



# **MARKSCHEME**

**November 2013**

**ECONOMICS**

**Standard Level**

**Paper 1**

17 pages

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

**SECTION A**

**Microeconomics**

1. (a) Using a diagram, explain why demerit goods are considered to be an example of market failure. *[10 marks]*

Answers **may** include:

- definitions of a demerit good, market failure and negative externality of consumption
- explanation that a demerit good is a good that has negative externalities of consumption
- explanation of why demerit goods would be over-provided in a free market
- diagram of a negative consumption externality showing that a demerit good would be over-provided in a free market
- examples of demerit goods.

**Assessment Criteria**

**Part (a) 10 marks**

Level	Marks
0 The work does not reach a standard described by the descriptors below.	<b>0</b>
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.	<b>1–3</b>
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.	<b>4–6</b>
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.	<b>7–8</b>
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.	<b>9–10</b>

- (b) Evaluate *two* possible government responses that could be used to address the problem of demerit goods.

[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:

- definition of an indirect tax
- explanation of possible government responses such as taxation, legislation, outright ban, education or negative advertising
- diagrams to show the imposition of an indirect tax, the effects of negative advertising and education
- examples of government responses to negative externalities
- synthesis or evaluation.

If only one possible government response is evaluated, a maximum of level 2 (*9 marks*) may be awarded.

Evaluation **may** include: the relative difficulties of applying the policies to reduce the consumption of demerit goods.

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.	<b>0</b>
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.	<b>1–5</b>
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.	<b>6–9</b>
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.	<b>10–12</b>
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.	<b>13–15</b>

2. (a) Explain *three* determinants of price elasticity of demand (PED). *[10 marks]*

Answers **may** include:

- definition of PED
- explanation of three determinants such as availability and closeness of substitutes, degree of necessity, percentage of income spent on the good, time
- diagram showing demand curves, which are relatively price elastic/inelastic
- examples of goods whose demand is price elastic/inelastic.

If only one determinant is explained, a maximum of level 2 (*[6 marks]*) may be awarded.

If only two determinants are explained, a maximum of level 3 (*[8 marks]*) may be awarded.

**Assessment Criteria**

**Part (a) 10 marks**

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- (b) **Examine the role of PED for firms making decisions regarding price changes and their effect on total revenue.**

*[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:

- definition of total revenue
- explanation of the law of demand and of the relationship between a change in price and the effect on total revenue and how the latter is dependent on PED. Explanation of why a good with price elastic demand would witness a decrease/increase in total revenue as a result of a price increase/decrease. Explanation of why a good with price inelastic demand would witness an increase/decrease in total revenue as a result of a price increase/decrease
- diagrams showing the effect of a price change on total revenue depending on the price elasticity of demand
- examples of firms making decisions to change price and the effect on their total revenue depending on the PED of good/service offered.
- synthesis or evaluation (examine).

To examine **may** include: the effect on revenue of price changes, a consideration of other factors which may affect revenue other than price. PED is difficult to judge, it changes over time – once price changes the PED changes. Reference to factors other than price, which influence demand.

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



**Assessment Criteria**

**Part (b) 15 marks**

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**SECTION B**

**Macroeconomics**

3. (a) **Distinguish between the causes of cyclical (demand-deficient) unemployment and structural unemployment.**

*[10 marks]*

Answers **may** include:

- definitions of cyclical and structural unemployment
- the distinction between cyclical unemployment being caused by a fall in aggregate demand and structural unemployment being caused by long term changes in the structure of industry
- diagrams to show demand-deficiency and structural unemployment. An AD/AS diagram would be suitable for the former and a labour market diagram for the latter
- examples of cyclical and structural unemployment.

**Assessment Criteria**

**Part (a) 10 marks**

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**(b) Evaluate government policies used to deal with cyclical unemployment. [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:

- definition of cyclical unemployment
- explanation of various government policies such as expansionary fiscal policy, expansionary monetary policy; explanation that supply-side policies could be used with cyclical unemployment *eg* employment subsidies
- diagram showing a fall in AD to illustrate cyclical unemployment or diagram showing an increase in AD to illustrate the effect of expansionary policies used to deal with it
- examples of the application of policies to reduce cyclical unemployment
- synthesis or evaluation of various policies.

Evaluation **may** include: impact on inflation, time lags, economic growth and budget deficit.

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

**Assessment Criteria**

**Part (b) 15 marks**

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4. (a) **Explain how a producer price index could be useful in predicting future inflation.**

*[10 marks]*

Answers **may** include:

- definitions of producer price index and inflation
- explanation of how an increase in a producer price index could indicate an increase in the price of factors of production that would result in cost-push inflation or explanation of how an increase in a producer price index could indicate an increased demand in intermediate or wholesale markets that foretell demand-pull inflation
- diagram showing AS shifting to the left or AD shifting to the right
- examples of producer price indexes or of using them as leading indicators for inflation.

**Assessment Criteria**

**Part (a) 10 marks**

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**(b) To what extent can supply-side policies help in fighting inflation?** *[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 inflation, supply-side policies
- explanation of various supply-side policies including market-based and interventionist supply-side policies
- diagram to show the application of supply-side policies to fight inflation
- examples of the application of the policies
- evaluation or synthesis (to what extent).

Discussion of the merit of the statement **may** include: other policies that could be used such as demand-side policies, perspectives of different economic schools of thought.

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



**Assessment Criteria**

**Part (b) 15 marks**

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