



MARKSCHEME

May 2014

ECONOMICS

Higher 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 diagrams, explain how a change in one of the determinants of demand might increase the price of rice and how a change in one of the determinants of supply might decrease the price of rice.** *[10 marks]*

Answers **may** include:

- definitions of demand and supply
- diagrams to show the impact of changes in the determinants of demand and supply on the price of rice
- an explanation of how a new price of rice would result from an increase in supply and increase in demand, with reference to the specific determinants
- examples of situations where such changes have taken place.

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) **Discuss the consequences of providing a subsidy on the production of rice for producers, consumers and the government.**

[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 a subsidy
- diagram of the application of a subsidy and its consequences for the various stakeholders
- an explanation of the impact on producers (increased revenues), consumers (lower prices) and government (increased expenditure)
- examples of situations where a subsidy has been introduced
- synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses.

Discussion **may** include: a consideration of the effect of the subsidy on various stakeholders. The likely price inelasticity of demand for rice and proportionate benefits to consumers and producers may be considered.

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 should be 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) **Using diagrams, explain why a perfectly competitive firm can make economic (abnormal) profit only in the short run.**

[10 marks]

Answers **may** include:

- definitions of perfect competition, economic (abnormal) profit and short run
- diagrams of economic (abnormal) profit in the short run and normal profit (zero economic profit) in the long run
- an explanation of how economic (abnormal) profit acts as a signal for new firms to enter the market, shifting market supply to the right until normal profits are restored
- examples of markets where this might occur.

Assessment Criteria

Part (a) 10 marks

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- (b) **Discuss the consequences of a perfectly competitive industry becoming a monopoly.**

[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 monopoly and perfect competition
- diagrams to compare monopoly with perfect competition
- an explanation of how price, output, welfare, costs and efficiency would be affected when a perfectly competitive industry becomes a monopoly
- examples of instances to which this might be, or has been, applied
- synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. For example, candidates may point to advantages of monopoly such as economies of scale, research and development, *etc.*

Discussion **may** include: the advantages and disadvantages of a market becoming a monopoly with an overall assessment.

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 should be supported by appropriate examples.

Assessment Criteria

Part (b) 15 marks

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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

SECTION B

Macroeconomics

3. (a) Using *two* AD/AS diagrams, explain cost-push and demand-pull inflation. [10 marks]

Answers **may** include:

- definition of inflation
- cost-push diagrams to illustrate cost-push inflation (shift SRAS left) and demand-pull inflation (shift AD right)
- an explanation of cost-push and demand-pull inflation
- examples of instances of cost-push and demand-pull inflation.

Candidates may offer explanations of the causes and consequences of cost-push and demand-pull inflation. This is not required by the question but may be rewarded if used to explain the meaning of cost-push and demand-pull inflation.

Assessment Criteria

Part (a) 10 marks

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- (b) **“The rate of inflation can be most effectively reduced through the use of monetary policy.” 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 rate of inflation and monetary policy
- diagrams to show the use of monetary and other policies in reducing the rate of inflation
- an explanation of the use of monetary policy, fiscal policy and supply-side policies to control inflation
- examples of where monetary and other policies have been used
- synthesis or evaluation (to what extent).

Command term

“To what extent” requires candidates to consider the merits or otherwise of an argument or concept.

Consideration of the merits of the statement **may** include: the advantages and disadvantages of the use of monetary policy and other policies used to control inflation.

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 should be supported by appropriate examples.

Assessment Criteria

Part (b) 15 marks

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4. (a) Explain *two* factors which might cause economic growth.

[10 marks]

Answers **may** include:

- definition of economic growth
- diagrams to illustrate economic growth, for example by a rightward shift of AD and/or LRAS
- an explanation of any two factors that might lead to economic growth such as investment in physical, human and natural capital, productivity gains, rise in net exports
- examples of instances where factors have led to economic growth.

Assessment Criteria

Part (a) 10 marks

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- (b) Evaluate the view that the benefits of economic growth will always outweigh the costs.

[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 economic growth
- diagrams to illustrate the costs and benefits
- an explanation of the potential benefits of growth *eg* higher living standards and on government finances; the potential costs, *eg* on sustainable development and in terms of the possible conflicts with the other goals of economic policy such as low inflation or equity in the distribution of income
- examples of costs/benefits of growth which have occurred, or might occur
- synthesis or evaluation (evaluate).

Consider term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Evaluation **may** include: an evaluation of the positive and negative consequences of growth.

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 should be supported by appropriate examples.

Assessment Criteria

Part (b) 15 marks

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