

Markscheme

November 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 why a government might decide to impose an indirect tax on the consumption of cigarettes. [10]

Answers **may** include:

- definition of indirect tax
- theory to explain how imposing an indirect tax on cigarettes will achieve government objectives of raising revenue and reducing consumption
- diagrams to illustrate the imposition of the tax on cigarettes
- examples of instances and/or reasons why governments impose indirect tax on cigarettes.

N.B. Candidates can be awarded full marks for coverage of one reason why a government might impose an indirect tax.

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 possible consequences of the imposition of an indirect tax on cigarettes for the different stakeholders in the market.

[15]

Answers **may** include:

- definitions of indirect tax and market
- theory to explain the implications for consumers; for producers; for the government
- diagram to show the application of a tax to illustrate the impacts on different stakeholders
- examples of use of indirect taxes and the impact on stakeholders in practice
- synthesis or evaluation (discuss).

Discussion **may** include: the advantages and disadvantages as applied to the different stakeholders and more generally in terms of society, for example reduced passive smoking for all as well as reduced consumption for individual consumers.

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 a firm in monopolistic competition will make normal profit in the long run.

[10]

Answers may include:

- definitions of monopolistic competition, normal profit and long run
- theory to explain how the lack of barriers leads to firms responding to short-run abnormal profits/losses to enter/leave the market to restore normal profits in the long run
- diagram to show monopolistic competition in the long/short run
- example of sectors that might reflect monopolistic market structures.

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- (b) Evaluate the view that monopolistic competition is a more efficient market structure than monopoly.

[15]

Answers **may** include:

- definitions of monopoly, monopolistic competition and efficiency
- theory to explain how monopolistic competition may or may not be more efficient than monopoly
- diagram of a monopoly and monopolistic competition diagram to compare efficiency
- examples of industries that could represent these types of competition to highlight the points made
- synthesis or evaluation (evaluate).

Evaluation **may** include: the relative efficiencies of the two market structures, consideration of dynamic efficiency, economies of scale, responsiveness to consumer demand.

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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 fiscal policy can be used to achieve long-term economic growth (increases in potential output).

[10]

Answers may include:

- definitions of fiscal policy, economic growth and potential output
- theory to show how government spending on investment in physical and human capital and infrastructure, and/or government provision of incentives to invest through reductions in taxes, result in an increase in LRAS and potential output. Reference may be made to the indirect effects of creating a favourable environment for investment
- diagram to show an increase in LRAS and an increase in potential output
- examples of where this may have been the case.

N.B. Candidates who consider only the impact on AD and who do not look at long-term economic growth should not be awarded above level 2.

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- (b) Discuss the view that economic growth always leads to a more equal distribution of income and a reduction in unemployment.

[15]

Answers **may** include:

- definitions of unemployment, distribution of income and economic growth
- theory to explain how economic growth may lower/raise unemployment and improve/worsen the distribution of income
- diagrams to indicate falling unemployment and a more equal distribution of income
- examples of where this may have happened
- synthesis or evaluation (discuss).

Discussion **may** include: the impact that economic growth can have, both positive and negative effects, on the level of unemployment and the distribution of income.

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 why, using the monetarist/new classical model, the economy will always return to the full employment level of output following a recession.

[10]

Answers *may* include:

- definitions of full employment and recession
- theory to explain how wages and prices adjust to bring the economy back to full employment equilibrium in the long run
- diagram to show AD/AS with a vertical LRAS and deflationary gap
- examples of where this might have occurred or a suitable development of a theoretical example.

Assessment Criteria

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- (b) Evaluate the view that an increase in aggregate demand will always be inflationary.

[15]

Answers **may** include:

- definitions of aggregate demand and inflation
- theory to explain the new classical view that LRAS is vertical and therefore increases in AD are purely inflationary. Consideration that the SRAS curve suggests that increases in AD are partly inflationary. A consideration of opposing Keynesian views regarding the shape of AS
- diagram to show an AD/AS illustrating the different views
- examples of situations regarding differing views of the shape of the new classical LRAS and the Keynesian AS curves
- synthesis or evaluation (evaluate).

Evaluation **may** include: whether and under what conditions an increase in AD is always inflationary.

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