

Markscheme

May 2017

Economics


















Standard level















Paper 1


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

Annotation	Explanation
	Attempts Evaluation
	Answers the Question
	Benefit of Doubt
	Clear Knowledge Shown
	Cross - Incorrect Point
	Effective Evaluation
	Good Analysis
	Good Definition
	Good Diagram
	Good Example
	Good Explanation
	Highlight tool
	Incorrect Labelling
	Irrelevant
	Inappropriate Use
	Lacks Depth
	Lacks Logical Structure
L0	Level 0
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4

	Not Answered Question
	No Definition
	No Examples
	On-page comment text box (for adding specific comments)
	Poor Diagram
	Poorly Expressed
	Question mark - unclear
	Apply to blank pages
	Theory is Clearly Explained
	Theory is Not Clearly Explained
	Tick – correct point (colourable)
	Too Vague
	Underline tool
	Unbalanced Response

You **must** make sure you have looked at all pages. Please put the  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 why an increase in incomes over time may lead to an increase in demand for some goods but a decrease in demand for other goods.

[10]

Answers **may** include:

- definitions of demand, normal goods, inferior goods
- diagram(s) to show an increase in demand (rightward shift) for normal goods and a decrease in demand (leftward shift) for inferior goods
- explanation of these rightward and leftward shifts
- examples of normal and inferior goods.

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) The income elasticity of demand for primary commodities tends to be relatively low, while the income elasticity of demand for manufactured goods and services tends to be higher. Examine the likely effects of this for individual producers **and** for the economy as a whole.

[15]

Answers **may** include:

- definitions of income elasticity of demand (YED), primary, manufacturing and service sectors
- diagram(s) to show the significance of YED for primary goods, manufactured goods, and services using demand and supply diagrams
- explanation of how different values of YED (high and low) may affect the three main sectors of the economy
- examples of YED affecting the allocation of resources
- synthesis or evaluation (examine) of the significance of YED for individual producers and the economy as a whole.

Examination **may** include: the differences in YED in developed and less developed economies, the importance of YED at different stages of development, the values of YED may change over time, the relative growth rates of different economies and the impact on YEDs.

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
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2. (a) Explain why demerit goods are an example of market failure.

[10]

Answers may include:

- definitions of demerit goods, market failure, externalities, negative externalities
- diagram(s) to show market failure with negative externalities in consumption
- explanation of how negative externalities of consumption of demerit goods lead to an over-allocation of resources
- examples of demerit goods.

Assessment Criteria

Part (a) 10 marks

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- (b) Evaluate the effectiveness of using indirect taxation to correct market failure. **[15]**

*Answers **may** include:*

- definitions of indirect taxation and market failure
- diagram(s) to show the application of indirect taxation to correct market failure
- explanation of how indirect taxation may correct market failure where output is reduced towards the socially efficient output
- examples of where indirect taxation has been used to address market failure
- synthesis or evaluation.

Evaluation **may** include: the impact on different stakeholders in terms of price, consumption, production, employment, welfare and the wider economy; the problems of determining the level of tax to achieve the socially efficient output.

Assessment Criteria

Part (b) 15 marks

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Section B

Macroeconomics

3. (a) Explain what effect a reduction in interest rates might have on consumption and investment.

[10]

Answers may include:

- definitions of interest rates, consumption and investment
- diagram(s) to show the changes in consumption and investment
- explanation of the impact that a reduction in interest rates might have on consumption and investment
- examples of where reduced interest rates have been introduced and it has affected consumption and investment.

Assessment Criteria

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- (b) Evaluate the effectiveness of using monetary policy to reduce the rate of inflation.

[15]

Answers may include:

- definitions of monetary policy, rate of inflation
- diagram(s) to show the impact of monetary policy on AD
- explanation of how monetary policy can be used to reduce inflation by reducing AD by affecting consumption and investment
- examples of where monetary policy has been used to reduce inflation
- synthesis and evaluation.

Evaluation **may** include: the importance of the type of inflation, the ability to adjust interest rates incrementally and relatively quickly, the significance of time lags, possible conflicts with other objectives of economic policy, such as inflation and growth.

Assessment Criteria

Part (b) 15 marks

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4. (a) Explain the causes of economic growth in terms of an increase in actual output **and** an increase in potential output.

[10]

Answers may include:

- definitions of economic growth, actual output and potential output
- diagram(s) to show an increase in actual output (a movement from a point within to a point closer to the PPC or an increase in AD); and an increase in potential output (shift of the PPC outwards or an increase in LRAS)
- explanation of an increase in actual output through changes in AD and an increase in potential output through changes in LRAS
- examples of the two different types of growth.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss the view that the consequences of economic growth are always beneficial.

[15]

Answers **may** include:

- definition of economic growth
- diagram(s) to show the consequences of growth could include AD/AS and negative externality diagrams
- explanation of the different consequences of growth including the impact on living standards, unemployment, inflation, the distribution of income, the current account of the balance of payments, environmental consequences and sustainability
- examples of such consequences in practice
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration that growth is “always” beneficial, the overall costs of growth in relation to its overall benefits, the costs and benefits of growth in terms of the nature of goods produced, how growth might widen the distribution of income, short-term versus long-term consequences of growth and the link between growth and development.

Assessment Criteria

Part (b) 15 marks

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