M16/3/ECONO/HP1/ENG/TZ2/XX/M

Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2016

Economics

Higher level

Paper 1

14 pages

International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

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

Section A

Microeconomics

1. (a) Market failure can occur when there is asymmetric information, abuse of monopoly power and positive externalities. Explain why any **two** of these represent market failure. **[10]**

*Answers **may** include:*

- definitions of market failure, asymmetric information, monopoly power, positive externalities (depending on which two are chosen)
- diagrams to show MSC/MSB in relation to asymmetric information and positive externalities and a monopoly diagram to illustrate abuse of monopoly power
- an explanation of the linkages between asymmetric information and market failure; and/or abuse of monopoly power and market failure; and/or positive externalities and market failure
- examples of instances to which this might be, or has been applied.

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) Evaluate the view that regulations are the most effective government response to the market failure of negative externalities. **[15]**

*Answers **may** include:*
- definitions of regulations, market failure and negative externalities
- diagram to show the impact of regulations on negative externalities, *eg* MSC/MSB
- an explanation of the different types of regulations that might be applied and their potential impact on negative externalities of production and consumption
- examples of the use of regulations in practice
- synthesis and evaluation.

Evaluation **may** include: consideration of the effectiveness of regulations in terms of such factors as their direct impact, the difficulty of ensuring enforcement, the cost of policing, the range of regulations, including outright bans, the potential benefits of market-based measures such as taxation and tradable permits unintended consequences of regulation(s).

Many candidates include taxes under regulations; whilst not normally how taxes are treated in books, nevertheless please review what is written with regard to how well it addresses the question and do not aim to penalise this.

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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.	**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) Explain the conditions necessary for firms in oligopolistic markets to engage in price discrimination. **[10]**

*Answers **may** include:*
- definitions of oligopoly, price discrimination
- diagram(s) to show differing PEDs, profit maximization under price discrimination
- explanation of the conditions necessary for price discrimination: differing elasticities, separable markets, market power
- examples of firms which price discriminate.

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(b) Discuss whether producers in oligopolistic markets should compete or collude. **[15]**

*Answers **may** include:*
- definitions of oligopoly, collusion
- diagrams to show kinked demand curve, oligopoly diagram showing collusion (monopoly diagram)
- explanation of how interdependence leads to conflicting objectives to compete and to collude; why oligopolists may prefer collusion, weaknesses of collusion, benefits of competition; distinction between price and non-price competition
- examples of collusion in oligopolistic markets
- synthesis and evaluation (discuss).

Discussion **may** include: merits of collusion, abnormal profits, the role of uncertainty, incentive to cheat, legal considerations. Collusive oligopolies are potentially weak structures not usually supported by law. Responses may be illustrated with a game theory outcome/payoff matrix, which can serve as a diagram.

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Section B

Macroeconomics

3. (a) Explain the impact of automatic stabilizers on an economy. **[10]**

*Answers **may** include:*

- definition of automatic stabilizers
- diagram to show AS/AD and the macroeconomy / business cycle diagram
- explanation of how progressive taxes and unemployment benefits help stabilize short-term fluctuations in the economy
- examples of stabilizers.

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(b) Evaluate the effectiveness of fiscal policy in achieving economic growth. **[15]**

*Answers **may** include:*

- definitions of fiscal policy and economic growth
- diagram to show the effect of increasing AD on economic growth
- explanation that lower taxes or increased government spending lead to increases in AD causing increases in real output
- examples of countries that have used fiscal policy in this way like USA
- synthesis and evaluation.

Evaluation **may** include: time lags, size of any changes, other policies.

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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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