

Markscheme

November 2022

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.

1. (a) Explain **two** forms of government intervention in markets. **[10]**

Answers **may** include:

- Terminology: government intervention, markets.
- Theory: explanation of any **two** of the following forms of government intervention: price ceilings (maximum prices), price floors (minimum prices), indirect taxes, subsidies, direct provision of services, command and control regulation and/or legislation. An import tariff intervention and related diagram is equally rewarded.
- Diagram: showing how governments intervene in markets (price ceilings, price floors, indirect taxes and/or subsidies).

*A maximum of [6] should be awarded if only **one** form of government intervention is explained.*

Assessment Criteria

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	<ul style="list-style-type: none"> • The response indicates some understanding of the specific demands of the question. • Relevant economic theory is described. • Some relevant economic terms are included.
5–6	<ul style="list-style-type: none"> • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. • Relevant economic theory is partly explained. • Some relevant economic terms are used appropriately. • Where appropriate, relevant diagram(s) are included.
7–8	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained.
9–10	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is fully explained. • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained.

- (b) Using real-world examples, discuss the view that governments should intervene if markets fail to provide public goods.

[15]

Answers may include:

- Terminology: public goods, market failure.
- Theory: explanation of the two characteristics of public goods (non-rivalrous, non-excludable), the free rider problem, why the market fails and how governments can intervene by directly providing public goods or by contracting out to the private sector.
- Diagram: not needed for this question.
- Synthesis (discuss): which public goods should be provided, how much should be provided, benefits derived from government provision vs. private sector provision, costs of provision.
- Example(s): real-world examples of where governments have intervened or have not intervened in response to public goods.

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

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

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1–3	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant. • The response contains no evidence of synthesis or evaluation. • A real-world example(s) is identified but it is irrelevant.
4–6	<ul style="list-style-type: none"> • The response indicates some understanding of the specific demands of the question. • Relevant economic theory is described. • Some relevant economic terms are included. • The response contains evidence of superficial synthesis or evaluation. • A relevant real-world example(s) is identified.
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10–12	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained. • The response contains evidence of appropriate synthesis or evaluation that is mostly balanced. • A relevant real-world example(s) is identified and developed in the context of the question.
13–15	<ul style="list-style-type: none"> • The specific demands of the question are understood and addressed. • Relevant economic theory is fully explained • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained. • The response contains evidence of effective and balanced synthesis or evaluation. • A relevant real-world example(s) is identified and fully developed to support the argument.

2. (a) Explain **two** goals of fiscal policy. [10]

Answers **may** include:

- Terminology: fiscal policy.
- Theory: explanation of any **two** of the following goals: low and stable inflation, low unemployment, increase short run economic growth, promote a stable economic environment for long-term growth, reduce business cycle fluctuations, equitable distribution of income and/or external balance.
- Diagram: Appropriate diagram(s) to show attainment of the two goals chosen.

*A maximum of [6] should be awarded if only **one** goal of fiscal policy is explained.*

Candidates who explain and diagram the supply-side effects of fiscal policy should also be fully rewarded.

The goals of fiscal policy can be explained either through why it is used (eg stable inflation) or how it is used (eg cutting tax). Both approaches should be equally rewarded.

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- (b) Using real-world examples, evaluate the use of fiscal policy to close a deflationary/recessionary gap.

[15]

Answers may include:

- Terminology: fiscal policy, deflationary/recessionary gap.
- Theory: explanation of how expansionary fiscal policy will increase AD moving the economy closer to its full employment level, closing a deflationary/recessionary gap.
- Diagram: AD/AS diagram to illustrate expansionary fiscal policy to close a deflationary/recessionary gap.
- Synthesis (evaluate): effectiveness depends on the shape of the aggregate supply curve and where the economy is operating; potential strengths of fiscal policy such as targeting of specific sectors and effectiveness in a deep recession; potential constraints on fiscal policy such as political pressures, time lags and sustainable debt; possible conflicts with other macroeconomic objectives, monetary and/or supply-side policies might be considered as alternatives, but the emphasis of the response should be on fiscal policy.
- Example(s): real-world examples of where governments have attempted to close a deflationary/recessionary gap using fiscal policy.

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3. (a) Explain **two** factors that might cause an appreciation of a currency. **[10]**

Answers may include:

- Terminology: appreciation.
- Theory: explanation of any **two** of the following factors: foreign demand for exports, domestic demand for imports, inward foreign direct investment, inward portfolio investment, remittances, speculation, relative inflation rates, relative interest rates, relative growth rates and central bank intervention.
- Diagram: exchange rate diagram showing appreciation of a currency.

*A maximum of [6] should be awarded if only **one** cause of an appreciation is explained.*

Where students just answer with an increase in demand or a decrease in supply without explaining the underlying causes of these changes then a maximum of [6] is rewarded.

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- (b) Using real-world examples, discuss the consequences for an economy of an appreciation of its currency.

[15]

Answers may include:

- Terminology: appreciation.
- Theory: explanation of consequences such as changes in the inflation rate, economic growth, unemployment, the current account balance (exports and imports) and/or living standards.
- Diagram: AD/AS to show potential consequences of an appreciation on the economy.
- Synthesis (discuss): the positive or negative impact of the appreciation on inflation, unemployment, economic growth, the current account balance (exports and imports) and living standards, the effect on different sectors of the economy and the importance of the magnitude of the appreciation.
- Example(s): real-world examples of countries that have experienced an appreciation of the currency or that have tried to avoid an appreciation.

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