2226 – 3225M

Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2026

Economics

Standard level

Paper 1

11 pages

1. (a) Explain why governments might set a price floor (minimum price). **[10]**

*Answers **may** include:*

- Terminology: price floor (minimum price).
- Explanation: of how setting a price floor raises the price of the good or labour; of how it raises the incomes of agricultural producers (under a price support programme implemented by the government) or as a minimum wage for workers; of how it reduces the consumption of demerit goods and/or of how it encourages labour force participation.
- Diagram: diagram(s) to show that a price floor is established above the equilibrium price and/or how a price floor increases the production of goods and increases producer revenue (under a price support programme implemented by the government); of how the price floor reduces the consumption of demerit goods (if the price floor is effectively above the market equilibrium price); of how the minimum wage increases the income of the workers.

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 carbon taxes is the most effective way to reduce the pollution caused by firms. **[15]**

*Answers **may** include:*

- Terminology: carbon taxes.
- Explanation: of how negative externalities of production lead to market failure and how carbon taxes reduce the pollution caused by firms.
- Diagram: negative externalities of production diagram, demand and supply diagram or market failure diagram showing how the carbon taxes increase price and reduce quantity.
- Synthesis (discuss): advantages of carbon taxes such as the internalisation of external costs, flexibility to adjust to the level of external costs, tax revenue for governments, use of tax revenue to invest in renewable energy, forces firms to use cleaner and more energy efficient fuels for production; discussion of disadvantages of carbon taxes such as difficulties involved in monetising the external costs, increases cost of production and reduces profits for firms, discourages investment by firms, higher costs may be passed on to consumers, regressive nature of carbon taxes; discussion of other policies such as subsidies for renewable energy, education, legislation and regulation, tradable permits.
- Examples: real-world examples of carbon taxes and other relevant policies used to reduce pollution caused by firms.

*A maximum of **[9]** should awarded if **only** carbon 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 **two** goals of fiscal policy. **[10]**

*Answers **may** include:*

- Terminology: fiscal policy.
- Explanation: of how fiscal policy may achieve any **two** of the following: low and stable inflation, low unemployment, promote a stable economic environment for long-term growth, reduce business cycle fluctuations, achieve equitable distribution of income, achieve external balance.
- Diagram: AD/AS diagram, business cycle diagram, Lorenz curve diagram.

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

Assessment Criteria

Part (a) 10 marks

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(b) Using real-world examples, discuss the view that economic growth always leads to inflation. **[15]**

*Answers **may** include:*

- Terminology: economic growth, inflation.
- Explanation: of how economic growth from increases in AD leads to demand-pull inflation.
- Diagram: AD/AS diagram.
- Synthesis (discuss): how economic growth may not always lead to inflation as increases in productive capacity increases potential economic growth (rightward shift of LRAS curve) leading to lower inflation; how lower costs of production (rightward shift of the SRAS curve) achieves economic growth but lower inflation; depends on the level of spare capacity in the economy.
- Examples: real-world examples of countries that have/have not experienced inflation with economic growth.

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Assessment Criteria

Part (b) 15 marks

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3. (a) Explain how dependence on primary sector production may be a barrier to a country's economic development. **[10]**

*Answers **may** include:*
- Terminology: primary sector production, economic development.
- Explanation: of the problems of overspecialisation/lack of diversification, the reasons for price volatility of primary products and the impact of this volatility on farmers' incomes, agricultural investment, employment and wages of agricultural workers, export earnings and government revenues; how these factors impact negatively on economic development.
- Diagram: demand and supply diagram showing price inelastic demand and supply of primary goods with large fluctuations in price when demand and/or supply shifts; poverty cycle diagram or any other relevant diagram.

Assessment Criteria

Part (a) 10 marks

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(b) Using real-world examples, evaluate the effectiveness of import substitution strategies in promoting economic growth in economically least developed countries (ELDCs). **[15]**

*Answers **may** include:*

- Terminology: import substitution, economic growth, economically least developed countries.
- Explanation: of how import substitution strategies reduce the imports that compete with domestic producers and/or reduce the price of capital imports (through an overvalued exchange rate) and how it can promote economic growth.
- Diagram: international trade diagrams, exchange rate diagram, AD/AS diagram.
- Synthesis (evaluate): advantages of import substitution strategies such as the protection of infant industries, protection of primary industries from dumping; experience economies of scale from increased domestic production and thus, lower export prices; disadvantages of import substitution strategies such as lack of competition from foreign firms resulting in increased costs, lower quality, increased prices, less consumer choice, trade retaliation, inefficiency of domestic firms, growing reliance on government intervention, resource misallocation; effect on government revenues; effect on balance of payments.
- Examples: real-world examples of import substitution strategies used by economically least developed countries or examples of where import substitution strategies have not been used.

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Assessment Criteria

Part (b) 15 marks

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