Markscheme

November 2022

Economics

Higher level

Paper 1

Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

1. (a) Explain why the existence of positive externalities of consumption would lead to allocative inefficiency and thus a welfare loss. **[10]**

*Answers **may** include:*
- Terminology: Positive externalities, consumption externalities, welfare loss, allocative inefficiency.
- Diagrams: A diagram to show positive externalities in consumption and the welfare loss associated with the free market level of output.
- Theory: An explanation that because there are positive externalities of consumption, a welfare loss exists, where the marginal social benefit exceeds the marginal social cost at levels of output up to the point where marginal social benefits are equal to marginal social costs. The socially optimum level of output would be greater than the level of output provided by a free market.

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, evaluate the policies a government might adopt to
      respond to a market situation in which significant asymmetric information exists.   **[15]**

      *Answers **may** include:*
      • Terminology: Asymmetric information, adverse selection, moral hazard.
      • Diagram: Not needed for this question.
      • Theory: Candidates should consider government responses to markets in
        which asymmetric information is considered problematic such as legislation
        and regulation, the provision of information. Candidates might also consider
        private responses such as signalling and screening where a government
        decides not to intervene.
      • Synthesis (evaluate): An evaluation of the different policies available to the
        government when there is asymmetric information in the context of the
        examples offered by the candidate. Candidates might conclude that the best
        course of government action is to do nothing and allow private responses to
        the asymmetric information. Or, alternatively, that government action in certain
        situations may be imperative.
      • Example(s): A relevant real-world example(s) in which asymmetric information
        exists.

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 why a sustainable level of government (national) debt is an important macroeconomic objective. **[10]**

*Answers **may** include:*
- Terminology: Government (national) debt, sustainable government (national) debt.
- Diagrams: Candidates might use an AD/AS diagram to illustrate changes in government spending, but the question can be answered without the use of a diagram.
- Theory: An explanation of how government debt might be measured as a percentage of GDP. Candidates may also explain how a budget deficit is related to government (national) debt. Candidates might explain sustainable debt in terms of servicing costs, credit ratings and how future taxation and government spending might be impacted by debt and whether these are sustainable.

Assessment Criteria

Part (a) 10 marks

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(b)   Using real-world examples, discuss the potential trade-off between
      unemployment and inflation.   **[15]**

      *Answers **may** include:*
      - Terminology: Unemployment, inflation.
      - Diagrams: AD/AS diagrams, Phillips curve diagram.
      - Theory: An explanation of the potential trade-off between unemployment and
        inflation in the long run and in the short run.
      - Synthesis (discuss): Discussion of the relationship between inflation and
        unemployment in the short run and in the long run. A consideration of the
        trade-off revealed by the short-run Phillips curve and the lack of a trade-off
        indicated by the long run Phillips curve in which the economy is assumed to
        be operating at the natural rate of unemployment.
      - Example(s): A relevant real-world example(s) in which a potential trade-off
        between unemployment and inflation is claimed to exist.

Assessment Criteria

Part (b) 15 marks

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3. (a) Explain how a free trade area is different from a common market. **[10]**

*Answers **may** include:*
- Terminology: Free trade area, common market.
- Diagrams: Candidates may answer the question without the use of diagrams, but they might decide to devise a diagram using for example a Venn diagram to help explain the difference.
- Theory: An explanation that a free trade area is an agreement between two or more countries to reduce or remove tariffs and other barriers to trade between them. A common market is a level of economic integration in which countries share common external barriers to trade. Between members there are no controls on the movement of goods and services and there is freedom of movement for the factors of production.

Assessment Criteria

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(b)   Using real-world examples, evaluate the decision of a country to remain a
      member of a trading bloc.   **[15]**

      *Answers **may** include:*
      • Terminology: Trading bloc.
      • Diagrams: AD/AS diagram to illustrate growth. Economies of scale to indicate
        falling costs with increased market size. Trade diagram illustrating the removal
        of restrictions to trade.
      • Theory: Explanation of the impacts of a trading bloc on the economy in terms
        of employment, economic growth, trade creation, trade diversion and
        economies of scale.
      • Synthesis (evaluate): Advantages including trade creation, greater access to
        markets, economies of scale. Freedom of movement of labour and greater
        employment opportunities, stability and cooperation, increased economic
        growth, greater consumer choice, increased competition, lower prices,
        improved efficiency. Disadvantages including trade diversion, impact on
        sovereignty, the effect on multilateral trade negotiations such as those of the
        WTO. Unemployment in less competitive member states. Candidates who cite
        the EU as an example may also consider arguments pertaining to membership
        in the Eurozone.
      • Example(s): A relevant real-world example(s) of a country who is a member of
        a given trading bloc.

Assessment Criteria

Part (b) 15 marks

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