

# Markscheme

November 2021

Economics

Higher level

Paper 1

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## Section A

### Microeconomics

1. (a) Explain why merit goods tend to be under-provided in a free market.

**[10]**

*Answers may include:*

- definitions of market, merit goods
- diagram showing positive externalities in the consumption of a merit good
- an explanation that consumers do not take external benefits into account when deciding how much to demand, resulting in producers allocating insufficient resources to the production of merit goods in a free market
- examples of merit 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 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) Evaluate the use of carbon taxes to reduce threats to sustainability.

[15]

Answers **may** include:

- definitions of carbon taxes, sustainability
- diagram to show the application of a carbon tax
- an explanation of the impact of a carbon tax on the amount of fossil fuels produced and/or on different stakeholders
- examples of cases where carbon taxes have been applied
- synthesis or evaluation (evaluate).

**Evaluation may include:** consideration of the extent to which carbon taxes affect different stakeholders, the advantages and disadvantages of carbon taxes in comparison with alternative policies, the difficulties of measuring externalities / estimating the socially-optimal level of output.

*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 why producers in an oligopolistic market might choose to engage in non-price competition.

[10]

Answers **may** include:

- definitions of oligopoly, non-price competition
- diagram of non-collusive oligopoly showing price-elastic demand above the market price and relatively price-inelastic demand below the market price and/or prisoner’s dilemma
- an explanation of how interdependence in oligopolistic markets incentivizes oligopolistic firms to keep prices stable and therefore pursue non-price competition
- examples of oligopolistic firms that pursue non-price competition.

**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 view that the use of legislation and regulation by government is the most effective way to control monopoly power.

[15]

Answers **may** include:

- definition of monopoly power
- diagram of monopoly
- an explanation of how legislation and regulation can be used to limit the pricing power of monopoly firms
- examples of a monopoly being subjected to legislation and regulation by a government
- synthesis or evaluation (evaluate).

**Evaluation may include:** consideration of the advantages and disadvantages of legislation and regulation; comparison of the effectiveness of regulation of prices, regulation of patents and limitations to mergers/takeovers to alternative measures such as trade liberalization and nationalization.

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### Section B

#### Macroeconomics

3. (a) Explain how rising commodity prices and wages might lead to cost-push inflation. [10]

Answers *may* include:

- definitions of inflation, cost-push inflation, (primary) commodity
- AD/AS diagram showing a shift of the short-run aggregate supply curve to the left and higher average price level
- an explanation of how cost-push inflation is caused by the increase in the costs of production due to the rising commodity prices and wages
- examples of countries where cost-push inflation has taken place.

**NB** A maximum of [6] should be awarded if a candidate has only explained the effect of rising commodity prices **OR** rising wages.

#### Assessment Criteria

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(b) Discuss the possible consequences of deflation for an economy.

[15]

Answers **may** include:

- definition of deflation
- AD/AS diagram(s) showing either AD or AS shifting and a lower average price level
- an explanation of possible consequences of deflation such as deflationary spiral with high levels of cyclical unemployment and/or bankruptcies due to rising real value of debt
- examples of countries that have experienced deflation
- synthesis or evaluation (discuss).

*Discussion may include:* consideration of the extent to which the consequences of deflation depend on its causes; consideration of the effect of deflation on different stakeholders.

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

### Assessment Criteria

#### Part (b) 15 marks

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4. (a) Explain how a better trained and educated labour force might affect economic growth.

[10]

Answers **may** include:

- definition of economic growth, labour (force)
- AD/AS diagram with LRAS shifting to the right or PPC diagram with the production possibilities curve shifting to the right
- an explanation of how improved education and training might lead to increasing productivity and hence economic growth
- examples of countries where improved education and training have possibly affected economic growth.

**Assessment Criteria**

**Part (a) 10 marks**

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

*Answers may include:*

- definition of economic growth
- AD/AS diagram showing increasing real GDP, negative externality diagram, PPC diagram, poverty cycle diagram or Lorenz curve diagram
- an explanation of the impacts economic growth might have on living standards through changes in employment, tax revenue used to finance government spending, sustainability in resource use and the distribution of income
- examples of cases where economic growth has led to changes in the standard of living
- synthesis or evaluation (discuss).

*Discussion may include:* the advantages and disadvantages of economic growth, the extent to which economic growth affects different stakeholders and material and non-material aspects of the standard of living, consideration of the word “always”.

**NB** It should be noted that definitions, diagrams, 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.*

**Assessment Criteria**

**Part (b) 15 marks**

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