Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2017

Economics

Higher level

Paper 1

19 pages

The following are the annotations available to use when marking responses.

Annotation	Explanation
AE	Attempts Evaluation
AQ	Answers the Question
BOD	Benefit of Doubt
CKS	Clear Knowledge Shown
✗	Cross - Incorrect Point
EE	Effective Evaluation
GA	Good Analysis
GD	Good Definition
GDIG	Good Diagram
GEXA	Good Example
GEXP	Good Explanation
	Highlight tool
ILbl	Incorrect Labelling
IR	Irrelevant
IU	Inappropriate Use
LD	Lacks Depth
LLS	Lacks Logical Structure
L0	Level 0
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4

NAQ	Not Answered Question
ND	No Definition
NExa	No Examples
T	On-page comment text box (for adding specific comments)
PD	Poor Diagram
PE	Poorly Expressed
?	Question mark - unclear
SEEN	Apply to blank pages
TCE	Theory is Clearly Explained
TNCE	Theory is Not Clearly Explained
✓	Tick – correct point (colourable)
TV	Too Vague
	Underline tool
UR	Unbalanced Response

You **must** make sure you have looked at all pages. Please put the SEEN annotation on any blank page, to indicate that you have seen it.

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

Section A

Microeconomics

1. (a) Explain how an increase in the costs of factors of production would affect the market price **and** output of a good. **[10]**

*Answers **may** include:*
- definitions of factors of production, market price
- diagram to show the effect of an increase in costs of factors of production (leftwards shift of supply)
- explanation of why an increase in costs of factors of production will decrease product supply and ceteris paribus increase the price and reduce output
- examples of costs of factors of production increasing.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–3*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*4–6*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*7–8*
	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.	
4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b) Discuss the consequences for different stakeholders in the economy of the government providing subsidies on goods, such as renewable energy. **[15]**

*Answers **may** include:*

- definitions of subsidies and stakeholders
- diagram to show the full impact of a subsidy, *eg* cost to government, reduction in price to consumer
- explanation of the potential consequences for consumers, producers, government and society
- examples of the use of subsidies in practice
- synthesis or evaluation (discuss).

Discussion **may** include: the importance of price elasticity of demand, opportunity cost issues, externality issues, equity issues and efficiency issues.

Assessment Criteria

Part (b) 15 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	

2. (a) Explain why a loss-making firm in perfect competition would shut down in the long run. **[10]**

*Answers **may** include:*

- definitions of perfect competition and long run
- diagram(s) to show the shut-down point in perfect competition
- explanation of why a firm shuts down in the long run when a loss-making firm can cover its variable costs in the short run but cannot cover its total costs in the long run. It is not making a normal profit
- examples of markets which have features of perfect competition.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–3*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*4–6*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*7–8*
	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.	
4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b) Discuss the view that perfect competition is a more desirable market structure than monopoly. **[15]**

*Answers **may** include:*

- definitions of market structure, perfect competition and monopoly
- diagram(s) to show the differences between perfect competition and monopoly
- explanation that perfect competition has a number of advantages like lower prices, greater choice and allocative and productive efficiency compared with monopoly
- examples of markets which have features of perfect competition and monopoly
- synthesis or evaluation (discuss).

Discussion **may** include: reference to benefits of monopoly such as economies of scale, research and development, natural monopoly, and/or the disadvantages of monopoly (higher price, lower output). To focus on the word “desirable” in the question, discussion may also include the advantages and disadvantages of perfect competition.

Assessment Criteria

Part (b) 15 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	

Section B

Macroeconomics

3. (a) Explain how equilibrium interest rates are determined in an economy. **[10]**

*Answers **may** include:*
- definition of interest rates
- diagram to show the demand and supply of money
- explanation of the interaction of supply and demand in determining interest rates. An explanation of the role of the central bank in determining interest rates
- examples of changes in interest rates.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–3*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*4–6*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*7–8*
	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.	
4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b) Discuss whether an increase in interest rates is the most effective way of reducing the rate of inflation in an economy. **[15]**

*Answers **may** include:*

- definitions of interest rates and rate of inflation
- diagram to show how an increase in interest rates will reduce AD, leading to a decrease in the price level
- explanation of how an increase in interest rates will reduce borrowing and spending, leading to a reduction in C and I
- examples of interest rate policy
- synthesis or evaluation (discuss).

Discussion **may** include: the limitations of monetary policy like time lags and the independence of the central bank. Also, the effectiveness of monetary policy may be reduced if inflation and interest rates are already very high.
In addition there may be reference to alternative policies like fiscal policy and supply-side policies.

Assessment Criteria

Part (b) 15 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	

4. (a) Explain the cause of cyclical (demand-deficient) unemployment. **[10]**

*Answers **may** include:*

- definition of cyclical (demand-deficient) unemployment
- diagram(s) to show cyclical (demand-deficient) unemployment
- explanation of how cyclical (demand-deficient) unemployment is caused by a fall in aggregate demand
- examples of cyclical (demand-deficient) unemployment.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–3*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*4–6*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*7–8*
	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.	
4	*There is understanding of the specific demands of the question.*	*9–10*
	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.	

(b) Discuss the view that the most significant consequence of unemployment is the loss of tax revenue for the government. **[15]**

*Answers **may** include:*

- definitions of unemployment and tax revenue
- diagram to show possible consequence on AD of decreases in government tax revenue and therefore government spending
- explanation of how increased unemployment will decrease tax revenue and may lead to a budget deficit and/or a reduction in government spending
- examples of consequences of unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: the other economic and personal and social consequences of unemployment, *eg* loss of GDP, increased cost of unemployment benefits, greater disparities in the distribution of income or an increase in government spending due to falling tax revenues and increased unemployment benefits acting as an automatic stabilizer.

Assessment Criteria

Part (b) 15 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	*0*
1	*There is little understanding of the specific demands of the question.*	*1–5*
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	*6–9*
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	*10–12*
	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.	
4	*There is understanding of the specific demands of the question.*	*13–15*
	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.	