

Markscheme

May 2019

Economics

Standard level

Paper 1

11 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 the concepts of consumer surplus and producer surplus. [10]

Answers **may** include:

- definition of consumer surplus, producer surplus
- diagram to show consumer surplus and producer surplus
- explanation that consumer surplus is above equilibrium price and below the demand curve, and that producer surplus is below equilibrium price and above the supply curve
- examples of consumer surplus and producer surplus.

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> 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 clear 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 view that the best allocation of resources, from society’s point of view, occurs where the marginal private benefit equals the marginal private cost.

[15]

Answers may include:

- definition of marginal private benefit (MPB), marginal private cost (MPC), allocation of resources
- diagram to show marginal private benefit in equilibrium with marginal private cost and community surplus being maximized
- explanation of why $MPB = MPC$ (demand = supply) represents an optimal allocation of resources
- examples of marginal private benefits and costs or externalities
- synthesis and evaluation (examine).

Examination may include: the significance of external benefits and external costs for the socially optimum resource allocation ($MSB = MSC$), under-provision and over-provision at the free market price, other sources of market failure such as demerit goods, asymmetric information.

NB For a response that just evaluates the view without explaining it, a maximum of Level 2 should be awarded.

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 clear 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 a government might decide to impose a price ceiling on goods and services such as essential foods or rented housing.

[10]

Answers **may** include:

- definition of price ceiling
- diagram to show a price ceiling
- explanation of why a government might place a maximum price below equilibrium price in a particular market eg market power, political considerations, equity issues (making essential goods and services available to those on low incomes), externality issues
- examples of maximum prices being imposed on goods or services in practice in relation to particular economies, or in relation to particular goods/services.

Assessment Criteria

Part (a) 10 marks

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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 clear 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 view that the most effective way in which the government can encourage the consumption of merit goods is through direct provision.

[15]

Answers may include:

- definition of merit goods, direct provision
- diagram: use of any relevant diagram, set in context, such as MSB/C, maximum price or a subsidy diagram
- explanation that direct provision could encourage greater consumption of merit goods
- examples of direct provision of merit goods eg education, healthcare, public transport
- synthesis and evaluation.

Evaluation may include: advantages and disadvantages of direct provision; consideration of alternatives such as maximum prices, subsidies, legislation, advertising, required private insurance in the case of health care.

NB A maximum of Level 3 should be awarded for responses that do not consider any alternatives to direct provision.

Assessment Criteria

Part (b) 15 marks

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Section B

Macroeconomics

3. (a) Explain how aggregate demand in an economy might be affected by a rise in the exchange rate and a decrease in the income of major trading partners.

[10]

Answers may include:

- definition of aggregate demand (AD), exchange rate
- diagram to show AD shifting to the left
- explanation of the linkages between a rise in the exchange rate and a decrease in the income of major trading partners on a country's AD
- examples of economies which have experienced a rise in the exchange rate and/or a decrease in the income of major trading partners.

NB if only one factor of the two factors mentioned above are considered, a maximum of Level 2 should be awarded.

Assessment Criteria

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- (b) To what extent is expansionary fiscal policy the best policy to achieve a reduction in the rate of unemployment?

[15]

Answers may include:

- definition of fiscal policy, expansionary fiscal policy, rate of unemployment
- diagram to show aggregate demand (AD) being shifted to the right and/or a labour market diagram
- explanation of the use of expansionary fiscal policy, higher government spending/lower taxation, which may increase GDP, increase the demand for labour and reduce demand-deficient unemployment
- examples of fiscal policy being used to increase AD in relation to a particular economy
- synthesis and evaluation (to what extent?).

Evaluation may include: inappropriateness of using policies to increase AD against structural, frictional and seasonal unemployment, consideration of the use of supply-side policies to tackle structural, frictional and seasonal unemployment, consideration of the use of monetary policy, problems associated with the use of expansionary fiscal policy, consideration of the words “best”.

NB where no alternative policies are considered a maximum of Level 3 should be awarded.

Assessment Criteria

Part (b) 15 marks

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4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
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4. (a) Explain the role of improved productivity in achieving economic growth. [10]

Answers may include:

- definition of productivity, improved productivity, economic growth
- diagram to show a shift of short-run aggregate supply (SRAS) to the right and/or long-run aggregate supply (LRAS) to the right or use of a production possibility diagram
- explanation that improved productivity will reduce unit costs of production in the SR and shift the SRAS to the right, leading to an increase in gross domestic product (GDP) and short-run economic growth; and/or an explanation that improved productivity will increase the productive capacity of the economy in the LR, thus shifting LRAS to the right and causing long-run economic growth
- examples of improved productivity in relation to a particular economy.

NB if no explicit and precise understanding of productivity is demonstrated, a maximum of Level 2 should be awarded.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss the view that economic growth can only be achieved at the expense of other macroeconomic objectives such as a low and stable rate of inflation and equity in the distribution of income.

[15]

Answers may include:

- definition of economic growth, inflation, low and stable inflation, equity in the distribution of income
- diagram to show growth through either an increase in aggregate demand (AD) or a shift of LRAS to the right, or any other relevant diagram
- explanation of how economic growth might conflict with other macroeconomic objectives, such as low and stable prices and a more equitable distribution of income and/or low unemployment, a satisfactory balance of payments (external balance) and environmental objectives
- examples of instances where growth has improved or worsened one or more of the above macroeconomic objectives
- synthesis and evaluation (discuss).

Discussion may include: circumstances in which growth might positively impact on price stability and the distribution of income and/or unemployment and the balance of payments, the different impacts of short term and long-term growth, consideration of the word “only”.

NB At least **two** macroeconomic objectives need to be considered. Where only **one** is considered, **without** any evaluation, a maximum of Level 2 should be awarded. Where only **one** is considered, **with** evaluation, a maximum of Level 3 should be awarded. Thus, Level 4 requires **two** objectives **and** some evaluation.

Assessment Criteria

Part (b) 15 marks

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