



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 |
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- (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

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|--|--------------|
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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.

Assessment Criteria

Part (a) 10 marks

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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).

Assessment Criteria

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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

Part (a) 10 marks

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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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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

Part (a) 10 marks

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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

Part (a) 10 marks

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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.

Assessment Criteria

Part (b) 15 marks

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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

Part (a) 10 marks

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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.

Assessment Criteria

Part (b) 15 marks

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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]*.

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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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SECTION A

Microeconomics

1. (a) Using diagrams, explain how a change in one of the determinants of demand might increase the price of rice and how a change in one of the determinants of supply might decrease the price of rice. *[10 marks]*

Answers **may** include:

- definitions of demand and supply
- diagrams to show the impact of changes in the determinants of demand and supply on the price of rice
- an explanation of how a new price of rice would result from an increase in supply and increase in demand, with reference to the specific determinants
- examples of situations where such changes have taken place.

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- (b) **Discuss the consequences of providing a subsidy on the production of rice for producers, consumers and the government.**

[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 a subsidy
- diagram of the application of a subsidy and its consequences for the various stakeholders
- an explanation of the impact on producers (increased revenues), consumers (lower prices) and government (increased expenditure)
- examples of situations where a subsidy has been introduced
- synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses.

Discussion **may** include: a consideration of the effect of the subsidy on various stakeholders. The likely price inelasticity of demand for rice and proportionate benefits to consumers and producers may be considered.

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. | 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. | 1–5 |
| 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. | 6–9 |
| 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 is an attempt at synthesis or evaluation. There are few errors. | 10–12 |
| 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. | 13–15 |

2. (a) **Using diagrams, explain why a perfectly competitive firm can make economic (abnormal) profit only in the short run.** *[10 marks]*

Answers **may** include:

- definitions of perfect competition, economic (abnormal) profit and short run
- diagrams of economic (abnormal) profit in the short run and normal profit (zero economic profit) in the long run
- an explanation of how economic (abnormal) profit acts as a signal for new firms to enter the market, shifting market supply to the right until normal profits are restored
- examples of markets where this might occur.

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 consequences of a perfectly competitive industry becoming a monopoly.**

[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 and perfect competition
- diagrams to compare monopoly with perfect competition
- an explanation of how price, output, welfare, costs and efficiency would be affected when a perfectly competitive industry becomes a monopoly
- examples of instances to which this might be, or has been, applied
- synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. For example, candidates may point to advantages of monopoly such as economies of scale, research and development, *etc.*

Discussion **may** include: the advantages and disadvantages of a market becoming a monopoly with an overall assessment.

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. | 0 |
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| 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 is an attempt at synthesis or evaluation. There are few errors. | 10–12 |
| 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. | 13–15 |

SECTION B

Macroeconomics

3. (a) Using *two* AD/AS diagrams, explain cost-push and demand-pull inflation. [10 marks]

Answers **may** include:

- definition of inflation
- cost-push diagrams to illustrate cost-push inflation (shift SRAS left) and demand-pull inflation (shift AD right)
- an explanation of cost-push and demand-pull inflation
- examples of instances of cost-push and demand-pull inflation.

Candidates may offer explanations of the causes and consequences of cost-push and demand-pull inflation. This is not required by the question but may be rewarded if used to explain the meaning of cost-push and demand-pull inflation.

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 |
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- (b) **“The rate of inflation can be most effectively reduced through the use of monetary policy.” 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 rate of inflation and monetary policy
- diagrams to show the use of monetary and other policies in reducing the rate of inflation
- an explanation of the use of monetary policy, fiscal policy and supply-side policies to control inflation
- examples of where monetary and other policies have been used
- synthesis or evaluation (to what extent).

Command term

“To what extent” requires candidates to consider the merits or otherwise of an argument or concept.

Consideration of the merits of the statement **may** include: the advantages and disadvantages of the use of monetary policy and other policies used to control inflation.

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. | 0 |
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4. (a) Explain *two* factors which might cause economic growth.

[10 marks]

Answers **may** include:

- definition of economic growth
- diagrams to illustrate economic growth, for example by a rightward shift of AD and/or LRAS
- an explanation of any two factors that might lead to economic growth such as investment in physical, human and natural capital, productivity gains, rise in net exports
- examples of instances where factors have led to economic growth.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
| 0 The work does not reach a standard described by the descriptors below. | 0 |
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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 are no significant errors. | 9–10 |

- (b) **Evaluate the view that the benefits of economic growth will always outweigh the costs.**

[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 economic growth
- diagrams to illustrate the costs and benefits
- an explanation of the potential benefits of growth *eg* higher living standards and on government finances; the potential costs, *eg* on sustainable development and in terms of the possible conflicts with the other goals of economic policy such as low inflation or equity in the distribution of income
- examples of costs/benefits of growth which have occurred, or might occur
- synthesis or evaluation (evaluate).

