

Markscheme

November 2019

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 **two** reasons why the demand for manufactured goods might be price elastic. [10]

Answers **may** include:

- definitions of PED, price elastic, demand
- diagram to show a relatively elastic demand curve, elastic section on a demand curve
- explanation of two determinants of the elastic demand of manufactured goods, including: the number and closeness of substitutes, the degree of luxury/necessity, time and the proportion of income spent on the good
- examples of manufactured goods with a relatively price elastic demand.

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

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) Evaluate the importance of cross price elasticity of demand for a business selling a good if the price of a related good increases. **[15]**

Answers **may** include:

- definition of cross price elasticity of demand (XED)
- diagram to show the significance of XED on the shift in demand that results from any change in price
- explanation of the impact of XED on businesses if the price of complements and substitutes for a good they produce changes in terms of price, quantity, revenue and profit
- examples of products that have substitutes and complements
- synthesis or evaluation.

Evaluation may include: the relative size of XED and the extent to which the revenue and profit will rise or fall; the assumption that other factors affecting demand remain constant and that XED is difficult to predict and measure.

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 understanding of the specific demands of the question.</i>	13–15
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2. (a) Explain the view that the best allocation of resources occurs when consumer surplus and producer surplus are maximized. [10]

Answers **may** include:

- definitions of allocation of resources, consumer surplus, producer surplus
- diagram to show consumer and producer surplus being maximized
- explanation that resources are being used in the most efficient way when demand equals supply and the consumer surplus and producer surplus are maximized
- examples of goods and services that ensure resources are allocated efficiently. Any market example is acceptable.

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- (b) Discuss the implications of the direct provision of public goods by a government. [15]

Answers **may** include:

- definition of public goods
- a diagram is not required
- explanation that the non-rivalrous and non-excludable characteristics of public goods means they will not be provided by the free market and will need to be provided by the government
- examples of public goods
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of the nature of public goods and whether they have to be provided by the government. The problems of providing public goods by the government, such as the opportunity cost of government spending and inefficient government provision.

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Section B

Macroeconomics

3. (a) Explain why a reduction in interest rates might lead to an increase in aggregate demand.

[10]

Answers *may* include:

- definitions of aggregate demand, interest rates
- diagram to show how a reduction in interest rates increases aggregate demand
- explanation that a reduction in interest rates increases consumption and investment, leading to an increase in aggregate demand
- examples of how a reduction in interest rates increases aggregate demand in practice and/or of countries where reduced interest rates have increased aggregate demand.

Assessment Criteria

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- (b) Evaluate the view that expansionary monetary policy is the most effective way to achieve economic growth. **[15]**

Answers **may** include:

- definitions of monetary policy, economic growth
- diagram to show the effect of expansionary monetary policy on economic growth
- explanation of expansionary monetary policy by reducing interest rates will increase consumption and investment, leading to a rise in aggregate demand and therefore economic growth
- examples of the impact of expansionary monetary policy on economic growth
- synthesis and evaluation.

Evaluation may include: consideration of the problems of expansionary monetary policy, such as inflation, that consumption and investment may not increase if business and consumer confidence are low, and the time lags associated with interest rate changes. Responses could also cover alternative policies to achieve economic growth, such as fiscal policy or supply-side policy.

Assessment Criteria

Part (b) 15 marks

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4. (a) Explain, using a production possibilities curve (PPC) diagram, an increase in the actual output of an economy. [10]

Answers **may** include:

- definitions of production possibilities curve, actual output
- PPC diagram to show an increase in actual output
- explanation that an increase in actual output results from increased utilization of resources, showing a movement towards the production possibility curve
- example of actual growth in specific countries.

Assessment Criteria

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- (b) Discuss the view that economic growth always leads to a rise in living standards. **[15]**

Answers may include:

- definitions of economic growth, living standards
- PPC diagram or AD/AS diagram to depict economic growth
- explanation of why economic growth leads to a rise in living standards because, for example, of rising incomes and employment
- example of economic growth leading to changes in living standards
- synthesis or evaluation (discuss).

Discussion may include: consideration that economic growth may not always lead to a rise in living standards because of factors such as environmental costs, the distribution of income, inflation and how the increased use of capital intensive technology may lead to unemployment.

Assessment Criteria

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