

Markscheme

November 2017

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 why governments provide subsidies for some goods and services. [10]

Answers **may** include:

- definition of subsidies
- diagram(s) to show the application of subsidies to a market and reasons to apply a subsidy such as merit goods
- explanation of why governments apply subsidies and a consideration of how subsidies influence the market and society in terms of welfare, such as making goods more affordable for low income households
- examples of the application of subsidies.

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
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- (b) Discuss the consequences of providing a subsidy for goods such as agricultural products.

[15]

*Answers **may** include:*

- definition of subsidy
- diagram(s) to show the impact of a subsidy
- explanation of the consequences that the provision of a subsidy might have in terms of price to the consumer, price to the producer, resource allocation and cost to the government
- examples of consequences that might follow or have followed from the application of a subsidy
- synthesis or evaluation (discuss).

Discussion **may** include: opportunity cost to the government of paying for subsidies, how subsidies may be applied inefficiently and how subsidies might distort markets in the long run.

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
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3	<i>There is understanding of the specific demands of the question.</i>	10–12
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4	<i>There is understanding of the specific demands of the question.</i>	13–15
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2. (a) Explain how an increase in the price of air travel might affect the demand for its complements **and** its substitutes.

[10]

Answers may include:

- definitions of demand, complements and substitutes
- diagram(s) to show changes in demand for complements and substitutes
- explanation that a rise in the price of air travel might lead to a fall in demand for its complements and a rise in demand for its substitutes
- examples of complements and substitutes for air travel.

N.B.: Many student mention XED but this is not required to achieve full marks.

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- (b) Evaluate the view that the use of regulation is the most effective way to reduce negative externalities.

[15]

Answers may include:

- definitions of regulation and negative externalities
- diagram(s) to show the impact of regulation on negative externalities
- explanation of how regulation reduces negative externalities. An example of this might be a regulation on producers to produce a good in way that reduces pollution. example(s) of regulations used to reduce negative externalities
- synthesis or evaluation.

Evaluation **may** include: the benefits of using regulation to deal with negative externalities such as direct effect on externalities and relative ease of application. It may also include the problems of using regulations such as: managing the regulation, increasing the price of the good produced and the negative impact on employment in the regulated industry. It may also consider alternatives to regulation such as taxes.

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Section B

Macroeconomics

3. (a) Explain why structural unemployment may occur in an economy. **[10]**

Answers may include:

- definitions of unemployment and structural unemployment
- diagram to show the decline in employment caused by structural factors such as a fall in demand for labour in a particular market
- explanation of how the structural changes in the economy, such as capital replacing labour in a market, lead to unemployment because workers do not have the skills or geographical mobility to get a new job quickly
- examples of where structural changes in the economy lead to structural unemployment.

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- (b) Discuss the view that the best way to reduce unemployment is through education and training.

[15]

Answers may include:

- definition of unemployment
- diagram to show how education and training reduces unemployment such as an increase in the supply of available labour increasing employment and LRAS shifting to the right explanation that education and training increases the skill level of unemployed workers and increases their opportunities for employment
- examples of where education and training has reduced unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of how education and training might be appropriate for structural unemployment, but might not be as effective with demand-deficient and frictional unemployment. There could be consideration of the cost and effectiveness of government run education and training. There could also be consideration that alternative policies are more effective than education and training in reducing certain types of unemployment.

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4. (a) With reference to the income, output and expenditure approaches, explain how the real gross national product (GNP)/gross national income (GNI) per capita of a country can be measured.

[10]

Answers may include:

- definitions of real GNP/GNI per capita, income, output and expenditure approaches
- diagram to show the circular flow of income
- explanation of how the income, output and expenditure approaches are used to calculate GDP and adding net property income gives GNI/GNP. This is adjusted to get real GNP/GNI per capita by allowing for inflation and population
- examples of the components of the income, output and expenditure approaches.

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- (b) Discuss the view that a rise in the GNP/GNI per capita will always lead to a rise in living standards in a country.

[15]

Answers may include:

- definition of living standards
- diagram(s) of AD/AS, PPC
- explanation that a rise in GNP/GNI per capita leads to rising real incomes, better public services and rising employment which leads to rising living standards
- examples of where rising GNP/GNI per capita leads to rising living standards
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of how rising GNP/GNI per capita might lead to situations that have a negative impact on living standards such as negative externalities and widening income inequality. It is also difficult to assess rising living standards because it is affected by non-monetary factors. It may also be argued that a rise in GNP/GNI per capita can be accompanied by inflation, reducing the potential rise in living standards.

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