



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 how, in a market system, changes in demand and supply allocate scarce resources through the signalling and incentive functions of price. [10 marks]

Answers **should** include:

- a definition of a market system
- a definition of demand
- a definition of supply
- an explanation of the term “scarce resources”
- an explanation of how changes in demand **or** supply influence resource allocation through the signalling function of price
- an explanation of how changes in demand **or** supply influence resource allocation through the incentive function of price
- use of relevant demand and supply diagrams

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 view that government intervention in agricultural markets will create more problems than it solves.**

[15 marks]

Answers **may** include:

- methods of government intervention:
 - minimum and maximum price controls
 - buffer stock schemes
 - commodity agreements
 - subsidies
 - import controls
 - state ownership
 - export taxes
- an explanation of the problems of agricultural markets in terms of:
 - high food prices for low income consumers
 - fluctuating prices and producers' incomes
 - problems of overdependence on agriculture
 - relatively low productivity of the agricultural sector
 - low income elasticity of demand
- an explanation of how government intervention may solve the problems of agricultural markets:
 - helps to stabilize producers' incomes and prices to consumers
 - may increase productivity in the agricultural sector
- use of relevant diagram(s)
- problems of government intervention in agricultural markets:
 - dependence amongst producers
 - misallocation of resources
 - financial cost of subsidies
 - corruption
- advantages and disadvantages of different methods of government intervention
- 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) **Using AD/AS diagrams, explain how inflation may be caused by demand pull and cost push factors.**

[10 marks]

Answers **should** include:

- a definition of inflation
- an explanation of demand pull inflation
- an explanation of factors which may cause demand pull inflation in terms of rising AD as a result of increases in C, I, G or X or a reduction in M
- use of an AD/AS diagram, showing AD shifting right
- an explanation of cost push inflation
- an explanation of cost push inflation in terms of rising costs such as wages, raw materials, profits *etc.*
- use of an AD/AS diagram to illustrate AS shifting left.

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Assessment Criteria

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- (b) **Evaluate the view that the consequences of deflation are likely to be more harmful to an economy than the consequences of inflation.** *[15 marks]*

Answers **may** include:

- a definition of deflation
- a definition of inflation
- costs of deflation such as:
 - reducing AD as consumers wait for lower future prices
 - borrowers losing and lenders gaining
 - reducing business profits and prices fall
 - an indication of recessionary conditions
- the difference between good deflation (shift of AS right) and bad deflation (shift of AD left)
- costs of inflation such as:
 - uncertainty for firms
 - reduced investment
 - menu and shoe leather costs
 - borrowers gain and lenders lose
 - reduced real incomes especially on households with fixed incomes
 - reduced international competitiveness
- the different effects of cost push and demand pull inflation
- the importance relative rates and duration of inflation and deflation
- use of AD/AS diagrams
- 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.

Assessment Criteria

Part (b) 15 marks

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3. (a) **Explain the factors which might cause a country's balance of payments on current account to deteriorate.**

[10 marks]

Answers **should** include:

- a definition of balance of payments on current account
- an explanation of deterioration of current account in terms of changes in the value of exports and/or imports.

Answers **may** include:

- impact of exchange rate changes
- impact of relative rates of inflation
- importance of non-price factors such as the relative quality of domestically produced goods
- significance of changes in cost advantages, perhaps related to unit labour costs or relative productivity rates
- the significance of rising living standards and the propensity to import
- government trading policies such as protectionism
- impact of economic growth in trading partners and the world economy.

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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.

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

Assessment Criteria

Part (b) 15 marks

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4. (a) “The banking system, the education system, health care and a country’s infrastructure are four sources of economic development.” Explain how *three* of these factors might contribute to economic development. *[10 marks]*

Answers **should** include:

- a definition of economic development
- an explanation of how the three chosen factors might contribute to economic development:
 - possible links between the banking system and economic development
 - possible links between the education system and economic development
 - possible links between a country’s health care and economic development
 - possible links between a country’s infrastructure and economic development.

Answers **may** include:

- AD/AS and PPC diagrams.

Where candidates consider two factors a maximum of *[8 marks]* can be awarded and where only one factor is considered a maximum of *[6 marks]* can be awarded.

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- (b) **Evaluate the view that the impact of globalization on the economic growth and development of developing countries has, on balance, been beneficial.** *[15 marks]*

Answers **may** include:

- a definition of globalization
- a definition of economic growth
- a definition of economic development
- a definition of developing countries
- an explanation of the difference between growth and development
- analysis of the costs and benefits of:
 - free trade for developing countries
 - FDI for developing countries
 - unrestricted financial capital flows for developing countries
 - global economic crises for developing countries
 - technology transfers and improvements in technology for developing countries
 - free movement of labour for developing countries
 - lower transport costs for developing countries
 - better access to information
 - cultural transfers
- consideration of dependence and vulnerability of developing countries with regard to global economic crises
- reference to particular developing countries to illustrate the impact of globalization
- 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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