

Markscheme

May 2023

Economics

Higher 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 why, in monopolistic competition, abnormal profits can be made only in the short run. **[10]**

Answers **may** include:

- Terminology: monopolistic competition, short run, abnormal profit, barriers to entry.
- Explanation: of the short run profit-maximizing position with abnormal profit being made; and of the long run position being affected by entry of new firms, resulting in decrease in demand for existing firms, with abnormal profits being eliminated and normal profits eventually being made.
- Diagram: short run and long run monopolistic competition diagrams.

Assessment Criteria

Part (a) 10 marks

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 monopolistic competition is a more desirable market structure than oligopoly.

[15]

Answers may include:

- Terminology: monopolistic competition, oligopoly.
- Explanation: of the view in terms of the possible benefits of monopolistic competition as compared to oligopoly; eg less market power for producers who face more elastic demand curves, more product variety, freedom of entry for new firms, normal profits in the long run; and in terms of the drawbacks of oligopoly such as collusion and the possibility of higher prices.
- Diagram: collusive oligopoly diagram showing more significant market power compared to monopolistic competition; relevant use of monopolistic competition diagrams (less market power).
- Synthesis (discuss): a challenge to the view in terms of the possible advantages of oligopoly over monopolistic competition, such as economies of scale and R&D; non-colluding oligopolies can be allocatively more efficient than monopolistically competitive firms in case of a price war; benefits for consumers of non-price competition (eg advertising) occurring more significantly in oligopoly.
- Examples: real-world examples of markets which are characterized by either monopolistic competition or oligopoly and their benefits or drawbacks.

N.B. 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.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
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.
7–9	<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. • The response contains evidence of appropriate synthesis or evaluation but lacks balance. • A relevant real-world example(s) is identified and partly developed in the context of the question.
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 the natural rate of unemployment. [10]

Answers **may** include:

- Terminology: the natural rate of unemployment (NRU).
- Explanation: of the NRU as a result of structural, frictional and seasonal unemployment and an explanation of each of these.
- Diagram: showing a decrease in the demand for labour for a particular market or geographical area for structural unemployment; or a business cycle diagram (or AD/AS diagram) showing actual GDP being equal to potential GDP at the NRU, or use of a long-run Phillips curve diagram, or a labour market diagram with the wage above the equilibrium.

Assessment Criteria

Part (a) 10 marks

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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, evaluate the effectiveness of monetary policy in reducing a large deflationary (recessionary) gap.

[15]

Answers may include:

- Terminology: monetary policy, deflationary (recessionary) gap.
- Explanation: of how expansionary monetary policy can be used to counter a deflationary gap using the various tools of monetary policy, such as open market operations/quantitative easing, minimum reserve requirements and changes in the central bank's minimum lending rate.
- Diagram: AD/AS diagram to show AD shifting right with the deflationary gap being closed/eliminated.
- Synthesis (evaluate): evaluation of the effectiveness of monetary policy in terms of the limitations, *eg* limited scope for lowering interest rates when close to zero, low consumer confidence, ineffective in relation to structural unemployment and the possibility of greater inflation; and its strengths, *eg* short time lags, incremental, flexible and easily reversible; comparison between the effectiveness of monetary and fiscal policy when there is a large recessionary gap.
- Examples: real-world examples of monetary policy being used to counter a deflationary gap.

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

Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
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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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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.

3. (a) Explain how education programmes **and** health programmes can promote economic development. [10]

Answers may include:

- Terminology: economic development.
- Explanation: of the benefits of education and health as merit goods with external benefits for society at large which may impact positively on development, eg greater labour productivity and output, lower unemployment, increased participation of women in the labour force, attractiveness for FDI, control of contagious diseases, links between health care and education
- Diagram: any relevant diagram, eg LRAS shifting to the right, a PPC diagram, a positive externalities of consumption diagram, a Lorenz curve diagram or a poverty cycle diagram.

*A maximum of [6] should be awarded if **only** the importance of education programmes or health programmes is explained.*

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
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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 the weak institutional framework in many economically least developed countries (ELDCs) represents the most significant barrier to economic growth.

[15]

Answers may include:

- Terminology: economically least developed country, economic growth.
- Explanation: of the view in terms of how various aspects of the institutional framework such as poorly-functioning legal system, ineffective/inequitable taxation structure, underdeveloped banking system and lack of property rights may act as a barrier to economic growth.
- Diagram: a diagram is not required for this question, but candidates may use a LRAS/PPC diagram to illustrate economic growth in the long run and explain that the weak institutional framework is preventing economic growth from happening.
- Synthesis (discuss): a challenge to the view in terms of the relative significance of other economic and social/political barriers.
- Examples: real-world examples of countries facing a weak institutional framework and/or other barriers to economic growth.

*A maximum of [12] should be awarded if **only** weak institutional framework is considered.*

***N.B.** 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.*

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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0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
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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.