protection to prevent dumping **and** to protect an infant industry. **[10]**

Answers may include:

- Terminology: trade protection, dumping, infant industry.
- Explanation: that trade protection can be used to protect an infant (new) industry so that it can establish itself, achieve efficiencies and compete in international markets. Trade protection may be used to counteract dumping when domestic producers face unfair competition from foreign competitors that export goods at very low prices or prices below the cost of production.
- Diagram: a trade protection diagram such as tariff or quota used to support an infant industry or to counteract dumping.

*A maximum of [6] should be awarded if **only** preventing dumping **or** protecting an infant industry in the question item is addressed.*

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included.
5–6	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using real-world examples, evaluate the effects of a country imposing a tariff on a good. **[15]**

Answers may include:

- Terminology: tariff.
- Explanation: of how a tariff will increase prices for domestic consumers, decrease their quantity demanded and reduce their consumer surplus. A tariff will also increase the price for domestic producers, increase their quantity supplied and increase their revenues and producer surplus. Additionally, a tariff will increase domestic government tax revenue and reduce the quantity imported.
- Diagram: a tariff diagram to show the impact on consumers, producers, and the government.
- Real-world examples: of where a tariff has been applied to an industry and the impact it has had on consumers, producers, and the government.
- Synthesis (evaluate): effect on different stakeholders, consideration of the advantages and disadvantages of imposing a tariff such as retaliation by other countries, which affects domestic producers' export markets and how tariffs might lead to higher costs of production for domestic producers, causing cost-push inflation. There could also be evaluation of the efficiency losses caused by a tariff.

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.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant. The response contains no evidence of synthesis or evaluation. A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
7–9	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included. The response contains evidence of appropriate synthesis or evaluation but lacks balance. A relevant real-world example(s) is identified and partly developed in the context of the question.
10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.

Markscheme

November 2023

Economics

Higher level

Paper 1

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

1. (a) Explain how a system of tradeable permits could be used to reduce externalities caused by high levels of carbon emissions.

[10]

Answers **may** include:

- Terminology: tradeable permits, externalities.
- Explanation: of how a system of tradeable permits establishes a cap on carbon emissions and distributes permits to firms to allow them to produce carbon emissions up to the level set by their permits. They can then sell unused permits to the market for permits. Firms unable to keep emissions within the levels set by their allocation of permits need to purchase more permits. Lower carbon emitters thus are given a financial advantage. The cap can be reduced over time to reduce carbon emissions.
- Diagrams: candidates may use a market failure diagram to illustrate the impact on firms of being required to produce at a more socially efficient output. Candidates may choose to represent the carbon market with a simple supply and demand diagram.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> • The response indicates some understanding of the specific demands of the question. • Relevant economic theory is described. • Some relevant economic terms are included.
5–6	<ul style="list-style-type: none"> • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. • Relevant economic theory is partly explained. • Some relevant economic terms are used appropriately. • Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is fully explained. • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained.

NB Unfortunately, this question did not include the “Using real-world examples” prompt in the exam but an erratum message was sent out to all affected schools, which was read out to the students responding to the question.

- (b) Using real-world examples, discuss the view that providing a subsidy is the best way to encourage an increased use of clean technologies.

[15]

Answers **may** include:

- Terminology: subsidy.
- Explanation: that subsidies increase supply, resulting in lower prices and higher equilibrium quantity.
- Diagram: to show the effect of a subsidy on the market for clean technologies.
- Synthesis (discuss): the importance of PED, opportunity cost issues, externality issues, equity issues and efficiency issues. Consideration of alternative policies such as carbon taxes and tradeable permits. Candidates may take a market failure approach, with the use of clean technologies as an example of a positive production externality where MSC is less than MPC and thus the market economy is producing less than is socially optimum, under allocating resources in the production of this good. Consideration of what the “best” policy is.
- Examples: of real-world subsidies for clean technologies.

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.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant. The response contains no evidence of synthesis or evaluation. A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
7–9	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included. The response contains evidence of appropriate synthesis or evaluation but lacks balance. A relevant real-world example(s) is identified and partly developed in the context of the question.
10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.

2. (a) Explain the limitations of using the consumer price index (CPI) to measure the rate of inflation. [10]

Answers may include:

- Terminology: consumer price index (CPI), rate of inflation.
- Explanation: that the consumer price index measures what the average consumer is buying. Different groups of people buy different things. It is inaccurate to use this so-called average consumer to calculate how much government might intervene to support pensions or welfare as prices change. Consumption patterns differ by age, gender, geographical location, income levels. Prices might rise but quality may have improved. New products, even when widely used, take time to appear in the CPI. The weights used only adjust slowly and do not reflect where consumers act to substitute more expensive products.
- Diagram: not needed for this question.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant.
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5–6	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained.

NB Unfortunately, this question did not include the “Using real-world examples” prompt in the exam but an erratum message was sent out to all affected schools, which was read out to the students responding to the question.

- (b) Using real-world examples, examine the view that there is a possible trade-off between unemployment **and** inflation.

