



MARKSCHEME

November 2000

ECONOMICS

Higher Level

Paper 2

PAPER-SPECIFIC GUIDANCE – NOVEMBER 2000

The following comments are intended to provide extra guidance to Assistant Examiners, but they are not meant to be a 'straitjacket'.

They are meant to indicate some of the main points which the question-setter hoped to elicit, and/or indicate sensible approaches; however, it is often possible for candidates to respond to a question in a way which is unanticipated and yet which contains valid economic arguments, so please keep an open mind.

THE GENERAL MARKING CRITERIA REMAIN THE MAIN BASIS FOR AWARDING MARKS.

PLEASE REMEMBER THAT CANDIDATES HAVE ONLY ONE HOUR IN WHICH TO ANSWER FOUR QUESTIONS ON THIS PAPER. PROVIDED THAT CANDIDATES GRASP THE IMPORT OF EACH QUESTION AND ANSWER RELEVANTLY, THEY SHOULD BE REWARDED.

Question 1

Students are expected to consider hotel accommodation as a market, with movement of the demand curve against a fairly fixed supply curve. Determinants of the demand would be the normal ones of price, price of competing goods, income, taste, but also advertising, school holidays, perceptions of weather, fashion, etc. Good students might argue that supply is sometimes artificially limited by the way airlines and package deals are organised. Reserve the best marks for students who retain economic concepts and modes of thought throughout, including diagram(s).

Award a maximum of *[7 marks]* if no D&S diagrams are used. To enter bands 4A/4B, there needs to be some reference, even implicit, to the relative inelasticity of supply of hotel rooms. Full marks could be awarded for a comprehensive answer in terms of price discrimination.

[10 marks]

Question 2

Essential to an understanding of this question is the economist's distinction between short run and long run. Decreasing returns to scale should be illustrated with a Long Run Average Cost Curve, with the clear understanding that it operates over a period in which all factor inputs are variable. Diminishing returns should be illustrated with a numerical or diagrammatic example which shows increasing application of a variable factor to at least one fixed factor. Good answers might include short run average cost curves on a climbing envelope curve.

Allow up to *[5 marks]* if only one aspect of the question is answered.

[10 marks]

Question 3

This is very much a single concept question and will therefore be attempted by those who understand the definition of crowding out. It is most often used to refer to the tendency of state borrowing and purchasing to increase interest rates or otherwise make scarce the resources and investment needed by the private sector. Supply side economists are the ones referred to since their beliefs favour the reduction in size of the state sector to prevent crowding out. Keynesians would only accept that it happens at or near full employment, when government spending starts to replace private investment.

[10 marks]

Question 4

Relevant factors could include the following:

- comparative and absolute advantage
- costs (possibly unrelated to the above)/economies of scale
- productivity
- relative inflation rates
- exchange rates
- quality of products
- capital and human investment
- any other relevant factors

Allow up to [7 marks] for an answer that is framed completely in terms of comparative and absolute advantage.

Otherwise full marks could be earned by explaining any two factors fully or several in less detail.

[10 marks]

Question 5

Clear understanding of the various distinctions is necessary, *e.g.* between grant aid and concessionary aid or soft loans, between bilateral and multilateral aid, between financial aid and gifts of food and materials. Good students should also be able to explain tied aid, and be aware that definitions of aid will include loans at little better than market rates. Weaker candidates will focus on what arrives physically in LDCs, *i.e.* food, medicines, volunteers, rather than the forms of aid in any conceptual sense. A maximum of [4 marks] should be allowed for this approach. Full marks could be earned by describing well two of the above distinctions.

[10 marks]

Question 6

A definition is required, which could be the NAIRU or the less complex idea of the full employment level at which the labour market clears. Answers should be clear that this is not the Keynesian idea of full employment and that structural, seasonal and frictional unemployment can occur at the natural rate. A diagram is to be expected in better answers.

[10 marks]
