International Baccalaureate®
Baccalauréat International
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MARKSCHEME

May 2014

ECONOMICS

Standard 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 *three* factors that could lead to an increase in demand for cigarettes.**   *[10 marks]*

   Answers **may** include:
   - definition of demand
   - diagram showing a rise in the demand for cigarettes
   - an explanation of three of the possible factors that could increase the demand for cigarettes such as a rise in consumer income, promotion or advertising of cigarettes by producers and population or demographic changes
   - examples to support the explanations of a rise in demand for cigarettes.

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 *three* policies a government might use to reduce the consumption of a demerit good such as cigarettes.** *[15 marks]*

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.

Answers **may** include:
- definitions of a demerit good and negative consumption externalities
- diagram to show the negative externalities of cigarette consumption
- an explanation of why cigarettes are considered a demerit good, the disadvantages to the consumer of cigarette consumption, the policies a government might use to reduce the consumption of cigarettes including: indirect tax, regulation, negative advertising, price controls and education. Explanation of the negative externalities associated with the consumption of cigarettes
- examples of three policies used to reduce cigarette consumption
- synthesis or evaluation (discuss).

Command term
"Discuss" requires candidates to offer a considered and balanced review that includes a range of arguments.

Discussion **may** include: consideration of the problems encountered by the government policies.

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.

N.B. Award a maximum of level 3 if only two policies are discussed.
Award a maximum of level 2 if only one policy is discussed.

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) Distinguish between the concepts of income elasticity of demand (YED) and cross price elasticity of demand (XED).   *[10 marks]*

Answers **may** include:
- definitions of YED and XED
- diagrams to illustrate YED and XED
- an explanation of the features of YED and XED and how they differ in terms of calculation and interpretation
- examples of goods with different YED and XED.

Assessment Criteria

Part (a) 10 marks

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(b) To what extent might the concepts of YED and XED be of significance for business organizations? *[15 marks]*

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.

Answers **may** include:
- diagrams which may be relevant to the discussion
- an explanation of the relevance of YED for business organizations in terms of normal goods/inferior goods and primary goods/manufactured goods/services; explanation of the relevance of XED for business organizations in terms of changes in prices of substitute and complements
- examples of use of the concepts in practice
- synthesis or evaluation (to what extent).

Command term
"To what extent" requires candidates to consider the merits or otherwise of an argument or concept.

Consideration of the merits of the concepts **may** include: the relative importance of the two concepts and the difficulties of obtaining an accurate measure of each in reality.

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**

SECTION B

Macroeconomics

3.   (a)   **Explain the income, output and expenditure methods used to measure real gross domestic product (GDP).**   *[10 marks]*

Answers **may** include:
- definition of real GDP
- an explanation of the income, output and expenditure methods of calculating GDP
- examples of methods of measurement
- a circular flow diagram to show income, output and expenditure.

Assessment Criteria

Part (a) 10 marks

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(b) Discuss the usefulness of real GDP per capita as a method of measuring the living standards of a country's population. *[15 marks]*

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.

Answers **may** include:
- definitions of real GDP per capita and living standards
- an explanation of how real GDP per capita can be an indicator of living standards in terms of incomes of the population, goods and services available, employment levels; explanation of the problems of using real GDP per capita to measure living standards in terms of distribution of income, the nature of goods and services produced, non-monetary influences on living standards; explanation of alternative measures
- examples of GDP per capita and living standards
- synthesis or evaluation (discuss).

Command term
"Discuss" requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses.

Discussion **may** include: a consideration of the strengths and weaknesses of real GDP per capita as a method of measuring living standards.

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)** **Using an appropriate diagram, explain why a country might experience a deflationary gap.** *[10 marks]*

Answers **may** include:
- definitions of deflationary gap and recession
- diagram of AD/AS showing equilibrium real output at a level below full-employment output
- an explanation of why there may be a deflationary gap including recession in the economy, a fall in AD or a fall in SRAS
- examples of where recessions have occurred.

Assessment Criteria

Part (a) 10 marks

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(b) **"Fiscal policy is the most effective way of bringing an economy out of recession." To what extent is this statement valid?** *[15 marks]*

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.

Answers **may** include:
- definitions of recession and fiscal policy
- diagram showing an increase in AD
- an explanation of how expansionary fiscal policy may increase AD including the role of automatic stabilizers, the disadvantages of fiscal policy and alternative policies a government might use
- examples of situations when fiscal policy has been used in a recession
- synthesis or evaluation (to what extent).

Command term
"To what extent" requires candidates to consider the merits or otherwise of an argument or concept.

Consideration of the merits of the statement **may** include: the strengths and weaknesses of using fiscal policy in relation to other policies.

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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