



MARKSCHEME

May 2012

ECONOMICS

Standard 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.

1. (a) **Explain the possible economic advantages to consumers that arise from living in a free market economy.** **[10 marks]**

Answers **should** include:

- a definition of a free market economy
- an explanation of reliance on price to allocate goods and services
- an explanation of reliance on supply and demand to set prices and wages
- consumers enjoy an absence of shortages and surpluses in markets
- consumers enjoy choice and a wide range of goods and services
- producers respond to the wishes of consumers via price signals
- consumers enjoy lower prices due to competition.

Answers **may** include:

- use of a demand/supply diagram indicating a change in resource allocation
- profit motive allows producers to respond quickly to changes in consumer tastes
- reference to Adam Smith and the self-regulating nature of markets
- consumers can participate in private ownership of the means of production
- consumers may benefit from competition between firms
- consumers enjoy relative efficiency.

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

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	Completely inappropriate answer.	0
1	Little understanding of the specific demands of the question. Very little recognition of relevant economic theory. Relevant terms not defined. Significant errors.	1–3
2	Some understanding of the specific demands of the question. Some recognition of relevant economic theory. Some relevant terms defined. Some errors.	4–6
3	Understanding of the specific demands of the question. Relevant economic theory explained and developed. Relevant economic terms defined. Few errors. Where appropriate, diagrams included.	7–8
4	Clear understanding of the specific demands of the question. Relevant economic theory clearly explained and developed. Relevant economic terms clearly defined. No major errors. Where appropriate, diagrams included and explained. Where appropriate, examples used.	9–10

- (b) Evaluate the economic implications of a government policy to provide merit goods free of charge.

[15 marks]

Answers **may** include:

- a definition of merit goods
- a definition of merit goods as a form of market failure
- a definition of merit goods as those under-consumed at market price
- an explanation of achievement of the socially optimum level of output
- use of an MSC/MSB diagram
- existence of strong positive externalities in merit goods
- private benefits may be underestimated leading to under-consumption
- discussion of benefits of merit goods, *e.g.* impact on economic growth
- costs of merit goods are borne by taxpayers
- opportunity costs of providing merit goods
- relative costs and benefits of direct provision or subsidy to supply merit goods
- advantages and disadvantages of state provision
- physical/psychological crowding out of the private sector by labour intensive merit good provision
- promotion of greater equality as the less affluent have access to merit goods
- examples of particular merit goods provided free in particular countries
- evaluation of above arguments.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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Assessment Criteria**Part (b) 15 marks**

Level		Marks
0	Completely inappropriate answer.	0
1	Little understanding of the specific demands of the question. Very little recognition of relevant economic theory. Relevant terms not defined. Significant errors.	1–5
2	Some understanding of the specific demands of the question. Some recognition of relevant economic theory. Some relevant terms defined. Some errors.	6–9
3	Understanding of the specific demands of the question. Relevant economic theory explained and developed. Relevant economic terms defined. Few errors. Where appropriate, diagrams included. An attempt at evaluation.	10–12
4	Clear understanding of the specific demands of the question. Relevant economic theory clearly explained and developed. Relevant economic terms clearly defined. No major errors. Where appropriate, diagrams included and explained. Where appropriate, examples used. Evidence of appropriate evaluation.	13–15

2. (a) **Explain why countries measure national income.**

[10 marks]

Answers **should** include:

- a definition of national income
- an explanation of a measure of national income, *e.g.* GDP
- an explanation that it is an indicator of living standards
- an explanation that it helps to assess whether growth or recession has occurred
- an explanation that it helps to measure economic performance over time
- an explanation that it helps to compare economic performance between countries.

Answers **may** include:

- a basis for forecasting for economists, businesses and governments
- a basis for judging success of economic policies and formulating future policies
- a means of identifying changes in consumption, investment *etc.*
- examples of statistics from particular countries
- illustration using a PPF or PPC shifting to the right or moving towards potential output and/or AD/AS diagram.

