

Markscheme

November 2019

Economics

Higher level

Paper 1

14 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 **two** reasons why the demand for primary commodities might be price inelastic.

[10]

Answers **may** include:

- definitions of price inelastic demand, primary commodity, demand
- diagram to show price inelastic demand
- explanation of why the demand for primary commodities might be price inelastic that refers to **two** reasons for low price elasticity of demand, such as the lack of close substitutes, high degree of necessity and low proportion of income spent on the primary commodity
- examples of primary commodities with price inelastic demand.

Award a maximum of level 2 marks if a candidate has only explained **one** reason why the demand for primary commodities might be price inelastic.

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 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) Discuss the significance of price elasticity of demand (PED) for a government imposing an indirect tax on a good. **[15]**

Answers may include:

- definitions of indirect tax, price elasticity of demand (PED)
- diagram(s) to show the effect of taxation on the market for a good and how the price elasticity of demand (PED) will impact the outcome
- explanation that the government uses indirect taxes to raise revenue as well as to limit the production/consumption of demerit goods
- examples of specific products upon which a government has imposed indirect taxes in practice
- synthesis or evaluation (discuss).

Discussion may include: consideration of the extent to which government revenue and the production/consumption of the product will be impacted by the PED, consideration of the effect of PED on how the tax burden will be divided between consumers and producers, consideration of the effect of PED on workers (employment), consideration of the difficulties in measuring PED and in determining the socially optimal level of production/consumption (when taxes are imposed to limit the production/consumption of demerit goods).

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

NB: *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

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
	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>	10–12
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
	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.	

2. (a) Explain how **two** types of economies of scale can lead to a fall in long-run average costs.

[10]

Answers **may** include:

- definitions of economies of scale, long-run average costs
- diagram to show movement along the downward-sloping portion of the long-run average cost curve
- explanation of how economies of scale lead to lower average costs as a firm increases scale of production in the long run that refers to **two** clearly different types of economies of scale, such as specialization, efficiency, marketing and indivisibilities
- examples of specific firms (or industries) that have possibly experienced falling long-run average costs in practice because of economies of scale.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss the view that barriers to entry in a monopoly will always lead to abnormal profits in the long run.

[15]

Answers may include:

- definitions of barriers to entry, monopoly, abnormal (economic) profit, long run
- diagram to show a monopoly realizing abnormal profit
- explanation that monopoly firms can maintain monopoly profits in the long run because of barriers to entry such as economies of scale, branding and legal barriers
- examples of specific barriers to entry that enable monopoly firms to make abnormal profits in the long run in practice
- synthesis or evaluation (discuss).

Discussion may include: monopoly firms do not always earn abnormal profits even with barriers to entry due to insufficient demand for their products (resulting from changing consumer tastes, technological obsolescence, etc); governments often regulate or nationalize monopolies, resulting in lower prices and profits; monopolies may have goals different from profit maximization (such as revenue maximization, technology development, etc); consideration of the word “always”.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

NB 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 the impact that a cut in taxation and an increase in government spending might have on the circular flow of income. [10]

Answers *may* include:

- definitions of the circular flow of income (model), (indirect/direct) taxation, government spending
- diagram of the circular flow of income showing injections and leakages
- explanation of the impact a cut in taxation and an increase in government spending will have on the circular flow of income, with leakages being reduced and injections being increased, resulting in an increased (flow of) income, ceteris paribus
- example(s) of expansionary fiscal policy in practice.

Award a maximum of level 2 marks if a candidate **only** refers to **either** a cut in taxation **or** an increase in government spending (but not both).

Assessment Criteria

Part (a) 10 marks

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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) Discuss whether the real gross national income (GNI) per capita of a country is a good indicator of its standard of living.

[15]

Answers may include:

- definition of real GNI(GNP) per capita
- a diagram is not required for full marks, but candidates may use diagram(s) to show inequality in the distribution of income, negative externalities in production/consumption, economic growth
- explanation why the real GNI per capita might be regarded as a good indicator of the standard of living, such as higher average income leading to higher consumption, greater tax revenue for public services, less poverty
- examples of countries with different GNI per capita resulting in different standards of living and/or countries where there is discrepancy between the standard of living and the level of real GNI per capita
- synthesis or evaluation (discuss).

Discussion may include: consideration of the limitations of using real GNI per capita to measure the standard of living such as the lack of information about the distribution of income and the composition of output, measurement problems and non-income factors (leisure time, quality of environment) affecting the well-being of the population; consideration of alternative measures such as HDI and “green GDP” per capita; consideration of the meaning of “standard of living”.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

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 effect an increase in investment might have on real gross domestic product (GDP) using the Keynesian multiplier. [10]

Answers **may** include:

- definitions of real GDP, investment, Keynesian multiplier
- Keynesian AD/AS diagram to show the multiplier effect (successive increases in AD and real GDP)
- explanation of how an initial increase in investment, a component of AD, leads to multiple successive increases in AD and real GDP
- hypothetical numerical example(s) to support the explanation or a historical example of specific situations where an increase in investment has possibly led to a multiplier effect.

Award a maximum of level 2 marks if a candidate does not use the concept of the Keynesian multiplier.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss the view that interventionist supply-side policies are the most effective way for a government to achieve economic growth.

[15]

Answers may include:

- definitions of interventionist supply-side policies, economic growth
- diagram to show an increase in both AD and LRAS (resulting in increasing real GDP) or a production possibilities frontier diagram
- explanation that interventionist supply-side policies, such as investment in human capital, investment in new technology, investment in infrastructure or industrial policies, are conducted by the government and aim to improve the economy's capacity to produce (the quality and/or the quantity of the economy's factors of production)
- examples of specific interventionist supply-side policies in practice and/or countries where interventionist supply-side policies might have led to economic growth
- synthesis or evaluation (discuss).

Discussion may include: consideration of alternative policies (market-based supply-side policies, expansionary monetary policies, expansionary fiscal policies) with regard to factors such as time lags, the ability to create employment, the impact on the government budget, the short-run effect on the AD, the administrative requirements and the political support required for their implementation, social effects and effects on the environment.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Assessment Criteria

Part (b) 15 marks

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	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.	