

Markscheme

May 2018

Economics

Standard level


















Paper 1















16 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) Explain how the value of the cross price elasticity of demand (XED) for a particular good is determined by its relationship to other goods.

[10]

Answers **may** include:

- definition of XED
- diagram(s) to show the impact of XED, eg using shifts of demand when there is a change in price of another good, or price of X/quantity of Y type diagrams to show substitutes and complements
- explanation in terms substitutes (positive XED), complements (negative XED) and no relationship/a weak relationship/a strong relationship (ie magnitude)
- examples of goods which are substitutes/complements.

NB Candidates can only be awarded Level 4 if they consider both positive/negative and make at least some brief reference to magnitude, ie a maximum of Level 3 for consideration of just one or the other.

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) Examine the significance of both cross price elasticity of demand and income elasticity of demand for a firm.

[15]

Answers may include:

- definitions of XED and YED
- diagrams to show the significance of XED and YED for a firm
- explanation of the significance of XED and YED for a firm
- examples of the significance in practice
- synthesis or evaluation (examine).

Examination **may** include: relative importance of other factors which may affect firms, eg PED, the importance of the business cycle for YED, the degree to which XED and YED can be measured in reality, the tendency of YED and XED to change over time, the possibility of mergers between firms that produce substitute goods, the possibility of collaboration between firms that produce complementary goods.

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
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
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2	<i>There is some understanding of the specific demands of the question.</i>	6–9
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2. (a) Explain **two** factors that would lead to an increase in the demand for a product. **[10]**

Answers **may** include:

- definition of demand
- diagram to show a supply and demand with a shift of the demand curve to the right
- explanation of how changes to the non-price determinants of demand produce shifts in demand
- examples of specific products, with reference to determinants of demand.

NB If only one non-price factor is explained, a maximum of Level 2 can be achieved.

Also, be aware of confusion between price and non-price factors and the difference between an increase in demand and an increase in the quantity demanded

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- (b) Discuss the view that competitive markets will always achieve allocative efficiency. **[15]**

Answers may include:

- definitions of allocative efficiency, competitive market
- diagram to illustrate the principle of allocative efficiency, eg demand = supply, marginal benefit = marginal cost
- explanation that allocative efficiency occurs where market equilibrium occurs, where social (community) surplus is maximized with respect to producer and consumer surplus; marginal benefit equals marginal cost
- example(s) of competitive markets or markets where there is market failure
- synthesis or evaluation (discuss).

Discussion **may** include: the difference between private and social optimality; challenges to the view expressed in the question in terms of such market failures as positive and negative externalities, merit goods and demerit goods, lack of provision of public goods, lack of information.

NB If candidates go straight into an evaluation of the view without sufficient explanation of how competitive markets achieve allocative efficiency, a maximum of mid L3 should be awarded.

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.

Assessment Criteria

Part (b) 15 marks

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Section B

Macroeconomics

3. (a) Explain how income inequality might be measured in a country.

[10]

Answers **may** include:

- definition of income inequality
- diagram to show a Lorenz curve and how the Gini co-efficient is derived
- explanation of the methods used to measure income inequality: Lorenz curve, Gini co-efficient
- examples of countries with income inequality.

Assessment Criteria

Part (a) 10 marks

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- (b) Evaluate the view that the best way to reduce income inequality in a country is by using progressive taxation.

[15]

Answers may include:

- definition of progressive taxation, income inequality
- diagram to show how progressive taxation could decrease income inequality (inward shift of the Lorenz Curve), or a progressive tax diagram
- explanation of how progressive taxation reduces the disposable income gap between people of lower and higher incomes
- examples of where or how progressive taxation has been used
- synthesis or evaluation.

Evaluation may include: the impact of progressive taxation in reducing income inequality including:

tax avoidance/tax evasion; disincentive effects; effects on efficiency; consideration of alternative approaches such as government spending on merit goods/transfer payments, minimum wage, consideration of 'best'.

NB If only progressive taxation is considered, with explanation and evaluation of its impact, but no alternative policy is considered, a maximum of mid-Level 3 should be awarded, as the question would not have been fully answered in terms of 'best way'

Assessment Criteria

Part (b) 15 marks

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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 in terms of an outward shift of AD
- 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

Part (a) 10 marks

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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:

- definitions of long-term economic growth, short-term economic growth, fiscal policy
- diagram to show an outward shift of the PPC or a rightward shift of LRAS
- 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
- examples of fiscal policy that has led to long-term economic growth
- synthesis or evaluation.

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, consideration of 'best'

NB Candidates who only consider the effects of fiscal policy on AD, and do not consider the supply-side effects on long-term economic growth, cannot be awarded above Level 2.

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

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