[15]

Answers **may** include:

- Terminology: unemployment, inflation.
- Explanation: that in the short run there is a possible inverse relationship between the rate of inflation and the rate of unemployment, thus a higher inflation rate can be associated with a lower unemployment rate and vice-versa.
- Diagram: AD/AS diagram to examine a trade-off. Short-run and long-run Phillips curve.
- Synthesis (examine): argument that the trade-off between the unemployment rate and the inflation rate in the short-run Phillips curve implied a choice for policymakers. However, the inverse relationship breaks down in the long run according to some interpretations: thus, the only impact of an increase in AD is to increase the rate of inflation while real output and the rate of unemployment are unchanged.
- Examples: of situations of where a trade-off between unemployment and inflation is, or is not, observed.

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.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant. The response contains no evidence of synthesis or evaluation. A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
7–9	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included. The response contains evidence of appropriate synthesis or evaluation but lacks balance. A relevant real-world example(s) is identified and partly developed in the context of the question.
10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.

3. (a) Explain how a floating exchange rate is determined.

[10]

Answers *may* include:

- Terminology: exchange rate, floating exchange rate.
- Explanation: that a floating exchange rates value is determined by changes in the demand and supply of the currency. Factors that could lead to a change in demand and supply for a currency value might include changes in exports and imports, FDI flows, portfolio investment, relative real interest rates, speculation, relative growth rates and remittances.
- Diagram: a supply and demand diagram showing how a floating exchange rate is determined.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> • The response indicates some understanding of the specific demands of the question. • Relevant economic theory is described. • Some relevant economic terms are included.
5–6	<ul style="list-style-type: none"> • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. • Relevant economic theory is partly explained. • Some relevant economic terms are used appropriately. • Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is fully explained. • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using real-world examples, discuss the impact of a falling exchange rate on a country's rate of unemployment **and** on its current account balance. **[15]**

Answers may include:

- Terminology: unemployment, rate of unemployment, exchange rate, balance of payments on current account.
- Explanation: of how a falling exchange rate might increase the competitiveness of exports and decrease competitiveness of imports which might help lower unemployment. The impact on the balance of payments might be to raise export revenues and decrease import revenues but this would depend on elasticities of imports and exports.
- Diagram: to illustrate a falling exchange rate caused by demand or supply factors.
- Synthesis (discuss): the impact of a falling exchange rate might raise employment independently of whether exports and imports are inelastic or elastic because volumes of domestic production are likely to grow, however investment in capital might substitute additional demand for labour as scale is increased. Imported cost-push inflation might raise costs and raise unemployment. The impact on the current account of the balance of payments is dependent on elasticities of imports and exports. Candidates might use the J-curve effect and Marshall-Lerner condition to explain this.
- Examples: of countries where a falling exchange rate has been experienced.

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.

A maximum of **[9]** should be awarded if **only** unemployment **or** current account balance in the question item is addressed.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant. The response contains no evidence of synthesis or evaluation. A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
7–9	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included. The response contains evidence of appropriate synthesis or evaluation but lacks balance. A relevant real-world example(s) is identified and partly developed in the context of the question.
10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.

Markscheme

November 2023

Economics

Standard level

Paper 1

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

1. (a) Explain the difference between price elasticity of demand and income elasticity of demand.

[10]

*Answers **may** include:*

- Terminology: price elasticity of demand (PED), income elasticity of demand (YED).
- Explanation: that price elasticity of demand measures the relationship between a change in the price of a good and a change in quantity demand and can be measured by % change in QD / % change in price. The PED value of goods and services means they can be elastic, unitary or inelastic. Explanation that income elasticity of demand measures the relationship between a change in income and demand and can be measured by % change in QD / % change in income. The YED value of goods means they are normal, luxury, necessity or inferior.
- Diagram: demand and supply diagram and/or Engel's curve to show goods and services with different PEDs or YEDs.

*A maximum of **[6]** should be awarded if **only PED or YED** in the question item is addressed.*

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> • The response indicates some understanding of the specific demands of the question. • Relevant economic theory is described. • Some relevant economic terms are included.
5–6	<ul style="list-style-type: none"> • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. • Relevant economic theory is partly explained. • Some relevant economic terms are used appropriately. • Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is fully explained. • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using a real-world example, evaluate the view that an understanding of price elasticity of demand can be useful for firms trying to increase total revenue.

[15]

Answers may include:

- Terminology: total revenue, price elasticity of demand.
- Explanation: of how the increase in the price of a good which is price inelastic leads to an increase in total revenue because the price of a good increases by proportionately more than the decrease in quantity demanded. An explanation of how the decrease in the price of a good which is price elastic leads to an increase in total revenue because the price of a good decreases by proportionately less than the increase in quantity demanded.
- Diagram: a demand and supply diagram to show the impact on total revenue of an increase or decrease in the price of a good which has price inelastic or elastic demand.
- Synthesis (evaluate): might include consideration of situations where an increase in the price of a good with price elastic demand or decrease in the price of a good with price inelastic demand leads to an increase in total revenue. For example, when the demand for a good is affected by the changing price of complements or substitutes. An evaluation might also include the difficulty of measuring PED and the way PED increases in the long run.
- Examples: real-world examples of where PED has been used by firms to increase in total revenue.

