

# Markscheme

**May 2015**

**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) Explain how changes in price work to reallocate resources in a market. **[10]**

*Answers may include:*

- definition of reallocation of resources
- diagrams to show how changes in price alter the equilibrium quantity and therefore reallocate resources
- theory to explain the signalling and incentive functions of the price mechanism
- examples of markets where price change has led to a reallocation of resources, such as through government intervention.

### 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) Discuss the view that the overuse of common access resources is best addressed by government.

[15]

*Answers **may** include:*

- definition of common access resources
- diagrams to show negative production or consumption externalities associated with overuse of common access resources. PPC diagram to show the reduction of production possibilities
- theory to explain the overuse of common access resources due to the lack of ownership and a price mechanism
- examples of existing government responses such as licensing, international agreement, allocation of property rights
- synthesis or evaluation (discuss).

Discussion **may** include: whether the price mechanism is compatible with sustainability and consider the merits and limitations of government responses.

*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.	<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>
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2. (a) Explain why prices tend to be stable in oligopolistic markets.

[10]

*Answers may include:*

- definition of oligopoly, price stability
- diagram to show the kinked demand curve. Candidates might utilize a collusive oligopoly diagram
- theory to explain why price tends to be stable under conditions of non-collusive/collusive oligopoly
- example of where this has happened or might happen.

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- (b) Oligopolists often possess too much monopoly power. Evaluate whether governments should intervene in oligopolistic markets.

[15]

*Answers may include:*

- definition of monopoly power, oligopoly or oligopolistic market
- diagram to show equilibrium under conditions of oligopoly, either collusive or non-collusive
- theory to explain higher prices, lower output, and productive and allocative inefficiency due to monopoly power. An explanation of the actions a government might engage in to control such power such as competition policy, price control, regulation, nationalization and trade liberalization
- example of industries that might illustrate such characteristics and of policies a government may have employed
- synthesis or evaluation.

Evaluation **may** include: consideration of the merits of intervention such as difficulties of identifying where such power may be excessive and whether intervention is justified over free markets, *etc.* Examples may be given of industries where despite economic inefficiency the consumer benefits from inherent economies of scale and therefore there is no need for government intervention.

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## Section B

### Macroeconomics

3. (a) Explain what is meant by the natural rate of unemployment

[10]

*Answers may include:*

- definition of the natural rate of unemployment
- diagram to show the labour market at full employment with residual structural, seasonal and frictional unemployment
- theory to explain how the natural rate of unemployment occurs where the economy is producing at the full employment level of output
- examples of unemployment that could be considered illustrative of the natural rate.

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- (b) Discuss the view that there is no trade-off between inflation and unemployment.

[15]

*Answers may include:*

- definition of inflation and unemployment
- diagram showing a Phillips curve and/or AD/LRAS
- theory to explain why there might/might not be a trade-off between inflation and unemployment. Possible use of short-run and long-run Phillips curve. Possible use of AD/LRAS
- examples of such a trade-off
- synthesis or evaluation (discuss).

Discussion **may** include: arguments relating to the trade-off between inflation and unemployment.

Responses may rely on different views regarding the shape of LRAS.

This question might be answered using AD/AS alone.

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4. (a) Explain how business spending on research and development and government expenditure on infrastructure might shift the long-run aggregate supply curve.

[10]

*Answers may include:*

- definitions of research and development, infrastructure, long-run aggregate supply
- diagram to show a shift in the LRAS
- explanation of how research and development in new technology will improve the quality of physical capital, hence increasing productive capacity and shifting the LRAS to the right. Explanation of how increased government expenditure in infrastructure will increase productive capacity and shift the LRAS to the right
- examples of research and development and infrastructure.

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- (b) Evaluate the effectiveness of interventionist supply-side policies to achieve economic growth.

[15]

*Answers may include:*

- definition of interventionist supply-side policies and economic growth
- diagram to show the impact of interventionist supply-side policies on economic growth
- explanation of the interventionist supply-side policies that could be used to increase the rate of economic growth through:
  - education and training
  - research and development
  - infrastructure
  - industrial policy
- examples of the application of interventionist supply-side policies
- synthesis or evaluation.

*Evaluation may include:* the use of interventionist supply-side policies used to increase economic growth including:

- cost and effectiveness of the interventionist supply-side policies
- time it takes for the policy to increase economic growth
- implications for different stakeholders
- suggestion of alternatives to interventionist supply-side policies.

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