

Markscheme

November 2017

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) With reference to demand and supply in competitive markets, explain how the economic question “what to produce” is answered.

[10]

Answers **may** include:

- definitions of demand, supply, competitive markets
- diagram(s) to show demand and supply and the price mechanism
- explanation of how scarcity and opportunity cost necessitates choices and how the price mechanism works to provide incentives
- examples of choices and price mechanism at work.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	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	<i>There is understanding of the specific demands of the question.</i>	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 of the direct provision of public goods by the government.

[15]

*Answers **may** include:*

- definition of public goods
- PPF diagram to show the trade-off between public good and private goods. Candidates should not be expected to use a diagram for this part of the question
- explanation of the relationship between the characteristics of public goods, the free rider problem and market failure
- examples of public goods and/or consequences of their direct provision
- synthesis or evaluation (discuss).

Discussion **may** include: the extent to which public goods exist, the opportunity cost of providing public goods, the extent to which the government understands what is best in terms of allocating resources and moral hazard.

Assessment Criteria

Part (b) 15 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	6–9
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	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	<i>There is understanding of the specific demands of the question.</i>	13–15
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2. (a) Explain why firms in oligopolistic markets may prefer to use non-price competition. **[10]**

Answers may include:

- definitions of oligopoly, non-price competition
- diagram to show the kinked demand curve
- explanation of interdependence, price stability, what non-price competition is, non-collusive oligopoly
- example of firms using non-price competition or firms that have engaged in price competition.

Assessment Criteria

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- (b) Discuss the reasons why firms compete or collude in oligopolistic markets.

[15]

Answers may include:

- definitions of collusion, oligopolistic markets
- diagram(s) to show oligopoly
- explanation of why firms may choose to collude or not to collude, why interdependence is central to this decision, tacit collusion and price leadership
- example of where firms have colluded or not colluded
- synthesis or evaluation (discuss).

Discussion **may** include: the information problem that oligopoly firms face, some consideration of why cartels are difficult to maintain due to their unenforceability, the incentive to cheat of members of cartels. Incentives to collude might be considered such as joint profit maximization.

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Section B

Macroeconomics

3. (a) Explain why structural unemployment may occur in an economy.

[10]

Answers may include:

- definitions of unemployment and structural unemployment
- diagram to show the decline in employment caused by structural factors
- explanation of how the structural changes in the economy lead to unemployment because workers do not have the skills or geographical mobility to get a new job quickly
- examples of where the decline of a market leads to structural unemployment.

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- (b) Discuss the view that the best way to reduce unemployment is through education and training.

[15]

Answers **may** include:

- definition of unemployment
- diagram to show how education and training increases the supply of available labour and leads to a rise in employment
- explanation that education and training increases the skill level of unemployed workers and increases their opportunities for employment
- examples of where education and training has reduced unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of how education and training might be appropriate for structural unemployment, but might not be as effective with demand-deficient and frictional unemployment. There could be consideration of the cost and effectiveness of government run education and training. There could also be consideration that alternative policies are more effective than education and training in reducing certain types of unemployment.

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4. (a) Explain how short-term fluctuations in the level of economic activity may be evened out through the impact of automatic stabilizers.

[10]

Answers may include:

- definitions of automatic stabilizers, fluctuations in the level of economic activity
- diagram(s) to show either increases or decreases in AD depending on the direction of the stabilization; or use of a business cycle diagram showing smaller fluctuations
- explanation of how factors such as progressive taxes and unemployment benefits tend to work counter-cyclically to stabilize short-term fluctuations in the level of economic activity
- examples of automatic stabilizers working in practice.

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- (b) Evaluate the view that the use of fiscal policy is the most effective way of reducing the rate of inflation in an economy.

[15]

Answers **may** include:

- definitions of fiscal policy, rate of inflation
- diagram to show the impact of deflationary fiscal policy (shift AD left)
- explanation of the mechanisms through which deflationary fiscal policy may lower the rate of inflation through its impact on AD
- examples of fiscal policy being used to lower the rate of inflation
- synthesis or evaluation.

Evaluation **may** include: the importance of the type of inflation, possible conflicts with other objectives of economic policy, the direct impact on AD, the problem of time lags, political constraints, the use of fiscal policy to influence the supply side of the economy. There could also be consideration of alternative policies to reduce the rate of inflation, such as monetary policy and supply side policies.

Assessment Criteria

Part (b) 15 marks

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