

# **Markscheme**

**May 2016**

**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 the incidence of an indirect tax depends on the price elasticity of demand and the price elasticity of supply. [10]

*Answers may include:*

- definitions of indirect tax, incidence of tax, price elasticity of demand and price elasticity of supply
- diagram to show the incidence of tax
- explanation of the relationship between PED and PES and the incidence of tax between the producer and the consumer. Explanation that if  $PES > PED$  the incidence on consumers is greater, and if  $PES < PED$  the tax incidence on producers is greater
- examples of goods that may be more or less elastic, examples of goods where the incidence of tax falls more on the producer or the consumer.

### 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 imposing an indirect tax on unhealthy food.

[15]

*Answers **may** include:*

- definition of indirect tax
- diagram to show the impact of imposing an indirect tax on unhealthy food
- an explanation of the consequences of the tax on consumers, producers, government and net social welfare
- examples of the application of the tax which has altered or not altered consumer behaviour
- synthesis or evaluation (discuss).

Discussion **may** include: social costs of ill health and obesity, consideration of the positive and negative impacts of government intervention.

Some responses may approach unhealthy food as a demerit good leading to market failure / negative externalities of consumption. This can be credited equally if it leads to a valid discussion.

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

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

### Assessment Criteria

#### Part (b) 15 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	<b>0</b>
1 There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	<b>1–5</b>
2 There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	<b>6–9</b>
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2. (a) Explain why firms may not always pursue the goal of profit maximization. **[10]**

*Answers may include:*

- definition of profit maximization
- diagrams to show profit maximization and alternative goals such as revenue maximization, growth maximization, satisficing and corporate social responsibility
- explanation of profit maximization and the alternative goals of firms in the short and long run
- examples of alternative goals of firms.

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- (b) In monopoly, economic (abnormal) profit can be earned in both the short run and the long run. Examine the role of barriers to entry in earning economic profit.

[15]

*Answers **may** include:*

- definitions of monopoly, economic profit, short run, long run, barriers to entry
- diagrams to show the making of economic profit in the above situations
- explanation of the making of economic profit in monopoly and the importance of barriers to entry
- examples of different barriers to entry
- synthesis or evaluation (examine) of the role of barriers to entry in the making of economic profit.

Examination **may** include: the degree to which markets in practice can be free from barriers to entry, relative importance of different entry barriers, the possibility of entry barriers being eroded over time and a discussion of the making of economic profit in perfect competition and monopolistic competition.

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## Section B

### Macroeconomics

3. (a) Explain how an increase in the level of taxation can influence the level of aggregate demand in an economy. [10]

*Answers may include:*

- definitions of taxation and aggregate demand
- AD/AS diagram correctly labelled to show how an increase in the level of taxation might shift the AD curve to the left
- an explanation of the impact of an increase in direct taxes, *eg* income tax and profits tax, and an increase in indirect taxes, on the level of AD
- examples of instances to which this might be, or has been applied.

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- (b) Evaluate the effectiveness of fiscal policy in promoting economic activity during a recession.

[15]

*Answers **may** include:*

- definitions of fiscal policy and recession
- diagram to show AD shifting to the right as a result of expansionary fiscal policy
- an explanation of the mechanisms by which expansionary fiscal policy might work in terms of tax cuts/increases in government spending, and possible multiplier effects
- examples of the use of expansionary fiscal policy in practice
- synthesis and evaluation.

Evaluation **may** include: consideration of the effectiveness of fiscal policy in terms of factors such as the direct impact on AD, time lags, political constraints, crowding out and the inability to deal with supply-side causes of instability.

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4. (a) Using the Keynesian AD/AS diagram, explain why an economy may be in equilibrium at any level of real output. **[10]**

*Answers may include:*

- definitions of macroeconomic equilibrium and real output
- diagram to show equilibrium at different levels of real output
- explanation of equilibrium at different levels of real output, eg at full employment and less than full employment
- examples of economies operating at different levels of real output and/or of economies at different times in their history.

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- (b) Evaluate the view that increased investment is the most important factor in achieving a faster rate of economic growth.

[15]

*Answers **may** include:*

- definitions of investment and economic growth
- diagrams to show economic growth such as the Keynesian AS or LRAS shifting to the right or the PPC shifting outward or AD shifting right
- explanation of different types of investment, such as in physical capital and human capital, and the linkage between increased investment and faster economic growth
- examples of countries with different levels of investment and how this has impacted on relative growth rates
- synthesis or evaluation of the role of investment in the growth process.

Evaluation **may** include: importance of other factors which may cause economic growth, importance of the type of investment, consideration of whether higher investment causes economic growth, or whether faster growth stimulates higher investment.

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