



MARKSCHEME

November 2014

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) Explain how the price mechanism allocates resources in an economy. [10 marks]

Answers **may** include:

- definition of the price mechanism
- diagram(s) (demand and supply) to show how price changes lead to a reallocation of resources
- an explanation of how the signalling function of price allocates resources when price changes in terms of telling producers about changing market conditions; the incentive function of price allocates resources when price changes in terms of providing an incentive for consumers and producers to make decisions
- example(s) to show the signalling and incentive functions of price.

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) **Examine the possible consequences of governments imposing a price ceiling in the market for rented housing.** *[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 maximum price (price ceiling)
- diagram (supply and demand) to show the impact of the maximum price in rented housing
- an explanation that governments impose maximum prices to protect low income consumers; an explanation of the possible consequences of a price ceiling in terms of keeping price below the equilibrium level, excess demand, inefficient resource allocation, underground market for housing, non-price rationing and welfare impacts
- example(s) to show the impact of a maximum price on rented housing
- synthesis or evaluation (examine).

Examination **may** include: consideration of the various effects on markets including establishing a parallel market, the cost to the government of implementing the policy and impact on landlords.

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 that when producer surplus and consumer surplus are maximized, allocative efficiency is achieved.** *[10 marks]*

Answers **may** include:

- definitions of consumer surplus, producer surplus, allocative efficiency
- diagram (demand and supply) to show producer and consumer surplus and allocative efficiency
- an explanation that consumer surplus is the difference between the price the consumer is willing to pay for a good and its selling price; an explanation that the producer surplus for a good is the difference between the price the producer is willing to sell the good for and its selling price; an explanation that the sum of consumer and producer surplus is maximized in competitive market equilibrium and allocative efficiency is achieved
- example(s) of where maximized consumer and producer surplus leads to allocative efficiency.

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Part (a) 10 marks

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- (b) **Discuss the consequences of the introduction of an indirect tax on gasoline (petrol) for consumers, producers 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 an indirect tax
- diagram to show the impact of a tax on gasoline (petrol)
- an explanation of the impact of indirect tax on gasoline (petrol) for consumers (price, quantity, consumer surplus), producers (price, quantity, revenues, producer surplus) and government (revenue); an explanation of the effect of gasoline's (petrol's) inelastic PED
- example(s) of where an indirect tax has been applied
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of the advantages and disadvantages for different stakeholders and the short-term and long-term consequences of the tax on gasoline (petrol).

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

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SECTION B

Macroeconomics

3. (a) **Explain the difference between cost-push and demand-pull inflation.** *[10 marks]*

Answer **should** include:

- definitions of inflation, cost-push inflation and demand-pull inflation
- diagrams to show demand-pull inflation and cost-push inflation
- an explanation of demand-pull inflation in terms of AD rising faster than SRAS and the price level rising; an explanation of cost-push inflation in terms of SRAS moving to the left and the price level rising
- example(s) of demand-pull inflation and cost-pull inflation.

Assessment Criteria

Part (a) 10 marks

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- (b) **“A rise in the inflation rate will always result in negative consequences for the economy.” To what extent is this statement true?** *[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 inflation
- diagram(s) to show negative impact of cost-push inflation on output
- an explanation of various negative consequences including redistributive effects, loss of competitiveness in export markets, the impact of uncertainty on investment, the impact of rising prices on consumer disposable income
- example(s) of when the inflation rate has risen
- synthesis or evaluation (“to what extent”).

“To what extent” **may** include: a consideration to when inflation has negative consequences and when it does not and the extent to which inflation affects different stakeholders.

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
- example(s) 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
- example(s) 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.

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Assessment Criteria

Part (b) 15 marks

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