Consider term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Evaluation **may** include: an evaluation of the positive and negative consequences of growth.

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. | 0 |
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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. | 13–15 |



MARKSCHEME

November 2014

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.

SECTION A

Microeconomics

1. (a) Using diagram(s), explain the signalling and incentive functions of price. [10 marks]

Answers **may** include:

- definition of price mechanism
- diagram(s) (supply and demand) to illustrate the signalling and incentive functions of price
- an explanation of the price mechanism to show how changes in supply and demand ration scarce resources through the signalling and incentive functions of price
- examples of price providing a signalling and incentive function.

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 |
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| 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) **Evaluate the view that the market failure caused by the consumption of demerit goods is best dealt with through the use of 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 demerit goods, market failure and indirect taxation
- diagram(s) to show market failure and use of indirect taxation
- explanations of the market failure caused by the consumption of demerit goods (negative consumption externalities); taxation policy to reduce consumption of demerit goods; other market based policies, *ie* tradable permits and non market-based policies, *eg* regulation and negative advertising
- examples of demerit goods and examples of where such responses have occurred, or might occur
- synthesis or evaluation.

Evaluation **may** include: consideration of the positive and negative consequences of the policies used.

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. | 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. | 1–5 |
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| 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 is an attempt at synthesis or evaluation. There are few errors. | 10–12 |
| 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. | 13–15 |

2. (a) **Explain why firms might wish to collude.**

[10 marks]

Answers **may** include:

- definitions of collusion, oligopoly
- diagram to show the benefits of collusion in terms of monopoly profits
- an explanation of the reasons why firms might collude such as: to increase profits, limit competition, limit uncertainties about the behaviour of rivals and how they might collude: formal collusion (forming a cartel), informal collusion (price leadership)
- examples of collusion.

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 |
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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 are no significant errors. | 9–10 |

- (b) **Discuss the view that governments should always try to prevent a monopoly occurring in a market.** *[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 a monopoly
- diagram to show a monopoly
- an explanation of the advantages of monopoly (natural monopoly, R&D) and disadvantages (loss of economic efficiency, higher prices, lower quantities)
- examples of government intervention, such as anti-monopoly legislation, regulation of natural monopoly
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of why governments should or should not try to prevent a monopoly.

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. | 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. | 1–5 |
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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. | 13–15 |

SECTION B

Macroeconomics

3. (a) **Distinguish between structural and demand-deficient unemployment.** *[10 marks]*

Answers **may** include:

- definitions of structural and demand-deficient unemployment
- diagram(s) to illustrate the different types of unemployment
- an explanation of structural unemployment and demand-deficient unemployment drawing out the key differences
- examples of structural unemployment *eg* declining industry and demand-deficient unemployment in a recession.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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| 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 |
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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 are no significant errors. | 9–10 |

- (b) **Discuss the view that the problem of unemployment can be reduced through the use of supply-side policies.** **[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 supply-side policies and unemployment
- diagrams to show use of supply-side and other policies
- explanations of how supply-side policies (market-based and interventionist) might lower unemployment; explanation of how demand-side policies (fiscal and monetary) might lower unemployment
- examples of supply-side and other policies used to reduce unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of the positive and negative consequences of different policies.

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 |
|--|--------------|
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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. | 13–15 |

4. (a) Using an appropriate diagram, explain how a recession might lead to more poverty. *[10 marks]*

Answers **may** include:

- definitions of poverty and recession
- diagram to illustrate recession (AD/AS or business cycle) or change in distribution of income (Lorenz)
- an explanation of how a recession may cause poverty in terms of lower incomes and higher unemployment
- examples of recession leading to poverty.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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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 are no significant errors. | 9–10 |

- (b) **Evaluate the view that attempts to achieve greater equity in the distribution of income will reduce economic efficiency.** **[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 and economic efficiency
- diagrams to show use of different policies, *eg* to show progressive taxes; diagram to show a production possibility frontier
- an explanation of the role of taxation in promoting equity in the distribution of income; government expenditure on public services, subsidies and transfer payments. Explanation of the impact of the policies on economic efficiency
- examples of where such policies have been used
- synthesis or evaluation.

