

Markscheme

November 2018

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) Explain how the price mechanism reallocates resources when there is an increase in demand for a good or service. [10]

Answers **may** include:

- definitions of resources, demand
- diagram to show how an increase in demand leads to a reallocation of resources
- explanation of how the signalling and incentive functions of price lead to a reallocation of resources when demand increases for a good or service
- examples of goods and services where the price mechanism has reallocated resources because of an increase in demand.

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 clear 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) To what extent is advertising the most effective way of increasing the consumption of merit goods?

[15]

Answers may include:

- definition of merit good
- diagram showing positive externalities to illustrate how advertising can be used to deal with the market failure associated with merit goods
- explanation of the positive externalities associated with merit goods and how advertising can increase the demand and consumption of merit goods
- examples of the advertising of merit goods to increase consumption
- synthesis or evaluation (to what extent).

Evaluation may include: the cost of advertising, the effectiveness of advertising and reference to alternative ways to increase the consumption of merit goods.

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

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 clear understanding of the specific demands of the question.</i>	13–15
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2. (a) Explain why prices tend to be relatively rigid in oligopolistic markets. [10]

Answers may include:

- definition of oligopoly
- diagram to show the kinked demand curve with price inelastic demand below the market price and price elastic demand above the market price
- explanation of price rigidities, with reference to the risk of price wars and/or with reference to the effect that a change in price would have on the total revenue of the oligopolistic firm
- examples of industries where there are rigid prices/non-price competition/strategic interdependence.

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(b) Discuss whether an oligopolistic firm should collude rather than compete.

[15]

Answers may include:

- definitions of oligopoly, collusion
- diagram to show open/formal collusion (single, downward-sloping demand curve as in monopoly diagram)
- explanation of how open/formal collusion would limit competition between member firms and maximize joint profits as if the firms were collectively a monopoly and/or the term “tacit collusion”, including reference to price leadership by a dominant firm
- examples of where firms have colluded
- synthesis or evaluation (discuss).

Discussion may include: consideration of the arguments in favour of collusion – economic (abnormal) profits (which can be re-invested in research and development and/or distributed to the shareholders); consideration of the arguments in favour of competition: lower prices and higher quantity for consumers, improved product quality/variety, increased market share for the competing firm(s), improved allocative and/or productive efficiency, difficulties of maintaining cartel structures due to the incentive of cartel members to cheat.

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

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

Assessment Criteria

Part (b) 15 marks

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Section B

Macroeconomics

3. (a) Using the concept of the multiplier, explain how an increase in investment might affect aggregate demand.

[10]

Answers *may* include:

- definitions of investment, aggregate demand, multiplier
- diagram to show the impact of the multiplier on AD
- explanations that investment is one of the components of the aggregate demand and of the multiplier effect
- example(s) of where an increase in investment has affected AD through the multiplier effect.

NB Candidates who do not refer to the concept of the multiplier should not be awarded marks beyond level 2.

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(b) Discuss the effectiveness of supply-side policies in reducing unemployment. [15]

Answers may include:

- definitions of supply-side policies, unemployment
- diagram(s) to show how supply-side policies may have a short-term impact on AD, but more importantly will increase LRAS and/or how supply-side policies will affect the market for labour
- explanation of how supply-side policies (market-based and interventionist) could reduce different types of unemployment
- example(s) of where supply-side policies have been introduced to tackle unemployment
- synthesis or evaluation (discuss).

Discussion may include: consideration of the disadvantages of supply-side policies (political opposition, opportunity cost for the government budget, time lag, increased inequality in income distribution) in reducing unemployment, consideration of alternative (demand-side) policies.

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4. (a) Explain the potential effects on the economic growth rate from a substantial increase in the number of skilled people of working age entering a country.

[10]

Answers **may** include:

- definitions of economic growth, growth rate
- diagram(s) to show how an outward shift of the AD curve and/or an outward shift of the LRAS/production possibility curve would lead to economic growth
- explanation of how an increase in the population leads to an increase in AD in the short term (resulting in short-term economic growth) and/or how an increase in the number and qualification of the workforce leads to an increase in the quality and quantity of labour (resulting in long-term economic growth)
- examples of immigration affecting economic growth rates of countries.

Assessment Criteria

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- (b) Discuss the view that, apart from indicating economic growth rates over time, national income statistics are of little use.

[15]

Answers may include:

- definitions of economic growth, growth rate, (real) GNI/GNP (per capita), (real) GDP (per capita)
- a diagram is not required but candidates may use diagram(s) to show economic growth, inequality in the distribution of income
- explanation of the uses of national income statistics for making comparisons over time, for making comparisons between countries and for making conclusions about the standards of living
- examples of such uses in practice
- synthesis or evaluation (discuss).

Discussion may include: consideration of “little use”, the drawbacks of using national income statistics to make conclusions about the standards of living, practical difficulties of measurement and calculation, the narrowness of such statistics, economic growth versus economic development.

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.

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

Assessment Criteria

Part (b) 15 marks

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