

Markscheme

May 2017

Economics

Standard 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  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) A fall in income leads to a fall in demand for a good. Explain this relationship between the demand for the good and consumer income.

[10]

Answers **may** include:

- definitions of demand, income, income elasticity of demand, normal good
- diagram to show how a fall in income leads to a fall in demand for a normal good
- explanation that the positive income elasticity of demand means the good is a normal good
- examples of normal goods, necessities.

Award a maximum of level 2 if there is no mention of normal goods and/or income elasticity.

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) Evaluate the consequences of rising incomes on service sector producers (such as hotels) **and** primary sector producers (such as rice farmers).

[15]

Answers may include:

- definitions of service sector, primary sector good
- diagrams to show changes in the demand for goods produced by the service sector and primary sector as income rises
- explanation that a rise in income leads to a rise in demand for normal goods produced by the service sector like hotels and how a rise in income leads to a less significant rise in demand for necessity goods produced in the primary sector like rice (other examples could be used as long as reference is made to the correct sector)
- examples of how demand for normal goods and necessity goods changes as incomes change
- synthesis or evaluation.

Award a maximum of level 2 if the focus is only on supply as this is a poor interpretation of the question.

Both the primary and the service sectors need to be covered accurately to go beyond the mid-point of level 2.

Evaluation **may** include: consideration that there are some types of service sector goods, such as budget hotels that might experience a fall in demand as incomes rise; that some low income consumers may increase their demand significantly for rice as their incomes rise.

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.	
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2. (a) Explain why the consumption of merit goods, such as healthy food, can lead to positive externalities of consumption.

[10]

Answers may include:

- definitions of positive externalities, merit goods
- diagram(s) to show the positive externality of consumption
- explanation of how healthy food will be under-consumed in a competitive market because the MSB is greater than the MPB (can use any example of a merit good)
- examples of where the consumption of merit goods has led to positive externalities.

Award a maximum of level 2 if there is no illustration of the types of positive externalities that could occur with the merit good described, for example, less government spending on health care.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss whether advertising by the government is the most appropriate way of increasing consumption of a merit good.

[15]

Answers may include:

- definitions of advertising and merit good
- diagram(s) to show the effect of advertising and other alternatives to advertising
- explanation of how advertising will shift the demand curve (MPB) towards the MSB curve
- examples of specific policies governments have used
- synthesis or evaluation (discuss).

Discussion **may** include: whether advertising will influence demand, other factors that influence the demand for merit goods, alternatives to advertising like subsidies, legislation and direct provision.

Assessment Criteria

Part (b) 15 marks

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Section B

Macroeconomics

3. (a) Explain how aggregate demand might be affected by an increase in interest rates.

[10]

Answers may include:

- definitions of AD, interest rates
- diagram(s) showing the decrease in AD due to the increase in interest rates
- explanation of how an increase in interest rates will decrease consumption and investment as borrowing decreases or any other transmission mechanism
- examples of countries that have increased interest rates.

Award a maximum of level 2 if the response fails to link the increase in interest rates to at least two components of AD.

Assessment Criteria

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- (b) Discuss whether the use of fiscal policy is the most effective way to bring an economy out of a recession.

[15]

Answers may include:

- definitions of fiscal policy, recession
- diagram to show how an increase in AD will increase real GDP
- explanation of how fiscal policy involves an increase in government spending or a decrease in taxes or both; how an increase in government spending might create a multiplier effect on the economy leading to an increase in real GDP
- examples of the use of fiscal policy
- synthesis or evaluation (discuss).

Discussion **may** include: the limitations of fiscal policy like the effect on the government budget, time lags, the difficulty of promoting economic activity in a recession and the significance of the multiplier effect. There may also be reference to alternative policies like monetary and supply-side.

Assessment Criteria

Part (b) 15 marks

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4. (a) Explain the factors that cause demand-pull **and** cost-push inflation. **[10]**

Answers may include:

- definitions of inflation, demand-pull inflation, cost-push inflation
- diagrams to show demand-pull inflation (increase in AD) and cost-push inflation (decrease in SRAS)
- explanation of demand-pull in terms of factors which increase AD, particularly at or near to full employment, and cost-push in terms of rising costs of factors of production
- examples of inflation in different countries.

Assessment Criteria

Part (a) 10 marks

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(b) Discuss the view that deflation will always be bad for an economy.

[15]

Answers may include:

- definition of deflation
- diagram to show deflation (shift of AD to the left and/or shift of AS to the right)
- explanation of the negative effects of deflation, *eg* delayed consumption, investment, downward deflationary spiral, possibility of financial crisis, worse position for debtors/borrowers
- examples of deflation in different countries
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of the possible benefits of deflation, *eg* increased export competitiveness, caused by increases in AS and benefits to savers. Consideration of the word “always”.

Assessment Criteria

Part (b) 15 marks

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