

Markscheme

November 2020

Economics

Standard level

Paper 1

10 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 how production that causes pollution leads to market failure. [10]

Answers *may* include:

- definition of market failure, negative production externalities
- diagram to show an over-allocation of resources where MSC is greater than MPC
- explanation that pollution causes a negative externality of production and over-production
- examples of where pollution leads to market failure.

NB Where a diagram showing negative externalities of consumption is used, a maximum of level 2 should be awarded.

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
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- (b) Discuss whether government regulation is the most effective way to deal with negative externalities of consumption. [15]

Answers may include:

- definition of government regulation, negative externalities of consumption
- diagram to show how government regulation reduces the problem of negative consumption externalities
- explanation that government regulation can reduce the demand for the product, shifting the MPB curve closer towards the MSB curve and the socially optimum output or decrease in supply if a government regulation leads to a fall in output
- examples of where government regulations have been used to control negative externalities of consumption
- synthesis or evaluation (discuss).

Discussion may include: the effectiveness of government regulation including the policing of regulation, consideration of alternative policies like taxation, where the tax revenue raised can be used to pay for some of the consequences of the negative externality.

NB To reach level 4, students need to consider an alternative approach to regulation.

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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4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
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2. (a) Explain the impact of a price floor on market outcomes. [10]

Answers **may** include:

- definition of price floor
- diagram to show the effect of a price floor
- explanation that a price floor can lead to excess supply in the market, inefficient resource allocation, government measures to dispose of a surplus and welfare impacts
- examples of a price floor being used.

NB A price floor to reduce consumption of a demerit good can be fully rewarded if the candidate approaches the question in this way.

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- (b) Discuss the consequences for different stakeholders when the government imposes a price ceiling on a market.

[15]

Answers may include:

- definitions of stakeholders, price ceiling
- diagram to show the effect of a price ceiling
- explanation of how a price ceiling can affect consumers, producers and the government. Some consumers will experience a lower price and some will not be able to access the good, producers will experience a fall in revenues and the government will have the cost of administering the price ceiling
- examples of where price ceilings have been used
- synthesis or evaluation (discuss).

Discussion may include: consideration of how the product will be allocated and whether those in need are able to access the good after the imposition of a price ceiling, the effect on the quality of the product, the likelihood of underground (parallel) markets developing.

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Section B

Macroeconomics

3. (a) Explain how a decrease in business confidence can affect the real GDP of an economy that is producing below the full employment level of output. [10]

Answers may include:

- definitions of real GDP, business confidence, full employment level of output
- diagram to show how a decrease in business confidence will shift AD to the left, resulting in a decrease in real GDP
- explanation that business confidence is a determinant of investment and a decrease in confidence will lead to a decrease in AD and a decrease in real GDP
- examples of situations where business confidence has fallen.

Assessment Criteria

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(b) Evaluate the view that a decrease in aggregate demand would always be deflationary. **[15]**

Answers **may** include:

- definitions of aggregate demand, deflationary
- diagram to show a fall in AD leading to a fall in the average price level in the neo classical/monetarist model
- explanation that in the neo classical/monetarist model a fall in AD would be deflationary because a fall in AD leads to a new equilibrium income at a lower average price level and real GDP
- examples of economies that have experienced a decrease in AD, which is deflationary
- synthesis or evaluation.

Evaluation **may** include: When AD falls in the Keynesian model and the economy is below full employment the average price level does not fall because wages and costs tend not to fall.

NB Candidates can approach this question in terms of deflationary conditions in the economy or as deflation.

Assessment Criteria

Part (b) 15 marks

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4. (a) Explain how government expenditures are used to promote equity in the distribution of income.

[10]

Answers **may** include:

- definitions of government expenditure, equity, distribution of income
- diagram to show two Lorenz curves showing different degrees of inequality
- explanation that governments can provide or subsidize merit goods such as education and health care to benefit those on low incomes and also increase transfer payments
- examples of government expenditure measures to promote equity.

Assessment Criteria

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- (b) Evaluate the impact on efficiency in the allocation of resources when the government uses taxation to promote equity. [15]

Answers may include:

- definitions of allocative efficiency, taxation, equity
- a diagram is not required for this question
- explanation that using taxation can promote equity in the distribution of income but this can lead to negative effects on efficiency. An increase in progressive tax may reduce the incentive to work, reduce FDI in a country and if firms' costs increase because of higher tax their prices might rise
- examples of where taxation has been used to promote equity
- synthesis or evaluation.

Evaluation may include: consideration of the extent to which there is a trade-off between equity and efficiency and why an attempt to improve equity can have positive and negative effects on efficiency. Evaluation can consider the impact on incentives to work and whether higher taxation does actually lead to disincentives.

Assessment Criteria

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