



# **MARKSCHEME**

**November 2010**

**ECONOMICS**

**Standard 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.*

1. (a) **Explain how taxes and subsidies differ in their effect on the market price and quantity of a good.** **[10 marks]**

Answers **should** include:

- a definition of indirect taxes
- a definition of subsidies
- a diagram showing an indirect tax
- an explanation of the indirect tax diagram and its effect on the market price and quantity of a good
- a diagram showing a subsidy
- an explanation of the subsidy diagram and its effect on the market price and quantity of a good
- an explanation of the differences.

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

### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	Completely inappropriate answer	0
1	Little understanding of the specific demands of the question Very little recognition of relevant economic theory Relevant terms not defined Significant errors	1–3
2	Some understanding of the specific demands of the question Some recognition of relevant economic theory Some relevant terms defined Some errors	4–6
3	Understanding of the specific demands of the question Relevant economic theory explained and developed Relevant economic terms defined Few errors Where appropriate, diagrams included	7–8
4	Clear understanding of the specific demands of the question Relevant economic theory clearly explained and developed Relevant economic terms clearly defined No major errors Where appropriate, diagrams included and explained Where appropriate, examples used	9–10

- (b) **“It is essential that a government supports its farmers by subsidizing agricultural output.” Evaluate this view.** *[15 marks]*

Answers **may** include:

Arguments in favour of subsidizing:

- encourages agricultural output
- sustains an agricultural sector/prevents rural depopulation
- reduces reliance on imports/may promote exports
- raises incomes of poor farming
- reduces prices to consumers
- makes food affordable for low income consumers
- encourages the consumption of healthy food as a merit good
- food security for a country in a crisis.

Arguments against subsidizing:

- misallocation of resources
- hidden costs/opportunity costs of funds that could be used for public services
- damage to foreign farmers/unfair protectionism
- cost to tax payers
- subsidies paid to rich farmers
- equity issues *e.g.* why not other sectors of the economy?

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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**Assessment Criteria**

**Part (b) 15 marks**

Level		Marks
0	Completely inappropriate answer	0
1	Little understanding of the specific demands of the question Very little recognition of relevant economic theory Relevant terms not defined Significant errors	1–5
2	Some understanding of the specific demands of the question Some recognition of relevant economic theory Some relevant terms defined Some errors	6–9
3	Understanding of the specific demands of the question Relevant economic theory explained and developed Relevant economic terms defined Few errors Where appropriate, diagrams included An attempt at evaluation	10–12
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2. (a) **Using appropriate diagrams, explain the difference between demand-side and supply-side economic policies.** *[10 marks]*

Answers **should** include:

- a definition of monetary policy
- a definition of fiscal policy
- an explanation of demand-side policies
- an explanation of fiscal policy as a demand-side instrument
- an explanation of monetary policy as a demand-side instrument
- use of an AD/AS diagram to illustrate the likely impact on AD
- an explanation of supply-side policies
- an explanation of the impact of supply-side policies
- use of an AD/AS diagram to illustrate the likely impact on AS
- examples of supply-side policies.

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### Assessment Criteria

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- (b) **Evaluate the use of supply-side policies to improve the performance of an economy.**

*[15 marks]*

Answers **may** include:

- a distinction between market-oriented and interventionist supply-side policies
- advantages of supply-side policies in terms of their impact on:
  - productivity
  - economic growth
  - employment
  - inflation
  - current account
  - distribution of income
- use of AD/AS diagrams to illustrate the above
- Disadvantages of supply-side policies in terms of:
  - welfare benefits
  - cost of funding them
  - public services
  - exploitation of labour
  - time it takes them to work.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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**Assessment Criteria****Part (b) 15 marks**

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3. (a) Explain *two* factors which may cause an appreciation of a country's exchange rate.

[10 marks]

Answers **should** include:

- a definition of exchange rate
- an explanation of appreciation
- relevant demand and supply analysis in the context of exchange rates
- an explanation of any **two** of the following:
  - the role of demand for imports and exports
  - the role of relative interest rates
  - the role of relative inflation rates
  - the role of FDI and portfolio investment
  - the role of speculation
  - the role of government management of the foreign currency reserves.
- use of diagrams to illustrate the above.

Where only one factor is considered maximum level 2 can be awarded.

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- (b) **Evaluate the extent to which an appreciating exchange rate may benefit or harm an economy.**

*[15 marks]*

Answers **may** include:

- an explanation of how an appreciation might benefit an economy in terms of:
  - lowering import prices
  - lowering inflation
  - reducing costs for domestic tourists overseas
  - reducing the cost of FDI abroad
  - making servicing and repaying external debt cheaper
- an explanation of how an appreciation might harm an economy in terms of:
  - exports business becoming less competitive
  - increasing current account deficit
  - reducing domestic AD
  - reducing domestic growth
  - increasing domestic unemployment
- use of AD/AS diagrams
- consideration of the relative size of the appreciation
- consideration of the cause of the appreciation.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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**Assessment Criteria**

**Part (b) 15 marks**

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4. (a) **Explain why economic growth rates may differ between developing countries.**

*[10 marks]*

Answers **should** include:

- a definition of economic growth
- an explanation of reasons for differences which **may** include:
  - natural factors
  - human factors
  - physical capital and technological factors
  - various institutional factors.

Answers **may** include:

- illustration of growth using a PPC diagram
- reference to the Harrod-Domar growth model
- effects on growth of different strategies, *e.g.* export-led versus import substitution
- reference to the compound nature of growth in the effects of varying growth rates over time
- examples of particular countries.

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**Assessment Criteria**

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- (b) **Evaluate the role of foreign direct investment in assisting a developing country to achieve greater growth and development.**

*[15 marks]*

Answers **may** include:

- a definition of development
- a definition of growth
- an explanation of FDI
- a distinction between growth and development
- MNCs as the main agents of FDI
- FDI and the impact on AD and AS
- FDI as part of a market-led/outward-orientated growth strategy
- FDI and the distribution of income and wealth
- FDI and the creation of “dual” economies
- FDI as part of IMF/World Bank structural adjustment programmes, including privatization of utilities
- the impact of FDI on employment
- FDI and multiplier/accelerator effects
- the impact of FDI on rural/urban migration
- FDI and the tax base
- FDI and the destination and use of profits
- FDI and the allocation of scarce resources (towards MNC production rather than the needs of the population)
- the impact of FDI on the environment
- FDI and the vulnerability of the host country to global cities
- examples from particular countries.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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**Assessment Criteria**

**Part (b) 15 marks**

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