

# Markscheme

**May 2017**

**Economics**

**Higher level**


















**Paper 1**















19 pages

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The following are the annotations available to use when marking responses.

Annotation	Explanation
	Attempts Evaluation
	Answers the Question
	Benefit of Doubt
	Clear Knowledge Shown
	Cross - Incorrect Point
	Effective Evaluation
	Good Analysis
	Good Definition
	Good Diagram
	Good Example
	Good Explanation
	Highlight tool
	Incorrect Labelling
	Irrelevant
	Inappropriate Use
	Lacks Depth
	Lacks Logical Structure
L0	Level 0
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4

	Not Answered Question
	No Definition
	No Examples
	On-page comment text box (for adding specific comments)
	Poor Diagram
	Poorly Expressed
	Question mark - unclear
	Apply to blank pages
	Theory is Clearly Explained
	Theory is Not Clearly Explained
	Tick – correct point (colourable)
	Too Vague
	Underline tool
	Unbalanced Response

You **must** make sure you have looked at all pages. Please put the **SEEN** annotation on any blank page, to indicate that you have seen it.

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 overuse of common access resources can lead to negative externalities.

[10]

Answers **may** include:

- definitions of common access resources and negative externalities
- diagram to show negative externalities arising from overconsumption (depletion of common access resources) or production (environmental degradation as a by-product of production activities)
- explanation that overuse of common access resources can lead to environmental damage or resource depletion, which are forms of market failure, leading to negative externalities of production or consumption
- examples of how overuse of common access resources leads to negative externalities such as over-fishing, open-cast mining and deforestation.

#### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	7–8
	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.	
4	<i>There is understanding of the specific demands of the question.</i>	9–10
	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) Discuss the view that the best way to reduce the threat to sustainability, arising from the burning of fossil fuels, is for the government to provide subsidies to firms that produce energy through renewable sources.

[15]

*Answers may include:*

- definition of subsidies and sustainability
- diagram(s) to show the impact of subsidies on the market for renewable energy and the market for fossil fuels
- explanation that subsidies reduce the costs of production for renewable energy firms and the price of renewable energy to consumers, which reduces the demand for energy produced by burning fossil fuels. This creates greater sustainability in the energy market
- examples of subsidies on the market for renewable energy such as solar power and wind farms
- synthesis or evaluation (discuss).

Discussion **may** include: alternative policies that could be used instead of subsidies, consideration of the impact of subsidies on different stakeholder groups, negative effects on the fossil fuel industry. It could also consider the short-term costs of subsidies and the long-term benefits on sustainability.

**Assessment Criteria**

**Part (b) 15 marks**

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	6–9
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	10–12
	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.	
4	<i>There is understanding of the specific demands of the question.</i>	13–15
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2. (a) Explain why a loss-making firm in perfect competition would shut down in the long run.

[10]

*Answers may include:*

- definitions of perfect competition and long run
- diagram(s) to show the shut-down point in perfect competition
- explanation of why a firm shuts down in the long run when a loss-making firm can cover its variable costs in the short run but cannot cover its total costs in the long run. It is not making a normal profit
- examples of markets which have features of perfect competition.



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- (b) Discuss the view that perfect competition is a more desirable market structure than monopoly.

[15]

*Answers may include:*

- definitions of market structure, perfect competition and monopoly
- diagram(s) to compare and contrast perfect competition and monopoly
- explanation that perfect competition has a number of advantages like lower prices, greater choice and allocative and productive efficiency compared with monopoly
- examples of markets which have features of perfect competition and monopoly
- synthesis or evaluation (discuss).

Discussion **may** include: reference to benefits of monopoly such as economies of scale, research and development, natural monopoly, and/or the disadvantages of monopoly (higher price, lower output). To focus on the word “desirable” in the question, discussion may also include the advantages and disadvantages of perfect competition.

**Assessment Criteria**

**Part (b) 15 marks**

Level

Marks

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## Section B

### Macroeconomics

3. (a) Explain the impact that a fall in the world price of oil might have on aggregate supply **and** gross domestic product (GDP) in an economy.

[10]

*Answers may include:*

- definitions of aggregate supply and GDP
- diagram to show AS/SRAS shifting to right and GDP increasing
- explanation that in an oil importing country a fall in the price of oil reduces production costs to industry and causes the aggregate supply to increase and GDP to rise
- example of economies where fall in oil prices has increased aggregate supply and GDP in an economy.

Explanation **may** include: the perspective of an oil exporting country as an alternative to an oil importing country. In this case, a fall in the world price of oil would mean reduced export revenues, and as net exports are a component of aggregate demand, this would cause aggregate demand and GDP to decrease.

**Assessment Criteria**

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- (b) Evaluate the view that economic growth is best achieved through improvements in technology.

[15]

*Answers may include:*

- definition of economic growth
- diagram to show LRAS increasing and real output increasing
- explanation of how technological improvements cause LRAS to increase in the long term as industry becomes more productive
- examples of technological improvements increasing LRAS in an economy
- synthesis or evaluation.

Evaluation **may** include: the effect of advances in technology being dependent on the skill level of the labour force and whether the technology is appropriate for the development level of the economy. The response may also consider how factors other than technology might affect LRAS such as the discovery of new natural resources and the importance of aggregate demand in affecting growth in the short term. A PPF diagram may be rewarded equally if used to explain economic growth effectively.

**Assessment Criteria**

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4. (a) Explain why a high rate of inflation may negatively affect both a country's export competitiveness **and** the level of capital investment by firms.

[10]

*Answers may include:*

- definitions of inflation, export competitiveness and investment
- diagram to show the impact of inflation on the price level and output *eg* AD/AS
- explanation of why inflation might produce adverse effects
- example(s) of where inflation has affected a country's export competitiveness and/or the level of capital investment.



**Assessment Criteria**

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- (b) Discuss the view that the use of monetary policy is always the best way to reduce inflation.

[15]

*Answers may include:*

- definition of monetary policy
- diagram(s) to show the application of policy to deal with inflation, AD/AS
- explanation of the way in which policy impacts the rate of inflation
- examples of where such policy has been used
- synthesis or evaluation (discuss).

Discussion **may** include: the impacts of monetary policy on the economy, trade, employment, households, savings, investment, confidence, *etc.* It may also consider the merits of monetary policy in comparison with alternative policies to control inflation. It may consider the merits of policy options in relation to cost-push versus demand-pull inflation.

**Assessment Criteria**

**Part (b) 15 marks**

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