



MARKSCHEME

November 2012

ECONOMICS

Standard Level

Paper 1

17 pages

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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 why merit goods are an example of market failure. [10 marks]

Answers **should** include:

- a definition of merit goods
- a definition of market failure
- a definition of positive externalities
- examples of merit goods such as education and health care
- an explanation that the positive externalities associated with the consumption of merit goods leads to their under-provision/under-consumption at market price
- use of a diagram to show the under-provision/under-consumption of merit goods in a market economy.

Answers **may** include:

- under-provision of merit goods also occurs because people do not always act in their own best interests.

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 policies a government might use to deal with the market failure associated with merit goods.

[15 marks]

Answers **may** include:

- an explanation of policy options and their benefits:
 - subsidies
 - tax incentives
 - state provision
 - regulation
 - advertising
 - education
- the problems of applying these policies:
 - the cost of subsidies, state provision, education, *etc.*
 - the problems of applying regulations
 - the effectiveness of advertising and education
 - the efficiency of state provision
- use of diagram(s) to illustrate the policies applied to encourage the consumption and production of merit goods.

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 the difference between cyclical/demand-deficient and structural unemployment.**

[10 marks]

Answer **should** include:

- a definition of unemployment
- a definition of cyclical/demand deficient unemployment
- a definition of structural unemployment
- an explanation of how, when an economy experiences recession, falling demand leads to demand deficient unemployment
- an explanation of how structural changes in the economy lead to structural unemployment
- use of an AD/AS diagram to illustrate the cause of demand deficient unemployment.

Answers **may** include:

- a diagram to illustrate structural unemployment
- examples of when cyclical/demand-deficient unemployment has occurred
- example of structural unemployment.

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- (b) Evaluate the view that high unemployment is the most serious economic problem a country can face.**

[15 marks]

Answers **may** include:

- the problems unemployment poses for a country in terms of:
 - poverty/loss of income for the unemployed
 - mental and physical health of those unemployed
 - impact on the families of the unemployed
 - negative externalities of unemployment, *e.g.* crime, social deprivation
 - falling AD and business failure through the “fear” of unemployment
 - negative impact on government finance through higher benefits and falling tax revenues
- an explanation that the seriousness of the problem of unemployment depends on the country concerned. For example, the poverty caused by unemployment is a serious problem in LDCs without a welfare system
- comparison with other economic problems that might affect the economy such as inflation, growth and income inequality
- an explanation that short term unemployment is not associated with major problems whereas long term structural unemployment can lead to more serious consequences
- an explanation that unemployment can bring benefits for firms who have more workers to choose from
- an explanation that unemployment may lead to more efficient labour as staff turnover falls and workers are more motivated to keep their jobs
- an explanation that unemployment may reduce business costs by lowering real wages.

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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3. (a) **Explain how the value of a currency is determined in a free floating exchange rate system.**

[10 marks]

Answers **should** include:

- a definition of exchange rate
- a definition of free floating exchange rate system
- an explanation of the demand for a currency
- an explanation of the supply of a currency
- an explanation of how the demand for and supply of a currency determines the value of the currency
- use of a diagram to show how the value of currency is determined
- examples of exchange rates.

Answers **may** include:

- an explanation of how changes in the demand and supply of a currency causes a change in its value.

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- (b) Evaluate the consequences for an economy of a significant depreciation in the value of its currency.**

[15 marks]

Answers **may** include:

- a definition of depreciation in the value of a currency
- diagram to illustrate a depreciation
- advantages of a depreciation in the value of a currency:
 - domestic exports /exporters become more competitive
 - domestic goods and firms become more competitive relative to imported goods
 - current account balance of payments moves towards surplus
 - domestic GDP may rise
 - domestic unemployment may fall
- disadvantages of a depreciation in the value of a currency:
 - import prices increase which adds to business costs
 - higher import prices for consumers
 - increase in the domestic rate of inflation
 - debts to foreign lenders get more expensive to service and repay
- use of an AD/AS diagram to show the impact of a depreciating currency
- use of examples to show the impact of a depreciating currency.

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 why multinational corporations enter new markets in less developed countries.** *[10 marks]*

Answers **should** include:

- a definition of a multinational corporation
- a definition of a less developed country
- an explanation of possible reason(s) why MNCs expand into less developed countries.

Answers **may** include:

- an explanation of possible reasons:
 - access to new markets
 - increased sales
 - profits
 - access to raw materials
 - lower labour costs
 - avoidance of legal and environmental controls
 - tax and other incentives.

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Assessment Criteria

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- (b) **“Multinational corporations do not help economic development.”**
Evaluate this statement.

[15 marks]

Answers **may** include:

- a definition of economic development
- unhelpful impacts of MNCs:
 - damage to domestic firms
 - repatriation of profits
 - generation of imports
 - negative externalities
 - limited range of employment
 - skill levels may not increase
 - income inequality
 - rural-urban migration problems
 - tax revenues may not increase
 - inappropriate technology
- helpful impacts of MNCs:
 - may provide investment to help fill savings gap
 - generation of tax revenue which may support public goods and merit goods
 - increased exports
 - positive externalities
 - improved standard of living through higher wages, tax revenues *etc.*
 - technology transfer
 - improvement of domestic skills.

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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