



MARKSCHEME

May 2013

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.

SECTION A

Microeconomics

- 1. (a) **Explain why a government might impose a price ceiling on the market for rented accommodation and a price floor on the market for agricultural products.**

[10 marks]

Answers **may** include:

- definitions of price ceiling and price floor
- explanation of price ceilings in relation to rented accommodation: use of a maximum price below the equilibrium to protect consumers; explanation of price floors in relation to agricultural products: minimum price above the equilibrium to protect producers
- diagrams to show a price ceiling and a price floor
- examples of markets where price controls were used or might be used.

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 possible consequences of price controls on the stakeholders in a market.

[15 marks]

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.

Answers **may** include:

- definitions of price controls and stakeholder
- explanation of price controls (price ceilings and price floors) used to explain possible problems and benefits
- diagrams to show possible negative and positive consequences, for example, shortages and surpluses
- examples of where problems and benefits have occurred, or might occur
- synthesis or evaluation.

Evaluation **may** include: the consequences in terms of shortages/surpluses, resource allocation, welfare effects, parallel markets and the effects on different stakeholders; the short-run and long-run implications; a judgment regarding the relative significance of problems and benefits.

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 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 why common access resources, such as fishing grounds, might become depleted in the absence of a price mechanism.**

[10 marks]

Answers **may** include:

- definition of common access resources and price mechanism
- explanation of the price mechanism to show how supply and demand ration scarce resources through the signalling and incentive functions of price; how the lack of a pricing mechanism is likely to lead to overuse/depletion
- diagrams to illustrate the allocative function of the price mechanism
- examples of common access resources, for example, common grazing land, the atmosphere.

Assessment Criteria

Part (a) 10 marks

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- (b) Evaluate the view that carbon taxes represent the most effective government response to the threat to sustainability posed by the use of fossil fuels.

[15 marks]

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.

Answers **may** include:

- definitions of sustainability, carbon taxes and fossil fuels
- explanation of relevant strategies in terms of carbon taxes, legislation, cap and trade schemes and funding for clean technologies
- diagrams to show resource depletion and/or over-use, diagrams to illustrate government responses
- examples of where such responses have occurred, or might occur
- synthesis or evaluation.

Evaluation **may** include: the positive and negative consequences of the use of carbon taxes; the positive and negative consequences of other schemes such as legislation, cap and trade schemes and funding for clean technologies; discussion of the significance of the global nature of the problem, the lack of ownership of common access resources and the need for international cooperation; consideration of whether carbon taxes are the most effective response.

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 supported by appropriate examples.

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SECTION B

Macroeconomics

3. (a) Explain the difficulties involved in measuring the level of unemployment. [10 marks]

Answers **may** include:

- definitions of unemployment
- explanation of how the unemployment rate is calculated and the difficulties involved in terms of the existence of underemployment, the existence of hidden unemployment, the fact that it is an average which ignores regional, ethnic, age and gender disparities, assessment of people's willingness and ability to work
- diagrams (AD/AS or ADL/ASL) to illustrate the existence of unemployment
- examples of actual instances of such difficulties.

Assessment Criteria

Part (a) 10 marks

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- (b) **Examine the reasons why the maintenance of a low level of unemployment is considered to be an important macroeconomic objective.**

[15 marks]

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.

Answers **may** include:

- definitions of unemployment and macroeconomic objectives
- explanation of the financial, economic and personal/social consequences of unemployment
- diagrams (AD/AS or ADL/ASL or PPF) to illustrate unemployment
- examples of the consequences of unemployment
- synthesis or evaluation (examine).

Examination **may** include: a consideration of the consequences of unemployment such as loss of GDP, loss of tax revenue, increased cost of unemployment benefits, loss of income for individuals, disparities in the distribution of income, increased crime levels and stress, indebtedness, family breakdown.

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

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Assessment Criteria

Part (b) 15 marks

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4. (a) Explain how labour market reforms may be used to promote economic growth.

[10 marks]

Answers **may** include:

- definitions of labour market reforms, economic growth
- explanation of how making labour markets more flexible may lead to an increase in efficiency and economic growth
- diagram to show the labour market (AD/AS or ADL/ASL) leading to economic growth
- examples of labour market reforms, both interventionist and market-oriented, such as reducing unemployment benefits, reducing the power of labour unions and abolishing minimum wages, expenditure on education and training, introduction of minimum wages to increase participation rates, to increase consumption and promote economic growth.

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- (b) **“Market-oriented supply-side policies will always be more effective in promoting economic growth than demand-side policies.” To what extent do you agree with this statement?**

[15 marks]

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.

Answers **may** include:

- definitions of market-oriented policies (as against interventionist policies), demand-side policies and economic growth
- theory of Aggregate Demand and Aggregate Supply and how either may be used to increase real GDP
- diagrams to show increased real GDP resulting from changes to AD and AS
- examples of market-oriented supply-side policies and demand-side policies
- synthesis and evaluation (to what extent).

Consideration of the merits of the statement **may** include: discussion of the term effectiveness in the context of economics. Candidates may distinguish the effectiveness of each policy in the short run and the long run.

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Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

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