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- (b) **Evaluate the view that demand-side policies are the most effective method of increasing the level of national income.**

[15 marks]

Answers **may** include:

- a definition of demand-side policies
- an explanation of demand-side policies in relation to increasing the level of national income/economic growth
- examples of monetary and fiscal demand-side policies
- use of an AD/AS diagram to illustrate expansionary demand-side policies
- disadvantages of demand-side policies, *e.g.* time-lags, inflationary pressure, increased government debt, increased imports
- alternatives to demand-side policies, *e.g.* supply-side policies
- explanation of how supply-side policies might increase the level of national income
- use of AD/AS or PPC diagram to illustrate supply-side policies
- disadvantages of supply-side policies, *e.g.* time-lags, inequality, uncertain effectiveness of lowering taxes
- evaluation of above arguments.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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

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3. (a) **Explain the difference between expenditure-switching and expenditure-reducing policies for a government facing a current account deficit.** [10 marks]

Answers **should** include:

- a definition of expenditure-switching policies
- a definition of expenditure-reducing policies
- an explanation of a current account deficit
- an explanation of expenditure-switching policies, *e.g.* depreciation /devaluation, protectionism
- an explanation of expenditure-reducing policies, *e.g.* deflationary fiscal and monetary policies.

Answers **may** include:

- use of AD/AS diagram to illustrate expenditure reducing
- use of tariff diagram to illustrate expenditure switching
- expenditure-switching policies may reduce imports only but expenditure-reducing policies may affect demand for all goods and services, reducing AD
- expenditure-switching policies may cause conflict with trade blocs and international organisations
- expenditure-switching policies may cause imported inflation and trade wars
- expenditure-reducing policies may damage growth and employment and may lead towards a recession
- expenditure-reducing policies may improve export competitiveness due to their deflationary nature.

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Assessment Criteria

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- (b) **Evaluate the view that it is never desirable for countries to resort to protectionism.**

[15 marks]

Answers **may** include:

- a definition of protectionism
- an explanation of types of protectionism
- arguments in support of the view in terms of the case for free trade
 - greater volume of trade
 - benefits of specialisation (specific reference to absolute and comparative advantage is not required in SL)
 - more efficiency in the allocation of resources
 - greater employment
 - greater choice
 - lower prices for consumers
- arguments in support of the view in terms of the case against protectionism
 - the possibility of retaliation
 - misallocation of resources
 - higher prices
- use of a tariff diagram to illustrate the costs of protectionism
- arguments against the view in terms of the drawbacks of free trade
 - the problem of free trade between unequal partners
 - impact on LDCs' efforts to diversify
- arguments against the view in terms of specific justifications of protectionism
 - infant industry argument
 - employment arguments
 - protection of the balance of payments
 - source of government revenue
 - anti-dumping
 - strategic arguments
- reference to short-term/long-term effects of protectionism
- evaluation of above arguments.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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Assessment Criteria

Part (b) 15 marks

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4. (a) Explain how *three* of the following factors may act as barriers to development in a less developed country:

- capital flight
- income inequality
- ineffective taxation structure
- lack of infrastructure.

[10 marks]

Answers **should** include:

- a definition of development
- a definition of a less developed country
- a definition of each of the three economic factors selected
- an explanation of how the three chosen economic factors act as barriers:
 - capital flight: reduces the amount of aid/FDI that remains in the less developed country, reducing investment
 - income inequality: adversely affects the purchasing power and prevents the less affluent from saving and realising their economic potential
 - ineffective taxation structure: prevents the government from maximising its potential tax revenue thus limiting the funds available for public spending
 - lack of infrastructure – raises the costs, and limits the extent of, all forms of economic activity.

Answers **may** include:

- interrelationships between the barriers may reinforce them
- diagrams such as the Lorenz curve to illustrate income inequality
- mention of human as well as physical capital under infrastructure.

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Assessment Criteria

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- (b) **Evaluate the view that foreign direct investment (FDI) is the key factor in determining whether a developing country will be able to achieve economic growth and development.**

[15 marks]

Answers **may** include:

- a definition of foreign direct investment (FDI)
- a definition of economic growth
- a definition of economic development
- arguments for FDI: MNCs can fill the savings gap through local investment, can generate export revenues, can generate tax revenues, can boost employment, can improve education and training, but all to a variable extent
- arguments against FDI: MNC profits may be repatriated elsewhere, tax concessions may have to be made (reducing revenues), inappropriate technology may generate little local employment, employment may be for the unskilled only, pressure may be put on government to allow policies favourable to development such as environmental shortcuts
- alternative paths to development, *e.g.* inward-oriented growth, micro-finance
- case studies of particular FDI show it is not always successful in promoting economic growth and development
- evaluation of above arguments.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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Assessment Criteria

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