Evaluation **may** include: a consideration of the positive and negative consequences of the different policies used, the impact of the policies on different stakeholders and their effect on 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. | 0 |
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Markscheme

May 2015

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.

Section A

Microeconomics

1. (a) Explain how changes in price work to reallocate resources in a market. **[10]**

*Answers **may** include:*

- definition of reallocation of resources
- diagrams to show how changes in price alter the equilibrium quantity and therefore reallocate resources
- theory to explain the signalling and incentive functions of the price mechanism
- examples of markets where price change has led to a reallocation of resources, such as through government intervention.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) Discuss the view that the overuse of common access resources is best addressed by government.

[15]

Answers **may** include:

- definition of common access resources
- diagrams to show negative production or consumption externalities associated with overuse of common access resources. PPC diagram to show the reduction of production possibilities
- theory to explain the overuse of common access resources due to the lack of ownership and a price mechanism
- examples of existing government responses such as licensing, international agreement, allocation of property rights
- synthesis or evaluation (discuss).

Discussion **may** include: whether the price mechanism is compatible with sustainability and consider the merits and limitations of government responses.

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. | 0 |
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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. | 13–15 |

2. (a) Explain why prices tend to be stable in oligopolistic markets.

[10]

*Answers **may** include:*

- definition of oligopoly, price stability
- diagram to show the kinked demand curve. Candidates might utilize a collusive oligopoly diagram
- theory to explain why price tends to be stable under conditions of non-collusive/collusive oligopoly
- example of where this has happened or might happen.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
| 0 The work does not reach a standard described by the descriptors below. | 0 |
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- (b) Oligopolists often possess too much monopoly power. Evaluate whether governments should intervene in oligopolistic markets.

[15]

Answers **may** include:

- definition of monopoly power, oligopoly or oligopolistic market
- diagram to show equilibrium under conditions of oligopoly, either collusive or non-collusive
- theory to explain higher prices, lower output, and productive and allocative inefficiency due to monopoly power. An explanation of the actions a government might engage in to control such power such as competition policy, price control, regulation, nationalization and trade liberalization
- example of industries that might illustrate such characteristics and of policies a government may have employed
- synthesis or evaluation.

Evaluation **may** include: consideration of the merits of intervention such as difficulties of identifying where such power may be excessive and whether intervention is justified over free markets, *etc.* Examples may be given of industries where despite economic inefficiency the consumer benefits from inherent economies of scale and therefore there is no need for government intervention.

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. | 0 |
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Section B

Macroeconomics

3. (a) Explain what is meant by the natural rate of unemployment

[10]

*Answers **may** include:*

- definition of the natural rate of unemployment
- diagram to show the labour market at full employment with residual structural, seasonal and frictional unemployment
- theory to explain how the natural rate of unemployment occurs where the economy is producing at the full employment level of output
- examples of unemployment that could be considered illustrative of the natural rate.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) Discuss the view that there is no trade-off between inflation and unemployment.

[15]

Answers **may** include:

- definition of inflation and unemployment
- diagram showing a Phillips curve and/or AD/LRAS
- theory to explain why there might/might not be a trade-off between inflation and unemployment. Possible use of short-run and long-run Phillips curve. Possible use of AD/LRAS
- examples of such a trade-off
- synthesis or evaluation (discuss).

Discussion **may** include: arguments relating to the trade-off between inflation and unemployment.

Responses may rely on different views regarding the shape of LRAS.

This question might be answered using AD/AS alone.

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 |
|--|--------------|
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4. (a) Explain how business spending on research and development and government expenditure on infrastructure might shift the long-run aggregate supply curve.

[10]

Answers **may** include:

- definitions of research and development, infrastructure, long-run aggregate supply
- diagram to show a shift in the LRAS
- explanation of how research and development in new technology will improve the quality of physical capital, hence increasing productive capacity and shifting the LRAS to the right. Explanation of how increased government expenditure in infrastructure will increase productive capacity and shift the LRAS to the right
- examples of research and development and infrastructure.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) Evaluate the effectiveness of interventionist supply-side policies to achieve economic growth.

[15]

*Answers **may** include:*

- definition of interventionist supply-side policies and economic growth
- diagram to show the impact of interventionist supply-side policies on economic growth
- explanation of the interventionist supply-side policies that could be used to increase the rate of economic growth through:
 - education and training
 - research and development
 - infrastructure
 - industrial policy
- examples of the application of interventionist supply-side policies
- synthesis or evaluation.

*Evaluation **may** include: the use of interventionist supply-side policies used to increase economic growth including:*

- cost and effectiveness of the interventionist supply-side policies
- time it takes for the policy to increase economic growth
- implications for different stakeholders
- suggestion of alternatives to interventionist supply-side policies.

