

Markscheme

November 2016

Economics

Higher level

Paper 1

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Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

Section A

Microeconomics

1. (a) Using a production possibilities curve (PPC) diagram, explain why choices have to be made in all economies. **[10]**

Answers may include:

- definitions of scarcity, choice and the economic problem
- diagram to show a production possibility curve to illustrate choice
- explanation of the basic problem to identify why choice must be made
- examples of such choices being made in practice.

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 view that governments should not intervene in housing markets. **[15]**

Answers may include:

- definitions of government intervention, types of intervention (price ceilings, subsidies), free market
- diagrams to show a market and the impact of intervention in a market, such as through price controls and subsidies
- explanation of different forms of intervention and their impacts. Identification of the significance of social (community) surplus and its maximization in a free market
- examples of intervention in housing markets
- synthesis or evaluation (discuss).

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

Discussion **may** include: the advantages and disadvantages of intervention, different methods of intervention and a consideration of the case for a free market. Candidates may choose to focus on price controls or subsidies, which should be fully rewarded if they are able to satisfy the demands of the level descriptors.

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) Explain why the under-consumption of merit goods causes market failure. **[10]**

Answers may include:

- definitions of merit goods and market failure
- a diagram to show the under-consumption and under-production of merit goods
- explanation of how the under-consumption of merit goods and the presence of positive externalities leads to market failure
- examples of merit goods.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss whether there should always be direct provision of public goods by the government.

[15]

*Answers **may** include:*

- definition of a public good
- diagrams to show market failure and the associated welfare loss may be used but no diagram is necessarily expected
- distinction between a private good and a public good. Explanation of why market failure is likely to occur in the case of public goods, with reference to the free rider problem. Rivalry and excludability. Explanation of why public goods are often provided directly by the government
- examples of public goods
- synthesis or evaluation (discuss).

Discussion **may** include: an evaluation of whether public goods should **always** be directly provided by the government in terms of possible alternatives and the possible problems of direct provision, eg the opportunity cost, political conflict and possible benefits, eg economies of scale. Candidates may also discuss the possible creation of government debt to finance public goods, consideration of what the social benefits might be, the difficulty of measurement of such benefits and, therefore, the prospect of a misallocation of resources since government will not necessarily accurately assess need.

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 how expansionary monetary policy might lead to a rise in inflation. **[10]**

Answers may include:

- definitions of inflation and monetary policy
- diagram to show how rising AD leads to demand-pull inflation
- explanation that expansionary monetary policy means a reduction in interest rates which increases AD and leads to demand-pull inflation
- diagram to show how rising AD leads to demand-pull inflation
- examples of where expansionary monetary policy has led to inflation.

Assessment Criteria

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- (b) Discuss the view that the most significant impact of high inflation in a country is a loss of export competitiveness.

[15]

*Answers **may** include:*

- definition of export competitiveness
- diagram to show how higher relative prices might impact on an AD/AS diagram
- explanation of how high inflation in a country may reduce the competitiveness of its domestic firms in export and import markets if its inflation is higher than its competitors
- examples of where inflation has led to a fall in export competitiveness
- synthesis and evaluation (to what extent) of loss of export competitiveness as the most significant consequence of inflation.

*Evaluation **may** include:* other factors that could have caused a fall in a country's export competitiveness, other consequences of inflation that could be more significant like redistribution of income, uncertainty leading to lower investment and the impact changes in the exchange rate could have on a country's export competitiveness.

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

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4. (a) Explain what effect an increase in interest rates might have on unemployment. **[10]**

Answers may include:

- definitions of interest rates, unemployment and types of unemployment
- an AD/AS diagram or labour market diagram to show the impact of an increase in interest rates on unemployment
- an explanation of how increased interest rates raise the cost of borrowing causing a fall in investment and consumption spending, and therefore leading to lower aggregate demand and higher unemployment
- examples of where this may have occurred.

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- (b) Evaluate the effectiveness of fiscal policy as a tool to reduce unemployment. **[15]**

Answers may include:

- definitions of fiscal policy, unemployment
- diagrams to show the impact of fiscal policy using the AD/AS model, different views of AS (Keynesian AS or LRAS)
- explanation of the possible impacts of fiscal policy on unemployment. An explanation of the Keynesian and monetarist/new classical perspectives
- examples of where such policies have been applied
- synthesis or evaluation.

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.

Evaluation **may** include: the relative merits of fiscal policy. The emphasis should be on fiscal policy though it is valid to consider alternatives in a manner that identifies the relative merits or demerits of fiscal policy.

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

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