2226 – 3221M

Markscheme

May 2026

Economics

Standard level

Paper 1

13 pages

1. (a) Explain why governments might provide a subsidy for a good or service. **[10]**

*Answers **may** include:*

- Terminology: subsidy.
- Explanation: of how providing a subsidy increases the revenues and incomes of certain producers; helps low-income consumers; increases consumption closer to the socially optimum level when there is a positive externality; supports key industries; protects against imports.
- Diagram: a demand and supply diagram showing the impact of providing a subsidy for a good or service.

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 the use of indirect taxes is the most effective way to correct the market failure caused by the consumption of demerit goods. **[15]**

*Answers **may** include:*

- Terminology: indirect taxes, market failure, demerit goods.
- Explanation: of how overconsumption of demerit goods leads to market failure and how indirect taxes may correct the market failure.
- Diagram: negative externalities of consumption diagram, demand and supply diagram or market failure diagram showing how the indirect taxes increase price and reduce equilibrium quantity.
- Synthesis (discuss): advantages of indirect taxes such as the internalisation of external costs, tax revenue to governments, use of tax revenue for redistribution; discussion of disadvantages of indirect taxes such as difficulties involved in monetising the external costs, regressive in nature and worsens income inequality, creates inflationary pressures; discussion of other policies such as education, legislation and regulation.
- Examples: real-world examples of indirect taxes and other relevant policies used to reduce the consumption of demerit goods.

*A maximum of **[12]** should be awarded if **only** indirect taxes 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

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 causes of structural **and** cyclical unemployment. **[10]**

*Answers **may** include:*

- Terminology: unemployment (structural, cyclical).
- Explanation: of the causes of cyclical unemployment as AD decreases (any reasons explaining the fall in AD); of the causes of structural unemployment (any reasons explaining the skills mismatch between the workers and those required by the industry, such as capital replacing labour, a declining industry, foreign competition).
- Diagram: AD/AS diagram, labour market diagram.

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

Assessment Criteria

Part (a) 10 marks

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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.
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 the main consequence of high unemployment is low inflation. **[15]**

*Answers **may** include:*

- Terminology: unemployment, inflation.
- Explanation: of how high unemployment results in low inflation.
- Diagram: AD/AS diagram, Lorenz curve, labour market diagram.
- Synthesis (discuss): other consequences of high unemployment such as increased income inequality, personal costs (psychological stress, low self-esteem), social costs (social unrest, reliance on unemployment benefits) and economic costs (lower productivity due to hysteresis, increasing government expenditure to support the unemployed, lower economic growth, opportunity costs in terms of lost output. Could also include situations where high inflation and high unemployment exist at the same time such as cost push inflation.
- Examples: real-world examples of consequences for countries experiencing high unemployment.

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, 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 the benefits of international trade. **[10]**

*Answers **may** include:*

- Terminology: international trade.
- Explanation: of the benefits of international trade such as increased competition, lower prices, greater choice, acquisition of resources, more foreign exchange earnings, access to larger markets, economies of scale, more efficient resource allocation, more efficient production.
- Diagram: international trade diagrams, PPC diagrams, AD/AS diagrams.

Assessment Criteria

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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 consequences of inward foreign direct investment (FDI) in economically least developed countries (ELDCs). **[15]**

*Answers **may** include:*

- Terminology: inward foreign direct investment, economically least developed countries (ELDCs).
- Explanation: of how inward foreign direct investment promotes actual and potential economic growth, transfer of technology and skills, job opportunities, increased opportunities for firms supplying raw materials, appreciation of the domestic currency, inflow in the financial account of the balance of payments.
- Diagram: AD/AS diagrams showing actual and potential economic growth, exchange rate diagrams, Lorenz curve diagram, negative externalities of production diagram, labour market diagram.
- Synthesis (discuss): discussion of negative consequences of inward foreign direct investment such as creation of negative externalities, competition for domestic firms, structural unemployment, income inequality, reliance on multinational corporations and loss of economic sovereignty, low tax revenue collected resulting from tax incentives to attract multinational corporations, lack of skills transfer and job opportunities resulting from multinational corporations employing their own domestic workers instead.
  N.B. *If candidates start with negative consequences, a subsequent discussion of the positive consequences would count as evaluation.*
- Examples: real-world examples of inward FDI in ELDCs countries.

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.