Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2018

Economics

Higher level

Paper 1

16 pages

International Baccalaureate
Baccalauréat International
Bachillerato Internacional

The following are the annotations available to use when marking responses.

Annotation	Explanation
AE	Attempts Evaluation
AQ	Answers the Question
BOD	Benefit of Doubt
CKS	Clear Knowledge Shown
✖	Cross - Incorrect Point
EE	Effective Evaluation
GA	Good Analysis
GD	Good Definition
GDIG	Good Diagram
GEXA	Good Example
GEXP	Good Explanation
	Highlight tool
ILbl	Incorrect Labelling
IR	Irrelevant
IU	Inappropriate Use
LD	Lacks Depth
LLS	Lacks Logical Structure
L0	Level 0
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4

NAQ	Not Answered Question
ND	No Definition
NExa	No Examples
T	On-page comment text box (for adding specific comments)
PD	Poor Diagram
PE	Poorly Expressed
?	Question mark - unclear
SEEN	Apply to blank pages
TCE	Theory is Clearly Explained
TNCE	Theory is Not Clearly Explained
✔	Tick – correct point (colourable)
TV	Too Vague
▭	Underline tool
UR	Unbalanced Response

You **must** make sure you have looked at all pages. Please put the SEEN annotation on any blank page, to indicate that you have seen it.

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

Section A

Microeconomics

1. (a) Explain **two** reasons why a government might want to subsidize a good or service.   **[10]**

*Answers **may** include:*
- definition of subsidy
- diagram to show the effect of a subsidy on a good or service
- explanation that governments might introduce a subsidy for different reasons, to correct externalities, to protect domestic industry
- example(s) of goods and services that governments subsidize and the reasons for doing so.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–3*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*4–6*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*7–8*
	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.	
4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b) Discuss the view that governments should tax the consumption of gasoline
     (petroleum).   **[15]**

     *Answers **may** include:*
     • definition of indirect tax if not given in part (a)
     • diagram of negative externalities in the consumption of gasoline
     • explanation that governments have a number of reasons why they might
       use indirect taxes on gasoline, such as revenue, the correction of negative
       externalities of consumption
     • example(s) of where governments have taxed (or subsidized) gasoline
     • synthesis or evaluation (discuss).

     Discussion **may** include: consideration of reasons against (impact on business
     costs, impact on low income car owners), for example, some governments could
     subsidize it.

     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.*

     *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 meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	

2. (a) Explain why some firms might choose the goal of profit maximization while others might choose to adopt satisficing behaviour. **[10]**

*Answers **may** include:*
- definitions of profit maximization and satisficing
- diagram(s) to show MC=MR maximizes profit
- explanation of how profits are maximized when MR=MC and that satisficing behaviour can cover a range of objectives and also lead to outcomes that are less profitable
- examples of firms with different goals.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–3*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*4–6*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*7–8*
	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.	
4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b)   Discuss whether price will always be lower and output will always be higher in
        perfect competition compared to monopoly.   **[15]**

   *Answers **may** include:*
   - definitions of perfect competition, monopoly, price and output
   - diagrams to compare long-run equilibrium in perfect competition and monopoly
   - explanation of how in perfect competition the characteristics of the market lead to
     normal profit and economic efficiency and consequently lower prices and a higher
     output than a less efficient market like monopoly
   - examples of perfect competition and monopoly
   - synthesis or evaluation (discuss).

   Discussion **may** include: the benefits of monopoly like economies of scale, which
   could lead to lower prices and higher output.

   *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 meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	

Section B

Macroeconomics

3. (a) Explain why structural unemployment might occur in an economy. **[10]**

*Answers **may** include:*
- definitions of unemployment and structural unemployment
- diagram to show structural unemployment
- explanation of how structural unemployment might occur
- examples of situations when structural unemployment has occurred.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	0
1	*There is little understanding of the specific demands of the question.*	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	7–8
	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.	
4	*There is understanding of the specific demands of the question.*	9–10
	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.	

(b)   Evaluate government policies to deal with the different types of unemployment.   **[15]**

*Answers **may** include:*
- definitions of government policies and frictional, structural, seasonal and cyclical (demand-deficient) unemployment
- diagrams might include AD/AS showing how government policies can increase AD leading to an increase in real GDP and/or a diagram to show how an increase in AD can reduce structural unemployment and the natural rate of unemployment
- explanation that fiscal, monetary or supply-side policies can all be used to reduce the different types of unemployment. Outlining the transmission mechanism involved
- examples of situations where a country has reduced a type of unemployment
- synthesis or evaluation.

Examination **may** include: the effectiveness of fiscal, monetary and supply-side policies in terms of dealing with the different types of unemployment including the limitations of using demand management to deal with anything other than cyclical unemployment and the suitability of various supply-side policies. In addition, the short-run/long-run implications of using demand management and supply-side policies may be evaluated.

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 meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	

4. (a) Explain how expansionary fiscal policy could be used to close a deflationary (recessionary) gap. **[10]**

*Answers **may** include:*
- definitions of fiscal policy, expansionary fiscal policy, deflationary (recessionary) gap
- diagram to show the potential effects of expansionary fiscal policy
- explanation of how an expansionary fiscal policy will boost aggregate demand and increase output, thereby closing a deflationary gap
- examples of countries that have used expansionary fiscal policy.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	0
1	*There is little understanding of the specific demands of the question.*	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	7–8
	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.	
4	*There is understanding of the specific demands of the question.*	9–10
	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.	

(b)   Evaluate the view that fiscal policy is the most effective way of achieving long-term economic growth.   **[15]**

*Answers **may** include:*
- definition of long-term economic growth
- diagram to show a shift in the PPC and potential output. An AD/AS diagram showing a shift of LRAS to the right.
- explanation of how fiscal policy leads to long-term economic growth indirectly by creating an economic environment that is favourable to private investment, and directly through government spending on physical capital goods and human capital formation, as well as provision of incentives for firms to invest
- examples of fiscal policy that has had this effect
- synthesis or evaluation.

Evaluation **may** include: the type of fiscal policy and how it is financed, advantages and disadvantages of fiscal policy, consideration of alternative policies, such as monetary and 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
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	