

Markscheme

November 2018

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 how the price mechanism reallocates resources when there is an increase in demand for a good or service.

[10]

Answers **may** include:

- definitions of price mechanism, 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
	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.	

2. (a) Explain **two** reasons why a government might impose an indirect tax on a good. **[10]**

Answers **may** include:

- definition of indirect tax
- diagram to show the impact of an indirect tax on a good
- explanation that governments impose indirect taxes on goods to raise revenue, reduce consumption of demerit goods and reduce the negative externalities of production
- examples of situations where governments impose indirect tax.

NB Candidates who only explain one reason should not be awarded marks beyond level 2.

Assessment Criteria

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4	<i>There is clear understanding of the specific demands of the question.</i>	9–10
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- (b) Evaluate the impact that an increase in indirect tax might have on consumers and producers.

[15]

Answers may include:

- definition of indirect tax
- diagram to show the impact of an indirect tax on consumers and producers
- explanation that indirect tax increases the price consumers have to pay for goods and services and reduces the revenue producers receive from selling goods and services
- examples of how indirect taxes affect consumers and producers
- synthesis or evaluation.

Evaluation may include: the relative impact may depend on PED and PES, indirect tax might benefit consumers if it is imposed on demerit goods, tax revenue raised can be used to benefit consumers and producers through government spending.

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Section B

Macroeconomics

3. (a) Explain how an economic recession can lead to an increase in absolute poverty. **[10]**

Answers may include:

- definitions of economic recession, absolute poverty
- diagram to show a fall in AD
- explanation that a recession can lead to a fall in GDP, an increase in unemployment and falling incomes leading to a rise in absolute poverty
- examples of how a recession has increased absolute poverty.

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- (b) Evaluate the view that government policies to promote equity will always have a negative effect on efficiency.

[15]

Answers may include:

- definitions of equity and efficiency
- diagrams to show the government policies used to improve equity
- explanation of how the government policies used to promote equity might have a negative effect on economic efficiency
- examples of where governments have used policies to promote equity and reduced efficiency
- synthesis or evaluation.

Evaluation may include: The advantages of government policies used to promote efficiency. For example, government expenditure on health and education might improve the efficiency of the labour force and reducing tax on low income households might improve their incentive to work.

Assessment Criteria

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4. (a) Explain how an increase in leakages can affect the size of the circular flow of income.

[10]

Answers **may** include:

- definitions of leakages, circular flow of income
- diagram of the circular flow of income
- explanation that when leakages increase money flows in the circular flow of income will fall and reduce the size of the circular flow of income
- examples of where an increase in leakages have reduced national income.

Assessment Criteria

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- (b) To what extent is the use of national income statistics an effective way of comparing the standard of living between countries?

[15]

Answers may include:

- definitions of national income and standard of living
- diagram: a diagram is not required for this question
- explanation of how national income statistics are an effective way of making comparisons between countries
- examples of how national income statistics have been used to compare countries
- synthesis or evaluation (to what extent).

Evaluation may include: consideration of the limitations of national income statistics to compare living standards such as: different methods of calculation, the impact of different types of output on living standards, environmental factors, crime levels, political instability, the exchange rate and income distribution.

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

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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