

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 price elasticity of demand for a good might be affected by the number and closeness of substitutes. [10]

Answers **may** include:

- definitions of price elasticity of demand and substitutes
- diagram of goods with different price elasticities of demand.
- explanation that the more close substitutes a good has the more price elastic its demand tends to be
- examples of how the number of substitutes a good has affects its price elasticity of demand.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	1–3
2	<i>There is some understanding of the specific demands of the question.</i> Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	4–6
3	<i>There is understanding of the specific demands of the question.</i> 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.	7–8
4	<i>There is understanding of the specific demands of the question.</i> 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.	9–10

(b) Examine the significance of price elasticity of demand for the decision making of firms and government.

[15]

Answers **may** include:

- definition of price elasticity of demand (PED)
- diagram to show how total revenue/tax revenue changes when price/tax changes
- explanation that a change in price will lead to a fall/rise in total revenue/tax revenue depending on the value of PED
- examples of goods where a change in price does lead to a rise/fall in total revenue/tax revenue
- synthesis or evaluation (examine the significance).

*Examination **may** include:* situations where a change in price would not lead to a rise/fall in total revenue/tax revenue, different price elasticities, other factors affecting demand that cause a change in total revenue/tax revenue, the impact of time on PED when price changes. Responses which consider the significance of PED for firms or government only (not both) should not be rewarded 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

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> Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	1–5
2	<i>There is some understanding of the specific demands of the question.</i> Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	6–9
3	<i>There is understanding of the specific demands of the question.</i> 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.	10–12
4	<i>There is understanding of the specific demands of the question.</i> 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 is evidence of appropriate synthesis or evaluation. There are no significant errors.	13–15

2. (a) Explain why the exploitation of common access resources, such as uncontrolled fishing, might pose a threat to sustainability. [10]

Answers **may** include:

- definitions of common access resources and sustainability
- diagram to show the negative externality associated with common access resources and/or demand and supply diagram
- explanation of why the exploitation of common access resources, such as uncontrolled fishing, might pose a threat to sustainability
- examples of the over-exploitation of common access resources.

Assessment Criteria

Part (a) 10 marks

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(b) Evaluate whether the use of carbon taxes is the most effective way for the government to deal with the threat to sustainability posed by the use of fossil fuels. **[15]**

*Answers **may** include:*

- definitions of carbon taxes, sustainability, negative externalities
- diagrams to show the effect of carbon taxes on the market for fossil fuels and how market failure is eliminated
- explanation of how carbon taxes will increase costs of production and increase the price of fossil fuels, leading to a decrease in their consumption
- examples of government responses to the threat to sustainability arising from the use of fossil fuels
- synthesis or evaluation.

Evaluation **may** include: the limitations of using carbon taxes, such as identifying the size of the externality and estimating the impact on demand, the difficulty of identifying which firms are liable to the tax, the fact that taxes do not stop the use of fossil fuels but only discourage it; alternative methods, such as legislation and “cap and trade”; references to subsidies / investment in alternative energy sources.

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Assessment Criteria

Part (b) 15 marks

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Section B

Macroeconomics

3. (a) Explain how an increase in investment might lead to economic growth. **[10]**

Answers **may** include:

- definitions of investment and economic growth
- diagrams might include AD/AS/LRAS or PPC to show the impact of investment on economic growth
- explanation of how investment in physical capital, human capital and natural capital can lead to increases in the quantity and quality of resources and subsequently an increase in productivity and/or how investment might increase aggregate demand (AD)
- examples of types of investment that have caused this or countries that have grown as a result of increased investment.

Assessment Criteria

Part (a) 10 marks

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(b) Discuss the possible consequences of economic growth on living standards, unemployment and inflation.

[15]

Answers **may** include:

- definitions of economic growth, living standards, unemployment and inflation
- diagrams might include AD/LRAS showing an increase in AD or LRAS and impact on real GDP/living standards and inflation and/or labour market diagram showing an increase in AD, and accept AD_L
- explain how an increase in economic growth potentially raises living standards and decreases unemployment due to an increase in real output. Incomes are raised and due to the increase in demand for goods and services more workers are employed.
In addition, the impact on inflation could be positive or negative depending on the cause of the economic growth
- examples of countries that have experienced economic growth and the subsequent effect on living standards, unemployment and inflation
- synthesis or evaluation (discuss).

Discussion **may** include: the impact on different stakeholders. Workers may benefit due to there being more jobs available but consumers may not benefit because of the increase in prices. Or living standards may not increase equitably. In addition, the discussion may focus on the cause of the economic growth. If it is caused by an increase in AD then it is more likely to lead to inflationary pressure than if it was caused by an increase in LRAS. However, in the Keynesian range of the LRAS curve any increase in AD may not necessarily lead to an increase in inflation.

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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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:

- definition of long-term economic growth, short-term economic growth, fiscal policy
- diagram to show an outward shift in 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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