Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2019

Economics

Higher level

Paper 1

10 pages

International Baccalaureate
Baccalauréat International
Bachillerato Internacional

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

Section A

Microeconomics

1.   (a)   Using an appropriate externalities diagram, explain why a government might decide to impose a price floor on a demerit good.   **[10]**

*Answers **may** include:*
- definition of demerit good, price floor
- diagram to show a negative externalities of consumption diagram with a price floor (minimum price) shown
- explanation of why a government might place a price floor above the equilibrium price in the market for a demerit good, in terms of negative externality arguments, and reducing consumption
- examples of price floors being imposed on demerit goods in practice.

NB *If students attempt to provide two different diagrams, one for a price floor and one for negative externalities, they should be credited in the same way one diagram might be.*

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	**0**
1	*There is little understanding of the specific demands of the question.*	**1–3**
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	**4–6**
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	*There is understanding of the specific demands of the question.*	**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	*There is clear understanding of the specific demands of the question.*	**9–10**
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(b)   Evaluate the view that the most effective way in which the government can discourage the consumption of demerit goods is through government regulations. **[15]**

*Answers **may** include:*
- definition of demerit goods, government regulations
- diagram to illustrate reduction of negative externalities *eg* tax diagram or a change in demand due to the enforcement of regulation
- explanation of how regulation could discourage the consumption of demerit goods
- examples of government regulations on demerit goods in practice
- synthesis and evaluation.

*Evaluation **may** include:* advantages and disadvantages of government regulations; consideration of alternatives such as minimum prices, taxation, negative advertising.

Assessment Criteria

Part (b) 15 marks

Level		Marks
0	*The work does not meet a standard described by the descriptors below.*	**0**
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	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	*There is some understanding of the specific demands of the question.*	**6–9**
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3	*There is understanding of the specific demands of the question.*	**10–12**
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4	*There is clear understanding of the specific demands of the question.*	**13–15**
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2.   (a)   Explain why monopoly power may be considered a type of market failure.   **[10]**

Answers **may** include:
- definition of monopoly power, market failure
- diagram to show deadweight loss under monopoly
- explanation that market failure in this case is a form of welfare loss, illustrated by productive and allocative inefficiency
- examples of monopoly.

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(b)   Examine the role of barriers to entry in making monopoly a less desirable market structure than perfect competition.   **[15]**

*Answers **may** include:*
- definition of market structure, monopoly, perfect competition, barriers to entry
- diagram to illustrate economic/abnormal profit under monopoly in the short and long run, diagram to show abnormal profit in the short run, normal profit in the long run under perfect competition
- explanation that without barriers to entry, monopolies could not earn economic/abnormal profit in the long run, whereas firms in perfect competition can earn only normal profit in the long run because of the absence of barriers to entry
- examples of barriers to entry sustaining monopolies
- synthesis and evaluation (examine).

*Examination **may** include*: alternative reasons why monopoly may be less desirable than perfect competition, such as productive and allocative inefficiency, price and output, abuse of monopoly power.

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Section B

Macroeconomics

3. (a) Explain how an increase in unemployment might lead to a loss of gross domestic product (GDP) and a budget deficit. **[10]**

*Answers **may** include:*
- definition of unemployment, GDP, budget deficit
- diagram to show aggregate demand (AD) and/or aggregate supply (AS) shifting to the left
- explanation of how higher unemployment might lead to a loss of GDP and a budget deficit, via the loss of tax revenue and increase in government spending
- examples of instances where rising unemployment has caused a loss of GDP and/or a budget deficit.

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(b)   Discuss the view that there will always be a trade-off between the unemployment rate and the inflation rate.   **[15]**

*Answers **may** include:*
- definition of trade-off, unemployment rate, inflation rate
- diagrams to show the short-run and long-run Phillips curves
- explanation of the view in terms of the short-run Phillips curve relationship
- examples of such a trade-off and/or absence of such a trade-off
- synthesis and evaluation (discuss).

*Discussion **may** include:* the view that there is no trade-off in the long-run (the long-run Phillips curve), the importance of supply-side improvements to the economy in achieving lower unemployment and inflation, criticisms of the statistical Phillips curve relationship, and discussion of the word "always".

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4. (a) Explain the various phases of the business cycle. **[10]**

*Answers **may** include:*
- definition of business cycle
- diagram to show the different phases of the business cycle and possible trend line
- explanation of the business cycle in terms of the different short-run phases *ie* boom, recession, depression/slump and recovery, and long-term trend
- examples of specific countries being in different phases of the business cycle.

NB *Examiners should be aware of variations in the business cycle diagrams candidates might draw and should be flexible in crediting the diagrams drawn by candidates.*

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(b)   Discuss the view that economies will always return to the full employment level of output in the long run.   **[15]**

*Answers **may** include:*
- definition of full employment, full employment level of output
- diagrams to show the two different views of the economy
- explanation of the monetarist/new classical view that the economy will always return to the full employment level of output in the long run, and long-term trend and its meaning as potential output
- examples of situations where economies either have or have not returned to full employment in the long run
- synthesis and evaluation (discuss).

*Discussion **may** include*: consideration of the Keynesian view that an economy can remain stuck in a deflationary gap, consideration of the role of government, consideration of the word "always".

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