



MARKSCHEME

November 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 diagram(s), explain the signalling and incentive functions of price. [10 marks]

Answers **may** include:

- definition of price mechanism
- diagram(s) (supply and demand) to illustrate the signalling and incentive functions of price
- an explanation of the price mechanism to show how changes in supply and demand ration scarce resources through the signalling and incentive functions of price
- examples of price providing a signalling and incentive function.

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 view that the market failure caused by the consumption of demerit goods is best dealt with through the use of taxation.** [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 demerit goods, market failure and indirect taxation
- diagram(s) to show market failure and use of indirect taxation
- explanations of the market failure caused by the consumption of demerit goods (negative consumption externalities); taxation policy to reduce consumption of demerit goods; other market based policies, *ie* tradable permits and non market-based policies, *eg* regulation and negative advertising
- examples of demerit goods and examples of where such responses have occurred, or might occur
- synthesis or evaluation.

Evaluation **may** include: consideration of the positive and negative consequences of the policies used.

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) Explain why firms might wish to collude.

[10 marks]

Answers **may** include:

- definitions of collusion, oligopoly
- diagram to show the benefits of collusion in terms of monopoly profits
- an explanation of the reasons why firms might collude such as: to increase profits, limit competition, limit uncertainties about the behaviour of rivals and how they might collude: formal collusion (forming a cartel), informal collusion (price leadership)
- examples of collusion.

Assessment Criteria

Part (a) 10 marks

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- (b) **Discuss the view that governments should always try to prevent a monopoly occurring 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:

- definition of a monopoly
- diagram to show a monopoly
- an explanation of the advantages of monopoly (natural monopoly, R&D) and disadvantages (loss of economic efficiency, higher prices, lower quantities)
- examples of government intervention, such as anti-monopoly legislation, regulation of natural monopoly
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of why governments should or should not try to prevent a monopoly.

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

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SECTION B

Macroeconomics

3. (a) **Distinguish between structural and demand-deficient unemployment.** [10 marks]

Answers **may** include:

- definitions of structural and demand-deficient unemployment
- diagram(s) to illustrate the different types of unemployment
- an explanation of structural unemployment and demand-deficient unemployment drawing out the key differences
- examples of structural unemployment *eg* declining industry and demand-deficient unemployment in a recession.

Assessment Criteria

Part (a) 10 marks

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- (b) **Discuss the view that the problem of unemployment can be reduced through the use of supply-side policies.** *[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 supply-side policies and unemployment
- diagrams to show use of supply-side and other policies
- explanations of how supply-side policies (market-based and interventionist) might lower unemployment; explanation of how demand-side policies (fiscal and monetary) might lower unemployment
- examples of supply-side and other policies used to reduce unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of the positive and negative consequences of different policies.

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) **Using an appropriate diagram, explain how a recession might lead to more poverty.** *[10 marks]*

Answers **may** include:

- definitions of poverty and recession
- diagram to illustrate recession (AD/AS or business cycle) or change in distribution of income (Lorenz)
- an explanation of how a recession may cause poverty in terms of lower incomes and higher unemployment
- examples of recession leading to poverty.

Assessment Criteria

Part (a) 10 marks

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- (b) **Evaluate the view that attempts to achieve greater equity in the distribution of income will reduce economic efficiency.** *[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 equity and economic efficiency
- diagrams to show use of different policies, *eg* to show progressive taxes; diagram to show a production possibility frontier
- an explanation of the role of taxation in promoting equity in the distribution of income; government expenditure on public services, subsidies and transfer payments. Explanation of the impact of the policies on economic efficiency
- examples of where such policies have been used
- synthesis or evaluation.

Evaluation **may** include: a consideration of the positive and negative consequences of the different policies used, the impact of the policies on different stakeholders and their effect on efficiency.

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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