

MARKSCHEME

May 2002

ECONOMICS

Higher Level

Paper 2

Question 1 Price of tickets for a tennis tournament

Candidates are expected to produce the standard demand and supply diagram with a maximum price set below the equilibrium, with demand exceeding supply and supply being fixed. Consequences might include shortages, an “unofficial market”, a rationing system, first come first served, and queues.

Give a maximum of [3 marks] for an accurately drawn diagram only with no accompanying explanation. Give a maximum of [6 marks] for an explanation without a diagram.

High scoring answers are likely to incorporate the diagram into the body of the text in examining the likely consequences.

Question 2 Reduction in passenger fares

Candidates might answer this question in terms of the following: movement along a demand curve; price elasticity of demand/total revenue; cross elasticity of demand; price discrimination; income and substitution effects; price cuts in the context of different market forms, e.g. kinked demand curve under oligopoly; price wars *etc.*

High scoring answers are likely to make some use of a diagram/diagrams, although this is not essential, and are likely to develop a few points in reasonable detail, or several points in less detail.

Question 3 AD/AS analysis

An increase in interest rates is likely to have a two-fold effect - AD will shift to the left as consumption and investment fall; and AS will shift to the left as business costs rise. The overall effect on the price level and output will depend on which shift is the greatest.

*To earn [10 marks] candidates should consider both shifts, but **one** shift considered well could earn a maximum of [7 marks].*

Question 4 Government controlling increases in its expenditure

Reasons might include: to control inflation/to deflate aggregate demand; to control the extent of government borrowing/facilitate debt repayment; to balance the budget; to keep tax levels down; to prevent crowding out; a belief in market forces *etc.*

*For [10 marks] candidates need to examine two reasons, but **one** reason considered well could earn a maximum of [6 marks].*

Question 5 Depreciation and the balance of payments

Candidates might start by explaining what a depreciation is and how it might improve the balance of payments (exports cheaper, imports more expensive). Reasons for not helping the balance of payments might include: Marshall Lerner condition not fulfilled (could earn full marks if explained in sufficient depth); the J curve effect; importance of non-price factors; possibility of competitive depreciations; rising import costs causing inflation and a loss of competitiveness.

To earn full marks the Marshall Lerner condition could be explained fully, or any two factors could be explained in depth, or several in less depth.

Question 6 Economic development

Candidates might usefully define economic development. Greater equality of income might aid development by: increasing aggregate demand (poor have a high MPC); facilitate greater access to health and education; unlock unrealised talents of the poor and women, increase their incentives and increase aggregate supply and economic efficiency; necessitate less government spending on welfare payments and more on capital projects; the link between income, savings, investment and growth; empirical evidence on the case for greater equality.

Full marks could be earned by explaining a few points in reasonable depth or several points in less depth.
