

Markscheme

May 2016

Economics

Standard level

Paper 1

14 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 **two** reasons why governments might subsidize basic food stuffs such as wheat. [10]

Answers may include:

- definition of subsidy
- diagram to show the effect of a subsidy on the market
- explanation as to why the government might provide a subsidy
- examples of products that governments subsidize, or might subsidize.

Award a maximum of level 2 if only one reason is given.

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 for the government **and** for consumers of subsidizing the price of admission to museums.

[15]

Answers **may** include:

- definitions of subsidy and consumers
- diagram to show the effect of the subsidy on the market (could be a reference to diagram in part (a))
- explanation of the effect on the different stakeholders
- example of museums integrated into response
- synthesis or evaluation (discuss).

Discussion **may** include: whether museums are a merit good and that tourists could be attracted to the country, boosting the economy, opportunity cost for government spending, *etc.*

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.

Award a maximum of level 2 if only one stakeholder is discussed.

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 **one** supply factor and **one** demand factor that might lead to a rise in the price of rented housing. **[10]**

Answers may include:

- definitions of demand and supply
- diagram to show how changes in demand and/or supply lead to an increase in the price of rented housing
- explanation of how factors causing a rise in demand, such as population and income, and/or a fall in supply for rented housing, such as costs and a fall in the housing stock, cause a rise in the price of rented housing
- examples of where increasing demand and falling supply have increased the price of rented housing.

Award a maximum of level 2 if only one supply or one demand factor is given.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss the view that price controls imposed by governments on the market for rented housing should never be used.

[15]

Answers may include:

- definitions of price controls and maximum prices or price ceilings
- diagram to show the application of a maximum price on the market for rented housing
- explanation of how a maximum price (rent) can be applied to the market for rented housing
- examples of where maximum prices in the market for rented housing have been imposed
- synthesis and evaluation (discuss) of the impact of applying a maximum price in the market for rented housing.

Discussion **may** include: the problems of applying the price controls and the development of parallel markets, the negative impact on some consumers who suffer because of a shortage of housing supply and the long-term implications on the quality of housing and allocation of resources in housing, possible differences in effects in the short and long term.

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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 how expansionary monetary policy can help to close a deflationary (recessionary) gap. [10]

Answers may include:

- definitions of monetary policy and deflationary (recessionary) gap
- diagram to show an increase in AD as a result of expansionary monetary policy
- explanation of expansionary monetary policy and the mechanisms through which it can help to close a deflationary (recessionary) gap
- examples of use of expansionary monetary policy.

Assessment Criteria

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- (b) Discuss the view that governments should always try to avoid deflation.

[15]

Answers may include:

- definition of deflation
- diagrams to show a fall in the price level as AD shifts left or AS shifts right
- explanation of how and why governments try to avoid deflation
- examples of governments that have attempted to avoid deflation
- synthesis and evaluation (discuss) of the view that governments should always try to avoid deflation.

Discussion **may** include: the distinction between good and bad deflation
consideration of whether deflation is worse than inflation, a questioning of
“always try to”.

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been given in part (a), and then referred to in part (b), should be rewarded.

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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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4. (a) Using the Keynesian AD/AS diagram, explain why an economy may be in equilibrium at any level of real output. **[10]**

Answers may include:

- definitions of macroeconomic equilibrium and real output
- diagram to show equilibrium at different levels of real output
- explanation of equilibrium at different levels of real output, eg at full employment and less than full employment
- examples of economies operating at different levels of real output and/or of economies at different times in their history.

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- (b) Evaluate the view that increased investment is the most important factor in achieving a faster rate of economic growth.

[15]

Answers may include:

- definitions of investment and economic growth
- diagrams to show economic growth such as the Keynesian AS or LRAS shifting to the right or the PPC shifting outward or AD shifting right
- explanation of different types of investment, such as in physical capital and human capital, and the linkage between increased investment and faster economic growth
- examples of countries with different levels of investment and how this has impacted on relative growth rates
- synthesis or evaluation of the role of investment in the growth process.

Evaluation **may** include: importance of other factors which may cause economic growth, importance of the type of investment, consideration of whether higher investment causes economic growth, or whether faster growth stimulates higher investment.

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