



MARKSCHEME

November 2010

ECONOMICS

Higher Level

Paper 2

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In addition to the assessment criteria, use the paper-specific markscheme below. Award up to the maximum marks indicated. Each question is worth [10 marks].

1. Using a diagram, explain why Giffen goods and Veblen goods represent exceptions to the law of demand.

Candidates **may** include the following:

- an explanation of the law of demand
- an explanation of the characteristics of Giffen goods
- an explanation of why Giffen goods are an exception to the law of demand
- an explanation of the characteristics of Veblen goods
- an explanation of why Veblen goods are an exception to the law of demand
- an explanation of Giffen goods and Veblen goods in terms of inferior/luxury goods and income/substitution effects
- diagrammatic explanation of Giffen and Veblen goods
- an explanation of whether Giffen goods and Veblen goods actually exist
- examples of Giffen goods and Veblen goods.

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

Assessment Criteria		
Level Marks		
0	Completely inappropriate answer.	0
1	Little understanding of the specific demands of the question Very little recognition of relevant economic theory Relevant terms not defined Significant errors	1–3
2	Some understanding of the specific demands of the question Some recognition of relevant economic theory Some relevant terms defined Some errors	4–6
3	Understanding of the specific demands of the question Relevant economic theory explained and developed Relevant economic terms defined Few errors Where appropriate, diagrams included	7–8
4	Clear understanding of the specific demands of the question Relevant economic theory clearly explained and developed Relevant economic terms clearly defined No major errors Where appropriate, diagrams included and explained Where appropriate, examples used	9–10

2. Using a diagram(s), explain how the characteristics/assumptions of the models of perfect competition and monopolistic competition result in different demand curves for individual firms.

Candidates **may** include the following:

- an explanation of characteristics/assumptions of perfect competition
- an explanation of characteristics/assumptions of monopolistic competition
- an explanation of why the demand curve for the firm in perfect competition is perfectly elastic
- a diagram showing the above
- an explanation of why the demand curve for the firm in monopolistic competition is downward sloping
- a diagram showing the above
- examples of markets which approximate perfect competition and monopolistic competition.

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3. Using a diagram, and assuming a neo-classical aggregate demand/aggregate supply model, explain the short-term and long-term effects of a rise in aggregate demand when a country is at full employment.

Candidates **may** include the following:

- a definition of aggregate demand
- a definition of full employment
- an explanation of neo-classical aggregate demand/aggregate supply model
- a diagram showing a neo-classical LRAS with AD and SRAS intersecting at the LRAS and a subsequent shift of AD to the right
- an explanation that in the short-term there will be an increase in output and the price level, producing an inflationary gap
- an identification of the inflationary gap on the *x*-axis
- an explanation that the higher price level means that costs of production rise as workers negotiate higher wages to compensate for inflation
- an explanation that in the long-term the SRAS curve will shift to the left
- a conclusion that the long-term effect is an increase in the price level with no change in real output.

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4. A government decides to increase its spending on new roads, recognizing that there will be a multiplier effect on national income. Using a numerical example, explain what may determine the size of the multiplier.

Candidates **may** include the following:

- a definition of the multiplier
- a definition of national income
- an explanation of the multiplier and its effect on national income
- an identification of leakages/withdrawals and injections/additions as factors that determine the size of the multiplier
- an explanation that the size of the multiplier depends on the marginal propensity to consume or on the marginal propensity to inject or add income to the circular flow *e.g.* the higher the MPC the higher the value of the multiplier
- an explanation that the size of the multiplier depends on the marginal propensity to save or, generally, on the marginal propensity to withdraw or leak out of income from the circular flow, *e.g.* the higher the MPS the lower the value of the multiplier
- a numerical example using one of the formulae for the multiplier
- an explanation of the numerical example.

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5. Using real world examples, explain the factors that allow a country to have a comparative advantage in the production of a good or service.

Candidates **may** include the following:

- a definition of comparative advantage
- an explanation of the role of factor endowments (quantity of resources) in determining a country’s comparative advantage (land, labour, capital, entrepreneurship)
- an explanation of the role of the quality of resources, *e.g.* technology and education, in determining a country’s comparative advantage
- suitable examples of specific countries.

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6. Using a production possibility curve (PPC) diagram, explain the importance of infrastructure and education for achieving economic growth.

Candidates **may** include the following:

- a definition of the production possibility curve
- a definition of economic growth
- a definition of infrastructure
- an explanation of how improved infrastructure may achieve economic growth
- an explanation of how improved education may achieve economic growth
- a PPC diagram showing a shift of the PPC outwards
- an explanation of the shift as caused by an improvement in the formation of human capital and the increase in capital investment in infrastructure
- reference to infrastructure in the context of external economies of scale and productivity.

Candidates **may** also show a movement from a point inside the PPC curve towards the curve and explain this as the consequence of greater use of the available factors of production.

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