Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2015

Economics

Standard level

Paper 1

17 pages

International Baccalaureate
Baccalauréat International
Bachillerato Internacional

This markscheme is **confidential** and for the exclusive use
of examiners in this examination session.

It is the property of the International Baccalaureate and
must **not** be reproduced or distributed to any other person
without the authorization of the IB Assessment Centre.

Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

Section A

Microeconomics

1.   (a)   Explain the view that an increase in price will lead to an increase in the
             quantity supplied whilst an increase in supply will lead to a decrease in price.   **[10]**

*Answers **may** include:*
- definition of supply
- diagrams to illustrate the difference between a movement along the supply curve and a shift in supply
- theory to explain that a movement along the supply curve is caused by price changes only and a shift is caused by changes in non-price determinants, such as a fall in wages
- examples where price and non-price determinants are, or have been, changed.

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) To what extent are subsidies the most effective way of encouraging the consumption of merit goods? **[15]**

*Answers **may** include:*
- definition of subsidies and merit goods
- diagram to show the application of a subsidy on a merit good
- theory to explain that subsidies reduce the price of merit goods and encourage consumption towards the socially efficient level of output
- examples of merit goods that are, or have been, subsidized
- synthesis or evaluation (to what extent).

Consideration of the merits, or otherwise, **may** include: the use of subsidies is more effective/less effective than legislation, advertising and the provision by government of merit goods.

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 the likely effects of falling costs of factors of production on price and output in agricultural markets. **[10]**

Answers **may** *include:*
- definitions of cost, factors of production and supply
- diagram to show increasing supply of agricultural goods, a falling price and increasing output
- theory to explain that falling costs of factors of production increase the supply of agricultural goods, reduce price and increase output
- examples of agricultural markets where costs fall due to various factors, such as improvement of technology.

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 impact on different stakeholders of governments using price floors (minimum prices) to support farmers when agricultural prices are falling.   **[15]**

Answers **may** *include:*
- definition of price floor
- diagram to show the application of a price floor on an agricultural market
- explanation of how price floors affect consumers, producers and government
- examples of the application of a price floor on an agricultural market
- synthesis or evaluation (discuss).

Discussion **may** include: the effectiveness of the policy to support farmers in terms of:
- guaranteeing farmers a price above the equilibrium that raises their revenues
- the cost to the government of intervention buying of surpluses
- the higher prices paid by consumers for agricultural products
- the problems of dealing with surpluses.

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**

Section B

Macroeconomics

3.   (a)   Explain the effect of a rise in saving and a fall in investment on the circular
flow of income of an economy.   **[10]**

*Answers **may** include:*
- definitions of circular flow, saving and investment
- diagram to show how the circular flow is affected by changes in saving and
  investment
- theory to explain how a rise in savings and a fall in investment will decrease
  the value of the circular flow of income
- examples of where such changes may have happened.

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 an economy will always return to the full employment equilibrium level of output in the long run. **[15]**

*Answers **may** include:*
- definitions of full employment and equilibrium level of output
- diagram to show how changes in SRAS will move the economy back to long run equilibrium following a deflationary or inflationary gap
- theory to explain the new classical view of equilibrium and the circumstances that can make the economy move towards full employment
- examples of where this may have taken place
- synthesis or evaluation (discuss).

Discussion **may** include: whether the economy may/may not return to equilibrium level of output depending on the assumptions which are made about AS.

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**

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.

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)   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.

*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**