

Markscheme

November 2016

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) Using a production possibilities curve (PPC) diagram, explain why choices have to be made in all economies. **[10]**

Answers may include:

- definitions of scarcity, choice and the economic problem
- diagram to show a production possibility curve to illustrate choice
- explanation of the basic problem to identify why choice must be made
- examples of such choices being made in practice.

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 the view that governments should not intervene in housing markets. **[15]**

Answers may include:

- definitions of government intervention, types of intervention (price ceilings, subsidies), free market
- diagrams to show a market and the impact of intervention in a market, such as through price controls and subsidies
- explanation of different forms of intervention and their impacts. Identification of the significance of social (community) surplus and its maximization in a free market
- examples of intervention in housing markets
- synthesis or evaluation (discuss).

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

Discussion **may** include: the advantages and disadvantages of intervention, different methods of intervention and a consideration of the case for a free market. Candidates may choose to focus on price controls or subsidies, which should be fully rewarded if they are able to satisfy the demands of the level descriptors.

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

2. (a) Explain why changes in the price of goods and services may lead to changes in resource allocation.

[10]

Answers may include:

- definitions of resource allocation, market, demand, supply
- diagram of market supply and demand to show how price changes produced by shifts in supply or demand lead to changes in output
- explanation of the signalling and incentive functions of price, and how changes in equilibrium price lead to resource reallocation
- examples of markets where this has happened.

Assessment Criteria

Part (a) 10 marks

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- (b) Examine the consequences of the lack of a pricing mechanism for common access resources.

[15]

Answers may include:

- definitions of common access resources, pricing mechanism
- diagrams to show demand and supply when there is a pricing mechanism; market failure (negative production and consumption externalities); PPC shifting inward due to loss of common access resources
- explanation of market failure of common access resources, non-excludability, diminishability, rivalry, overconsumption, lack of ownership rights
- examples of overfishing, deforestation, tragedy of the commons
- synthesis or evaluation (examine).

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.

Examination **may** include: the need for government intervention, impact on different stakeholders, consideration of the impact of government intervention, implications of resource depletion.

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.

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Section B

Macroeconomics

3. (a) Explain how the Lorenz curve and the Gini coefficient are used to measure income inequality.

[10]

Answers may include:

- definitions of income inequality, Lorenz curve and Gini coefficient
- diagram to show the Lorenz curve and Gini coefficient
- explanation of how the Lorenz curve and Gini coefficient are used to measure income inequality
- examples of income inequality.

Assessment Criteria

Part (a) 10 marks

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- (b) Discuss the view that the best way to achieve greater equity in the distribution of income in a country is to use a progressive tax system.

[15]

Answers may include:

- definitions of equity and progressive taxation
- diagram (Lorenz curve) to show a progressive tax redistributing income with greater equity
- explanation of how a progressive tax system can redistribute with greater equity
- examples of where a progressive tax can redistribute income more equitably
- synthesis and evaluation (discuss) of the use of a progressive tax to redistribute income.

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

Discussion **may** include: the problems of applying a progressive tax because of tax avoidance, the impact of a progressive tax on incentives and a consideration of other ways of redistributing of income such as spending on public services and transfer payments.

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) Explain what effect an increase in interest rates might have on unemployment. **[10]**

Answers may include:

- definitions of interest rates, unemployment and types of unemployment
- an AD/AS diagram or labour market diagram to show the impact of an increase in interest rates on unemployment
- an explanation of how increased interest rates raise the cost of borrowing causing a fall in investment and consumption spending, and therefore leading to lower aggregate demand and higher unemployment
- examples of where this may have occurred.

Assessment Criteria

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- (b) Evaluate the effectiveness of fiscal policy as a tool to reduce unemployment. **[15]**

Answers may include:

- definitions of fiscal policy, unemployment
- diagrams to show the impact of fiscal policy using the AD/AS model, different views of AS (Keynesian AS or LRAS)
- explanation of the possible impacts of fiscal policy on unemployment. An explanation of the Keynesian and monetarist/new classical perspectives
- examples of where such policies have been applied
- synthesis or evaluation.

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.

Evaluation **may** include: the relative merits of fiscal policy. The emphasis should be on fiscal policy though it is valid to consider alternatives in a manner that identifies the relative merits or demerits of fiscal policy.

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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