2226 – 3218M

Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2026

Economics

Higher level

Paper 1

11 pages

1. (a) Explain how allocative efficiency occurs in perfect competition but does not occur in monopolistic competition. **[10]**

*Answers **may** include:*

- Terminology: allocative efficiency, perfect competition, monopolistic competition.
- Explanation: of how allocative efficiency is achieved in perfect competition (P=MC or MB=MC) and how allocative inefficiency occurs in monopolistic competition (P not equal to MC).
- Diagram(s): showing allocative efficiency in perfect competition and a diagram showing allocative inefficiency in monopolistic competition.

*A maximum of **[6]** should be awarded if **only one** aspect of the question is addressed.*

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 advantages **and** disadvantages of oligopoly as a market structure. **[15]**

*Answers **may** include:*

- Terminology: oligopoly, market structure.
- Explanation: of the potential advantages of oligopoly such as economies of scale, abnormal profits incentivizing and financing investments in R&D and innovation, price wars and non-price competition benefitting consumers.
- Diagram: collusive oligopoly acting as a monopoly or the use of a game theory matrix.
- Synthesis (discuss): discussion of such disadvantages as allocative inefficiency, collusive oligopoly acting as a monopoly, incentives to collude and cheat, the drawbacks of non-price competition; collusive versus non-collusive oligopoly.
- Examples: real-world examples of advantages and/or disadvantages occurring under oligopoly.

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

N.B. *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.*

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 high inflation. **[10]**

*Answers **may** include:*
- Terminology: inflation, high inflation.
- Explanation: of the significance of the cause of inflation, *i.e.* cost push or demand pull; the specific costs such as uncertainty, redistributive effects, effects on saving, damage to export competitiveness, impact on economic growth, inefficient resource allocation.
- Diagram: use of an AD/AS diagram to show either demand pull or cost push inflation.

Assessment Criteria

Part (a) 10 marks

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(b) Using real-world examples, evaluate the effectiveness of supply-side policies in reducing inflation. **[15]**

*Answers **may** include:*

- Terminology: supply-side polices (SSPs), inflation.
- Explanation: of the way in which interventionist SSPs, if successful, can shift the LRAS to the right, increasing the full employment level of output, lowering the price level and the rate of inflation; and how market-based SSPs might lower the rate of inflation via their effect on efficiency and labour market policies.
- Diagram: AD/AS diagram to show LRAS shifting right.
- Synthesis (evaluate): the problems of using SSPs to reduce inflation such as the costs and time lags involved with interventionist policies and the equity issues, vested interests and environmental impact of market-based policies; and the strengths in terms of improved resource allocation and no burden on the government budget for market-based policies; and the benefits of promoting growth and greater international competitiveness for interventionist SSPs.
- Examples: real-world examples of SSPs being used to reduce the rate of inflation or other types of policies being used.

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Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
0	• The work does not reach a standard described by the descriptors below.
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3. (a) Explain how capital flight **and** lack of access to international markets may be barriers to economic growth. **[10]**

*Answers **may** include:*

- Terminology: capital flight, international markets, economic growth.
- Explanation: of the impact of capital flight on growth in terms of uncertainty, loss of financial capital, downward pressure on the exchange rate, impact on external borrowing, financial crisis; and the impact of lack of access to international markets on growth in terms of the difficulties encountered in trying to export goods, particularly brought about by tariffs and subsidies; reference may also be made to other international markets, such as capital and financial markets.
- Diagram: appropriate use of any relevant diagram, *e.g.* AD/AS, PPC, exchange rate diagram.

*A maximum of **[6]** should be awarded if **only** capital flight **or** international markets is addressed.*

Assessment Criteria

Part (a) 10 marks

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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, discuss the effectiveness of inward foreign direct investment (FDI) in promoting economic growth **and** economic development. **[15]**

*Answers **may** include:*

- Terminology: inward foreign direct investment (FDI), economic growth, economic development.
- Explanation: of the benefits of inward FDI such as higher economic growth, multiplier effects, greater employment opportunities, provision of technical and management skills, provision of advanced technology, a bridging of the savings and foreign exchange gaps.
- Diagram: appropriate use of any relevant diagram such as a PPC diagram, an AD/AS diagram or a Lorenz curve diagram.
- Synthesis (discuss): consideration of the drawbacks of inward FDI such as the capital-intensive nature of the FDI, the outward directed patterns of growth that may result, repatriation of profits, tax avoidance schemes, limited benefits for local economies, competition with domestic firms, exploitation of workers, environmental impact, misallocation of resources from a social point of view.
  N.B. Candidates might start with the drawbacks of FDI and then consider the benefits as evaluation.
- Examples: real-world examples of countries which have either benefitted or suffered from inward FDI in term of their economic growth and development.

*A maximum of **[9]** should be awarded if **only** economic growth **or** development is addressed.*

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

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Assessment Criteria

Part (b) 15 marks

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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.