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 |
|--|--------------|
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Markscheme

November 2015

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.

Section A

Microeconomics

1. (a) Explain why a government might decide to impose an indirect tax on the consumption of cigarettes. [10]

Answers **may** include:

- definition of indirect tax
- theory to explain how imposing an indirect tax on cigarettes will achieve government objectives of raising revenue and reducing consumption
- diagrams to illustrate the imposition of the tax on cigarettes
- examples of instances and/or reasons why governments impose indirect tax on cigarettes.

N.B. Candidates can be awarded full marks for coverage of one reason why a government might impose an indirect tax.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------|
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- (b) Discuss the possible consequences of the imposition of an indirect tax on cigarettes for the different stakeholders in the market.

[15]

Answers **may** include:

- definitions of indirect tax and market
- theory to explain the implications for consumers; for producers; for the government
- diagram to show the application of a tax to illustrate the impacts on different stakeholders
- examples of use of indirect taxes and the impact on stakeholders in practice
- synthesis or evaluation (discuss).

Discussion **may** include: the advantages and disadvantages as applied to the different stakeholders and more generally in terms of society, for example reduced passive smoking for all as well as reduced consumption for individual consumers.

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. | 0 |
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2. (a) Explain why a firm in monopolistic competition will make normal profit in the long run.

[10]

*Answers **may** include:*

- definitions of monopolistic competition, normal profit and long run
- theory to explain how the lack of barriers leads to firms responding to short-run abnormal profits/losses to enter/leave the market to restore normal profits in the long run
- diagram to show monopolistic competition in the long/short run
- example of sectors that might reflect monopolistic market structures.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) Evaluate the view that monopolistic competition is a more efficient market structure than monopoly.

[15]

Answers **may** include:

- definitions of monopoly, monopolistic competition and efficiency
- theory to explain how monopolistic competition may or may not be more efficient than monopoly
- diagram of a monopoly and monopolistic competition diagram to compare efficiency
- examples of industries that could represent these types of competition to highlight the points made
- synthesis or evaluation (evaluate).

Evaluation **may** include: the relative efficiencies of the two market structures, consideration of dynamic efficiency, economies of scale, responsiveness to consumer demand.

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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|--|--------------|
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Section B

Macroeconomics

3. (a) Explain how fiscal policy can be used to achieve long-term economic growth (increases in potential output).

[10]

*Answers **may** include:*

- definitions of fiscal policy, economic growth and potential output
- theory to show how government spending on investment in physical and human capital and infrastructure, and/or government provision of incentives to invest through reductions in taxes, result in an increase in LRAS and potential output. Reference may be made to the indirect effects of creating a favourable environment for investment
- diagram to show an increase in LRAS and an increase in potential output
- examples of where this may have been the case.

N.B. Candidates who consider only the impact on AD and who do not look at long-term economic growth should not be awarded above level 2.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) Discuss the view that economic growth always leads to a more equal distribution of income and a reduction in unemployment.

[15]

Answers **may** include:

- definitions of unemployment, distribution of income and economic growth
- theory to explain how economic growth may lower/raise unemployment and improve/worsen the distribution of income
- diagrams to indicate falling unemployment and a more equal distribution of income
- examples of where this may have happened
- synthesis or evaluation (discuss).

Discussion **may** include: the impact that economic growth can have, both positive and negative effects, on the level of unemployment and the distribution of income.

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 |
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4. (a) Explain why, using the monetarist/new classical model, the economy will always return to the full employment level of output following a recession.

[10]

*Answers **may** include:*

- definitions of full employment and recession
- theory to explain how wages and prices adjust to bring the economy back to full employment equilibrium in the long run
- diagram to show AD/AS with a vertical LRAS and deflationary gap
- examples of where this might have occurred or a suitable development of a theoretical example.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) Evaluate the view that an increase in aggregate demand will always be inflationary.

[15]

Answers **may** include:

- definitions of aggregate demand and inflation
- theory to explain the new classical view that LRAS is vertical and therefore increases in AD are purely inflationary. Consideration that the SRAS curve suggests that increases in AD are partly inflationary. A consideration of opposing Keynesian views regarding the shape of AS
- diagram to show an AD/AS illustrating the different views
- examples of situations regarding differing views of the shape of the new classical LRAS and the Keynesian AS curves
- synthesis or evaluation (evaluate).

Evaluation **may** include: whether and under what conditions an increase in AD is always inflationary.

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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