



MARKSCHEME

May 2011

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 at least one diagram, explain why governments may need to intervene to encourage participation in vaccination programmes during a threatened influenza epidemic.

Candidates **may** include:

- an explanation that vaccines are a merit good and this is an example of market failure
 - an explanation of market failure
 - an explanation of positive externalities of consumption
 - a diagram showing marginal private benefit being less than marginal social benefit – vaccines would be underprovided by the market mechanism
 - the benefits of vaccines being given for influenza – both private and social
 - suggestions of how the government may intervene, *e.g.* subsidies or awareness campaigns to increase demand
 - the explanation of how governments may intervene provides two more possibilities to use diagrams:
 - a diagram showing a vertical shift of the MPB curve towards the MSB curve due to government awareness campaigns to encourage consumption of the vaccine
 - a diagram showing a vertical downward shift of the MPC determined by a subsidy to increase supply of the vaccine at a lower price.
- N.B.** In either case the shift would be determined by the size of the positive externality.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

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

Level	Assessment Criteria	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 at least one diagram, explain why knowledge of price elasticity of demand is necessary for a government when they are considering increasing indirect taxes on certain products.

Answers **may** include:

- a definition of price elasticity of demand
- a definition of indirect taxes
- an explanation of the tax incidence and who bears the burden of this tax
- an explanation of the revenue to be gained by the government
- an explanation of the possible influence on consumer behaviour
- use of a diagram to illustrate implementation of indirect tax on good with inelastic demand
- use of a diagram to illustrate implementation of indirect tax on good with elastic demand.

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3. A government decides to introduce a major increase in its spending programmes. Explain how this may lead to “crowding out” effects.

Candidates **may** include:

- a definition of “crowding out”
- an explanation of financial “crowding out”; *i.e.* that by running a budget deficit government increases demand for loanable funds, leading to increased interest rates and thus reduced private investment and private consumption
- an explanation of physical (resource) “crowding out”; *i.e.* that increased government spending reallocates factors of production away from the private and towards the public sector, particularly when the economy is at or near full employment
- an explanation of “crowding out” in terms of it being a criticism of the use of Keynesian demand management economics by neo-classical or monetarist economists
- a diagram showing the demand for, and supply of, loanable funds with increased demand leading to raised interest rates
- an AD/AS diagram showing the impact of government spending on AD and the subsequent decline due to “crowding out”.

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4. Explain *two* policies that a government may use to attempt to lower levels of equilibrium unemployment.

Candidates **may** include:

- a definition of equilibrium unemployment or unemployment
- types of equilibrium unemployment or unemployment
- an explanation of any **two** of the following supply-side policies:
 - education and training
 - reduction of trade union power
 - abolition of minimum wage laws
 - reduction of unemployment benefits
 - reduction of personal income taxes
 - any of the appropriate supply-side policies
- an explanation of appropriate demand-side policies
- use of a diagram to illustrate possible effects of policies
- use of a diagram to illustrate equilibrium unemployment or unemployment.

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N.B. Examiners should be aware that candidates may answer this question in general terms of how a government could lower unemployment through the use of two policies **or** how a government could lower equilibrium unemployment through the use of two policies.

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5. Using diagrams, explain *one* demand-side factor and *one* supply-side factor which may cause the exchange rate of a country to depreciate.

Candidates **may** include:

- a definition of exchange rate
- a definition of depreciation
- an explanation of depreciation
- an explanation of decrease in demand for the currency/increase in supply of the currency in terms of any **two** of the following:
 - trade flows
 - capital flows/interest rate changes
 - inflation
 - speculation
 - use of foreign currency reserves
- use of a diagram to illustrate freely floating exchange rate determination with a decrease in demand for the currency causing a depreciation
- use of a diagram to illustrate freely floating exchange rate determination with an increase in supply of the currency causing a depreciation.

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6. Explain how the discovery of oil in a particular country could have a positive impact on its economic growth but could have a negative impact on its sustainable development.

Candidates **may** include:

- a definition of economic growth
- a definition of sustainable development
- use of PPC or AD/AS diagrams
- oil as a factor of production/natural resource
- oil as a non-renewable resource
- linkage between increased exploitation of natural resources and economic growth
- linkage between exploitation of non-renewable resources and sustainable development.

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