



MARKSCHEME

May 2013

ECONOMICS

Higher Level

Paper 1

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In addition to the assessment criteria, use the paper-specific markscheme below. Award up to the maximum marks indicated.

SECTION A

Microeconomics

1. (a) Explain how welfare loss may result from monopoly power. [10 marks]

Answers **may** include:

- definitions of welfare loss, monopoly power, allocative efficiency market failure
- theory of the firm: monopoly market structure explaining how price is higher and output lower due to barriers to entry, allowing loss of productive and allocative efficiency at profit maximising output
- diagram to show the above, highlighting welfare (deadweight) loss under monopoly
- examples of welfare loss under monopoly.

Assessment Criteria

Part (a) 10 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	1–3
2 There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	4–6
3 There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	7–8
4 There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	9–10

- (b) **Discuss the effectiveness of government policies (legislation and regulation) to reduce monopoly power.**

[15 marks]

N.B. It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of monopoly power and legislation (anti-monopoly, anti-collusion, merger prevention *etc.*) and regulation (lower prices and larger quantities for consumers, fair prices for natural monopolies)
- theory of how a monopolist's control of price or output might be reduced by legislation or regulation in the interests of the consumer
- diagram to show a comparison of monopoly and perfect competition; diagram to illustrate price regulation showing monopoly charging a price which is equal to average cost
- examples of legislation, regulation, and also other solutions such as nationalization, privatization and trade liberalization
- synthesis and evaluation (discuss).

Discussions **may** include: effectiveness of policies against the sources of monopoly power, *eg* reduction of legal barriers to entry, control of anti-competitive behaviour. Where natural monopoly occurs, restrictive policies might not be in the consumer's interest. Government policies might be rendered less effective by globalization. Government policies might move a market from monopoly towards a market structure which gives rise to allocative efficiency.

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

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

Assessment Criteria

Part (b) 15 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	1–5
2 There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	6–9
3 There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There is an attempt at synthesis or evaluation. There are few errors.	10–12
4 There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There is evidence of appropriate synthesis or evaluation. There are no significant errors.	13–15

2. (a) **Using diagrams, explain how the incidence of an indirect tax may be affected by the price elasticity of demand.**

[10 marks]

Answers **may** include:

- definitions of an indirect tax, price elasticity of demand, incidence of taxation
- theory of how relative price elasticities influence the proportionate sharing of an indirect tax burden between producers and consumers
- diagrams to show incidence of an indirect tax on consumers and producers for goods with elastic and inelastic demand curves, showing that the more elastic the demand, the greater the incidence on the producer, and vice versa
- examples of goods with differing price elasticities of demand and the resulting differences in their incidence of taxation.

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- (b) **To what extent might the problems of negative externalities of consumption be resolved by the use of indirect taxation?**

[15 marks]

N.B. It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of negative externalities of consumption, indirect taxation
- theory of externalities with its implications for overconsumption/under-pricing and the opportunity to attempt to correct misleading market signals through an indirect tax
- diagrams to show a negative externality of consumption being abated by the use of indirect taxation
- examples of (demerit) goods, with negative externalities of consumption, which are subject to indirect taxes
- synthesis and evaluation (to what extent).

Consideration of the merits of the statement **may** include: the difficulty of setting indirect taxes at the correct level to reduce the negative externality to the social optimum/redress specific damage. Candidates **may** choose to set this response in the context of market failure.

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

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

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SECTION B

Macroeconomics

3. (a) **Explain why the market system may not result in an equitable distribution of income.**

[10 marks]

Answers **may** include:

- definitions of market system, equitable distribution of income
- theory of why market systems may not result in an equitable distribution of income, for example private ownership of factors of production in the face of minimal intervention by the government may lead to unequal returns
- diagram to show an indicator of income equality/inequality, *ie* a Lorenz Curve diagram or a diagram showing income distribution by quintiles, deciles *etc*
- examples of economies with more unequal distribution of income, (*eg* Brazil), or less unequal distribution of income (*eg* Sweden).

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- (b) **Evaluate government policies to promote equity in terms of their effects on efficiency in the allocation of resources.**

[15 marks]

N.B. It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of equity, efficiency in the allocation of resources
- theory of how government policies (taxation, government expenditure on merit goods and subsidies and transfer payments) may promote equity but possibly reduce efficiency in the allocation of resources
- diagrams to show indirect taxes and subsidies and their implications for efficiency in the allocation of resources
- examples of government policies to promote greater income equality in particular countries and their effects on the achievement of efficiency
- synthesis and evaluation.

Evaluation **may** include: consideration of the trade off between equity and efficiency, and whether transfer payments and progressive taxation reduce incentives to work. Government provision of merit goods may be less efficient than private provision. The use of indirect taxes and/or subsidies may move the economy closer to, or further away from, the position of allocative efficiency. Poverty reduction and investment in human capital may be consistent with the achievement of both improved income equality and efficiency.

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

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

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4. (a) **Explain how labour market reforms may be used to promote economic growth.**

[10 marks]

Answers **may** include:

- definitions of labour market reforms, economic growth
- explanation of how making labour markets more flexible may lead to an increase in efficiency and economic growth
- diagram to show the labour market (AD/AS or ADL/ASL) leading to economic growth
- examples of labour market reforms, both interventionist and market-oriented, such as reducing unemployment benefits, reducing the power of labour unions and abolishing minimum wages, expenditure on education and training, introduction of minimum wages to increase participation rates, to increase consumption and promote economic growth.

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- (b) **“Market-oriented supply-side policies will always be more effective in promoting economic growth than demand-side policies.” To what extent do you agree with this statement?**

[15 marks]

N.B. It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- definitions of market-oriented policies (as against interventionist policies), demand-side policies and economic growth
- theory of Aggregate Demand and Aggregate Supply and how either may be used to increase real GDP
- diagrams to show increased real GDP resulting from changes to AD and AS
- examples of market-oriented supply-side policies and demand-side policies
- synthesis and evaluation (to what extent).

Consideration of the merits of the statement may include: discussion of the term effectiveness in the context of economics. Candidates may distinguish the effectiveness of each policy in the short run and the long run.

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Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

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