2226 – 3214M

Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

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Economics

Higher level

Paper 1

13 pages

International Baccalaureate®
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Bachillerato Internacional

1. (a) Explain why monopolies can make abnormal profits in the short run **and** in the long run.
[10]

*Answers **may** include:*
- Terminology: monopoly, short run, long run, abnormal profits.
- Explanation: of a profit-maximizing monopolist earning abnormal profits in the short run; and because of high barriers to entry (such as economies of scale, natural monopolies, legal barriers, branding, control of essential resources, and aggressive tactics), the entry of new firms into the industry is difficult, and the abnormal profits are not competed away and may persist into the long run.
- Diagram: diagram to show the monopoly firm making abnormal profits.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	● The work does not reach a standard described by the descriptors below.
1–2	● 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	● 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	● 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	● 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	● 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 monopoly is always a less desirable form of market structure than perfect competition. **[15]**

*Answers **may** include:*

- Terminology: monopoly, perfect competition.
- Explanation: of the view that monopoly is less desirable in terms of the likelihood of price being higher in monopoly and output lower as compared with perfect competition, producing at an allocatively inefficient level of output resulting in deadweight loss.
- Diagram: diagram(s) to compare monopoly and perfect competition.
- Synthesis (discuss): a challenge to the view in terms of the potential advantages of monopoly such as economies of scale leading to lower prices for consumers, including natural monopolies and the possibility of abnormal profits incentivizing and financing investments in R&D, leading to innovation; consideration of the potential advantages and disadvantages of perfect competition, consideration of` the word "always".
- Examples: real-world examples of monopoly and/or perfectly competitive firms/markets.

*A maximum of **[9]** should be awarded if **only** the advantages and disadvantages of monopoly are addressed.*

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

***N.B.** It should be noted that terminology, diagrams, 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

Marks	Level descriptor
0	• The work does not reach a standard described by the descriptors below.
1–3	• 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	• 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	• 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	• 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	• 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 likely economic problems associated with deflation. **[10]**

*Answers **may** include:*

- Terminology: deflation.
- Explanation: of how deflation may arise from a decrease in AD or an increase in SRAS; explanation of likely economic problems such as uncertainty, redistributive effects, deferred consumption, association with high levels of cyclical unemployment and bankruptcies, increase in the real value of debt, inefficient resource allocation, and policy ineffectiveness.
- Diagram: AD/AS diagram(s) showing AD shifting to the left and/or SRAS shifting to the right.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
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3–4	● The response indicates some understanding of the specific demands of the question. ● Relevant economic theory is described. ● Some relevant economic terms are included.
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9–10	● 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 closing a deflationary (recessionary) gap. **[15]**

*Answers **may** include:*

- Terminology: monetary policy, deflationary (recessionary) gap.
- Explanation: of how expansionary monetary policy using the various tools of monetary policy, such as open market operations, quantitative easing, minimum reserve requirements, or changes in the central bank's minimum lending rate to lower the interest rates and increase money supply, will increase consumption and investment, leading to increases in AD, increasing the level of real output, and closing the deflationary (recessionary) gap.
- Diagram: AD/AS diagram to show the use of expansionary monetary policy to increase AD and real output, closing a deflationary gap.
- Synthesis (evaluate): a consideration of the effectiveness of using monetary policy to close a deflationary gap in terms of the limitations (limited scope for lowering interest rates when close to zero, low consumer and business confidence, and the possibility of inflation, possible ineffectiveness when there is a large recessionary gap) and its strengths (short time lags, incremental, flexible and easily reversible); a consideration of alternative policies to close a deflationary (recessionary) gap.
- Examples: real-world examples of monetary policy and/or other policies being used to close a deflationary (recessionary) gap.

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N.B. *It should be noted that terminology, diagrams, 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

Marks	Level descriptor
0	• The work does not reach a standard described by the descriptors below.
1–3	• 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	• 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	• 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	• 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	• 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 government indebtedness **and** the existence of a poverty cycle may be barriers to economic growth. **[10]**

*Answers **may** include:*

- Terminology: indebtedness, poverty cycle, economic growth.
- Explanation: of how indebtedness may impact growth in terms of the opportunity cost of debt servicing, poor credit ratings affecting the ability to borrow, the possibility of increasing taxes and cutting government spending in the future to pay back government debt, uncertainty affecting private investment, the possibility of a debt trap; how the poverty cycle impacts growth via its effect on savings, capital investment and productivity.
- Diagram: appropriate use of an AD/AS, PPC and/or a poverty cycle diagram.

*A maximum of **[6]** should be awarded if **only** government indebtedness **or** the existence of a poverty cycle as barriers to economic growth is considered.*

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
0	● The work does not reach a standard described by the descriptors below.
1–2	● 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	● The response indicates some understanding of the specific demands of the question. ● Relevant economic theory is described. ● Some relevant economic terms are included.
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7–8	● 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	● 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 market-based policies in promoting economic growth **and** economic development. **[15]**

*Answers **may** include:*

- Terminology: market-based policies, economic growth and economic development.
- Explanation: of how market-based policies such as encouraging competition (trade liberalization, privatization, and deregulation), labour market reforms, and incentives-related policies may work to promote economic growth and economic development through their impact on efficiency, and the economy.
- Diagram: appropriate use of any relevant diagram such as an AD/AS diagram, a PPC or a Lorenz curve diagram.
- Synthesis (evaluate): evaluation in terms of the benefits of market-based policies (such as improving efficiency and the allocation of resources, no burden on government budget) and drawbacks of market- based policies (such as their impact on equity, income inequalities and poverty, time lags, and vested interests); impact on the environment; consideration of alternative policies.
- Examples: real-world examples of the effectiveness of market-based policies and/or of other policies in promoting economic growth and economic development.

*A maximum of **[9]** should be awarded if **only** the effectiveness of market-based policies on economic growth **or** economic development is addressed.*

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

***N.B.** It should be noted that terminology, diagrams, 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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4–6	• 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	• 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.