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant. The response contains no evidence of synthesis or evaluation. A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
7–9	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included. The response contains evidence of appropriate synthesis or evaluation but lacks balance. A relevant real-world example(s) is identified and partly developed in the context of the question.
10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.

2. (a) Explain how an increase in consumer confidence **and** an increase in interest rates might affect macroeconomic equilibrium in the short run in an economy. **[10]**

Answers **may** include:

- Terminology: consumer confidence, interest rates, macroeconomic equilibrium in the short run.
- Explanation: that an increase in consumer confidence will lead to an increase in consumption and cause an increase in aggregate demand and the macroeconomic equilibrium will lead to higher price level and real GDP and an increase in interest rates will lead to a decrease in consumption and investment which decreases aggregate demand and cause the macroeconomic equilibrium to lead to a lower price level and real GDP.
- Diagram: AD/AS diagrams showing the effect of an increase in consumer confidence and an increase in interest rates on macroeconomic equilibrium in the short run.

A maximum of **[6]** should be awarded if **only** consumer confidence **or** interest rates in the question item is addressed.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> • The response indicates some understanding of the specific demands of the question. • Relevant theory is described. • Some relevant economic terms are included.
5–6	<ul style="list-style-type: none"> • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. • Relevant economic theory is partly explained. • Some relevant economic terms are used appropriately. • Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is fully explained. • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using real-world examples, evaluate the view that economic growth always leads to a rise in economic well-being. **[15]**

Answers may include:

- Terminology: economic growth, economic well-being.
- Explanation: that economic growth leads to a rise in economic well-being as household incomes rise, unemployment decreases, investment increases and more tax revenue is generated to improve public services.
- Diagram: AD/AS diagram or PPC diagram to show economic growth.
- Synthesis (evaluate): might include consideration of the negative impact economic growth can have on economic well-being such as environmental costs, inflation and the widening in income inequality. Evaluation might also include a discussion of other factors that contribute to economic well-being that do not arise from economic growth such as leisure time, political stability and crime.
- Examples: real-world examples of where economic growth does or does not lead to a rise in economic well-being.

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant. The response contains no evidence of synthesis or evaluation. A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
7–9	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included. The response contains evidence of appropriate synthesis or evaluation but lacks balance. A relevant real-world example(s) is identified and partly developed in the context of the question.
10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.

3. (a) Explain how a country might use trade protection to raise government revenue **and** protect employment in an industry.

[10]

Answers **may** include:

- Terminology: trade protection, government revenue, employment.
- Explanation: that the imposition of tariffs as trade protection can increase government revenue and how trade protection can increase domestic output and increase employment in an industry.
- Diagram: trade diagram to show how trade protection such as a tariff raises government revenue and increases an industry's output which protects employment.

A maximum of [6] should be awarded if **only** government revenue **or** employment in the question item is addressed.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> • The response indicates some understanding of the specific demands of the question. • Relevant economic theory is described. • Some relevant economic terms are included.
5–6	<ul style="list-style-type: none"> • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. • Relevant economic theory is partly explained. • Some relevant economic terms are used appropriately. • Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is fully explained. • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using real-world examples, evaluate a country's decision to impose trade protection on imported goods.

[15]

Answers may include:

- Terminology: trade protection, imported goods.
- Explanation: the decision to impose trade barriers might be explained in terms of the arguments for trade protection such as protection of infant industries, national security, health and safety, protect domestic employment, *etc.*
- Diagram: tariff, quota or subsidy diagram to show the impact of trade protection.
- Synthesis (evaluate): might include the arguments against protection such as misallocation of resources, retaliation, increased costs, higher prices, less choice, reduced export competitiveness, *etc.*
- Examples: real-world examples of where countries have imposed trade barriers on imported goods.

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.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> The work does not reach a standard described by the descriptors below.
1–3	<ul style="list-style-type: none"> The response indicates little understanding of the specific demands of the question. Economic theory is stated but it is not relevant. Economic terms are stated but they are not relevant. The response contains no evidence of synthesis or evaluation. A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> The response indicates some understanding of the specific demands of the question. Relevant economic theory is described. Some relevant economic terms are included. The response contains evidence of superficial synthesis or evaluation. A relevant real-world example(s) is identified.
7–9	<ul style="list-style-type: none"> The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. Relevant economic theory is partly explained. Some relevant economic terms are used appropriately. Where appropriate, relevant diagram(s) are included. The response contains evidence of appropriate synthesis or evaluation but lacks balance. A relevant real-world example(s) is identified and partly developed in the context of the question.
10–12	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is explained. Relevant economic terms are used mostly appropriately. Where appropriate, relevant diagram(s) are included and explained. The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> The specific demands of the question are understood and addressed. Relevant economic theory is fully explained. Relevant economic terms are used appropriately throughout the response. Where appropriate, relevant diagram(s) are included and fully explained. The response contains evidence of effective and balanced synthesis or evaluation. A relevant real-world example(s) is identified and fully developed to support the argument.