

Markscheme

May 2015

Economics

Higher 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 changes in price work to reallocate resources in a market. [10]

Answers *may* include:

- definition of reallocation of resources
- diagrams to show how changes in price alter the equilibrium quantity and therefore reallocate resources
- theory to explain the signalling and incentive functions of the price mechanism
- examples of markets where price change has led to a reallocation of resources, such as through government intervention.

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 the overuse of common access resources is best addressed by government.

[15]

Answers **may** include:

- definition of common access resources
- diagrams to show negative production or consumption externalities associated with overuse of common access resources. PPC diagram to show the reduction of production possibilities
- theory to explain the overuse of common access resources due to the lack of ownership and a price mechanism
- examples of existing government responses such as licensing, international agreement, allocation of property rights
- synthesis or evaluation (discuss).

Discussion **may** include: whether the price mechanism is compatible with sustainability and consider the merits and limitations of government responses.

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 **two** possible government responses to the abuse of monopoly power. **[10]**

Answers may include:

- definition of monopoly power
- diagrams may be used to show monopoly power but are not essential to answer the question
- theory to explain the application of any two of regulation, nationalization, legislation and trade liberalization
- examples of instances to which this might be, or has been, applied.

Assessment Criteria

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- (b) Evaluate the view that monopolies, despite their inefficiencies, may often be considered desirable.

[15]

Answers **may** include:

- definition of monopoly
- diagrams to explain monopoly inefficiency
- theory to explain what inefficiencies might occur. Explanation of the reasons why monopoly may be considered desirable, including the ability to finance research and development from economic profits, the need to innovate and the possibility of economies of scale, natural monopoly
- examples of where monopoly might or might not have been beneficial
- synthesis or evaluation.

Evaluation **may** include: an evaluation of the relative merits/demerits of monopoly.

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Section B**Macroeconomics**

3. (a) Using the concept of the Keynesian multiplier, explain the possible impact of a rise in government spending on economic growth.

[10]

Answers may include:

- definitions of the Keynesian multiplier and economic growth (formula may be offered)
- diagram to show AD/AS to illustrate the impact of the multiplier
- theory to explain the Keynesian multiplier with reference to leakages and injections. Explanation of the linkage between the multiplier and economic growth
- examples to illustrate the multiplier.

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- (b) To what extent might unemployment represent an economic and social problem?

[15]

Answers **may** include:

- definition of unemployment
- diagrams to illustrate the economic consequences of unemployment
- theory to explain the extent of economic and social problems of unemployment possibly as measured by the duration, type and magnitude of unemployment
- examples of the problems of unemployment
- synthesis or evaluation (to what extent).

Consideration of the merits, or otherwise, of the question **may** include: the costs and benefits of unemployment.

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

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Assessment Criteria

Part (b) 15 marks

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4. (a) Explain how business spending on research and development and government expenditure on infrastructure might shift the long-run aggregate supply curve.

[10]

Answers **may** include:

- definitions of research and development, infrastructure, long-run aggregate supply
- diagram to show a shift in the LRAS
- explanation of how research and development in new technology will improve the quality of physical capital, hence increasing productive capacity and shifting the LRAS to the right. Explanation of how increased government expenditure in infrastructure will increase productive capacity and shift the LRAS to the right
- examples of research and development and infrastructure.

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- (b) Evaluate the effectiveness of interventionist supply-side policies to achieve economic growth.

[15]

Answers **may** include:

- definition of interventionist supply-side policies and economic growth
- diagram to show the impact of interventionist supply-side policies on economic growth
- explanation of the interventionist supply-side policies that could be used to increase the rate of economic growth through:
 - education and training
 - research and development
 - infrastructure
 - industrial policy
- examples of the application of interventionist supply-side policies
- synthesis or evaluation.

Evaluation **may** include: the use of interventionist supply-side policies used to increase economic growth including:

- cost and effectiveness of the interventionist supply-side policies
- time it takes for the policy to increase economic growth
- implications for different stakeholders
- suggestion of alternatives to interventionist supply-side policies.

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