

Markscheme

May 2018

Economics

















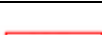
Higher level

Paper 1















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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) With reference to the concept of excess demand, explain how a decrease in supply of a good would lead to a new market equilibrium.

[10]

Answers **may** include:

- definitions of demand, supply, excess demand, market equilibrium
- diagrams to show a leftward shift of supply with excess demand and an increase in price
- explanation of adjustments to a new market equilibrium in the case of a leftward shift of supply
- examples of decreases in supply affecting market equilibrium.

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) A government decides to impose an indirect tax on unhealthy drinks. Discuss the consequences for the stakeholders in these markets.

[15]

Answers may include:

- definitions of indirect tax and stakeholders
- diagram to show the impact of an indirect tax
- explanation of how an indirect tax might affect consumers, producers and the government
- examples of unhealthy drinks and taxes on such products
- synthesis or evaluation (discussion) of the consequences for the different stakeholders.

Discussion **may** include: the importance of price and cross elasticities of demand, equity issues, micro and macro-economic consequences.

Some responses may approach unhealthy food as a demerit good leading to market failure / negative externalities of consumption. This can be credited equally if it leads to a valid discussion.

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	<i>The work does not meet a standard described by the descriptors below.</i>	0
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2. (a) Explain **two** factors that might give rise to economies of scale for a firm. [10]

Answers **may** include:

- definition of economies of scale
- diagram to show the impact of economies of scale on the shape of the long run average cost curve
- an explanation of two factors that give rise to economies of scale **like specialisation, financial, technical, bulk buying.etc.**
- example(s) of economies of scale.

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- (b) Discuss the view that legislation is the best way of dealing with the problem of monopoly power.

[15]

Answers may include:

- definition of monopoly, monopoly power, oligopoly , **legislation**
- diagram to show equilibrium in situation of monopoly power, monopoly, oligopoly
- an explanation of the features of monopoly and government responses
- example(s) of industries that are or have been able to exercise monopoly power, government responses
- synthesis or evaluation (discuss).

Discussion **may** include: the advantages and disadvantages of government responses including legislation, regulation, nationalization and trade liberalization, to the problem of monopoly power.

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.*

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Section B

Macroeconomics

3. (a) Explain the possible impact of an increase in wealth and consumer confidence on aggregate demand.

[10]

Answers **may** include:

- definitions of wealth, consumer confidence, aggregate demand (AD)
- diagram(s) to show AD shifting to the right
- explanation of the possible impact of an increase in wealth and consumer confidence on AD
- examples of increases in wealth and consumer confidence.

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- (b) Examine why, in contrast to the monetarist/new classical model, the economy will not automatically return to the full employment level of output in the Keynesian model. **[15]**

Answers may include:

- definitions of full employment level of output, Keynesian model, monetarist/new classical model
- diagram(s) to show equilibrium in the two models
- explanation of the mechanisms through which an economy may remain stuck in a deflationary gap in the Keynesian system but will always return to full employment equilibrium in the monetarist/new classical model **in the long run**
- examples of the two models applying in practice
- synthesis or evaluation (examine).

Evaluation **may** include: the importance of the type of unemployment, the degree to which both models represent extreme theoretical ends of a spectrum, the degree to which reality deviates from the models, the difficulty of establishing what is full employment, policy implications.

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4. (a) Explain how expansionary fiscal policy could be used to close a deflationary (recessionary) gap.

[10]

Answers **may** include:

- definitions of fiscal policy, expansionary fiscal policy, deflationary (recessionary) gap
- diagram to show the potential effects of expansionary fiscal policy
- explanation of how an expansionary fiscal policy will boost aggregate demand and increase output, thereby closing a deflationary gap
- examples of countries that have used expansionary fiscal policy.

Assessment Criteria

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- (b) Evaluate the view that fiscal policy is the most effective way of achieving long-term economic growth.

[15]

Answers may include:

- definition of long-term economic growth , **fiscal policy**
- diagram to show a shift in the PPC and potential output
- Explanation of how fiscal policy leads to long-term economic growth indirectly by creating an economic environment that is favourable to private investment, and directly through government spending on physical capital goods and human capital formation, as well as provision of incentives for firms to invest, all of which are expected to have the effect of increasing potential output
- examples of fiscal policy that has had this effect
- synthesis or evaluation.

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.

Evaluation **may** include: the type of fiscal policy and how it is financed, advantages and disadvantages of fiscal policy, consideration of alternative policies, such as monetary and supply-side policies.

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