

Markscheme

May 2021

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 why governments impose price floors in the market for agricultural products.

[10]

Answers *may* include:

- definition of price floor
- diagram showing the imposition of a price floor leading to higher prices and higher producer revenues
- explanation that governments impose price floors in the market for agricultural products to support producers by increasing producers' revenues and/or improving producers' ability to plan and invest for the future
- examples of specific agricultural markets where price floors have been imposed.

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) Evaluate the effectiveness of government regulations in achieving a reduction in the consumption of demerit goods.

[15]

Answers may include:

- definition of demerit goods
- negative externalities diagram showing reduced consumption of demerit goods
- explanation that government regulations may restrict the demand for, or the supply of, demerit goods, resulting in lower equilibrium quantity
- examples of demerit goods and/or cases where government regulations on demerit goods have been imposed (eg ban on smoking and drinking in public places, age limits, warnings on packaging, ban on the consumption of certain drugs)
- synthesis or evaluation.

Evaluation may include: consideration of the strengths of government regulations: do not increase tax burden; relatively simple to implement (compared to market-based policies), addressing directly the consumption of demerit goods, complete bans may be very effective in preventing the use of highly addictive demerit goods; consideration of the limitations of government regulations: difficulties/cost of enforcement and lack of government revenue, may be politically unpopular; decrease the revenues of producers of demerit goods and the income of workers in these industries; complete bans may lead to underground parallel markets; consideration of the strengths and limitations of alternative (market-based) policies.

Examiners should be aware that candidates may take a different approach which, if appropriate, 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
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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 why a monopolistically competitive firm can make economic (abnormal) profit in the short run, but not in the long run.

[10]

Answers may include:

- definitions of monopolistic competition, economic (abnormal) profit, short run, long run
- diagram of a monopolistically competitive firm that makes economic profit in the short run by producing the quantity of output where $MR=MC$ and price is lower than ATC ; diagram of a monopolistically competitive firm that makes normal profit in the long run by producing the quantity of output where $MR=MC$ and price is equal to ATC
- explanation that in the long run the economic profit will disappear, because the lack of barriers to entry in the industry will allow the entrance of new firms, which will attract customers away from existing firms (decreasing the demand)
- examples of monopolistically competitive markets in practice (eg restaurants, legal and tax services, dental care).

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- (b) Discuss the consequences of a perfectly competitive market becoming a monopoly market.

[15]

Answers may include:

- definitions of perfect competition, monopoly
- diagrams of a perfectly competitive firm with only normal profit (producing at a level of output that is productively and allocatively efficient) and a monopoly with abnormal profit (producing at a level of output that is productively and allocatively inefficient)
- explanation that the firm that will dominate the industry will be able to charge a higher profit-maximizing price, make economic (abnormal) profit in the long run and produce at a level of output that is neither allocatively nor productively efficient
- examples of cases where a perfectly competitive market may be monopolized are not required, but candidates may use real-world examples of markets that have the characteristics of perfect competition or monopoly in their answers
- synthesis or evaluation (discuss).

Discussion may include: the positive and negative effects on different stakeholders; short-run and long-run effects on prices and economic (abnormal) profit; the consequences for productive and allocative efficiency, innovation, research and development; the possible positive effects of economies of scale.

NB It should be noted that definitions, diagrams, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

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Section B

Macroeconomics

3. (a) Explain **two** causes of demand-pull inflation.

[10]

Answers may include:

- definition of inflation, demand-pull inflation
- diagram showing rising average price level due to an increase in AD
- explanation that AD may increase because of a change in any of the determinants affecting component(s) of AD
- examples of economies that have experienced demand-pull inflation.

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- (b) Evaluate the effectiveness of interventionist supply-side policies in reducing demand-pull inflation.

[15]

Answers may include:

- definitions of inflation, demand-pull inflation, supply-side policies, interventionist supply-side policies
- AD/AS diagram showing an increase in AD in the short run (increasing the inflationary gap) and an increase in the LRAS (full employment level of output) in the long run (decreasing the inflationary gap)
- explanation that, in the short run, interventionist supply-side policies may increase the inflationary pressure due to their effect on AD, but the inflationary pressure will be reduced in the long run due to the increased productive capacity of the economy
- examples of interventionist supply-side policies in practice
- synthesis or evaluation.

Evaluation may include: consideration of the tension between the inflationary short-run effects and disinflationary long-run effects of interventionist supply-side policies; spending on healthcare, education and infrastructure may improve equality in the distribution of income/equity; interventionist supply-side policies may be expensive and lead to high budget deficits and increased indebtedness; considerable time lags; negative effects on the environment; consideration of the strengths and limitations of alternative policies (eg contractionary monetary policy, contractionary fiscal policy, market-based supply-side policies).

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4. (a) Explain **two** causes of structural unemployment.

[10]

Answers **may** include:

- definition of unemployment, structural unemployment
- diagram(s) that show the demand curve for labour shifting to the left and/or surplus of labour due to minimum wage legislation/labour unions
- explanation that a (permanent) decrease in demand for particular labour skills, changes in the geographical location of industries and labour market rigidities, would lead to a surplus of workers (and therefore unemployment)
- examples of industries that have experienced structural unemployment due to relevant causes (eg coal miners losing their job due to foreign competition or the advent of alternative sources of energy, workers in the newspaper and retailing businesses losing their jobs due to online competition and new technologies, low-skilled workers remaining unemployed due to minimum wage legislation, etc).

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(b) Discuss the consequences of different types of unemployment.

[15]

Answers may include:

- definitions of unemployment, frictional unemployment, structural unemployment, seasonal unemployment, cyclical unemployment
- diagram(s) showing decreasing GDP due to falling AD or LRAS
- explanation of the economic consequences of different types of unemployment in terms of effects on government budget, personal incomes and real GDP, and personal or social consequences such as increased inequality in the distribution of income, the possibility of increased crime rates, increased stress levels, increased indebtedness, homelessness and family breakdown
- examples of specific cases where unemployment has led to economic, personal and social consequences (eg geographical areas with declining industries, the Great Depression)
- synthesis or evaluation (discuss).

Discussion may include: comparison of the extent of the negative consequences for the government budget, personal incomes and the real GDP of the different types of unemployment; comparison of the extent of the negative personal and social consequences of the different types of unemployment for individuals who have lost their jobs; consideration that unemployment is part of the adjustment process of a dynamic economy; consideration of the desirability of some types of unemployment (eg frictional) in comparison to others (eg cyclical); consideration of the duration of different types of unemployment from the point of view of individuals and the economy as a whole.

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