

Markscheme

May 2019

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) Explain **two** factors which could shift a firm's supply curve to the left. [10]

Answers **may** include:

- definition of supply, supply curve
- diagram to show a shift in supply to the left
- explanation of **two** of: increases in the costs of factors of production; increases in prices of related goods; increased indirect taxes; other factors such as: changes in regulations, objectives of the business, the weather, labour disputes, etc
- examples of factors reducing supply in practice.

Assessment Criteria

Part (a) 10 marks

| Level | | Marks |
|-------|--|-------|
| 0 | <i>The work does not meet a standard described by the descriptors below.</i> | 0 |
| 1 | <i>There is little understanding of the specific demands of the question.</i> Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors. | 1–3 |
| 2 | <i>There is some understanding of the specific demands of the question.</i> Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors. | 4–6 |
| 3 | <i>There is understanding of the specific demands of the question.</i> 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 | <i>There is clear understanding of the specific demands of the question.</i> 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 provision of subsidies by the government on goods such as agricultural products will always be beneficial to stakeholders. [15]

Answers may include:

- definition of subsidy, stakeholders
- diagram to illustrate subsidy showing impact on market price, government spending, producer revenue
- explanation that the provision of subsidies benefits producers and consumers
- examples of subsidies on agricultural products or other goods
- synthesis and evaluation (discuss).

Discussion may include: the disadvantages of subsidies such as: opportunity cost to the government, higher taxes to fund subsidies, difficulties in removing subsidies once established, distortion of the market, creation of inefficiency, equity issues (eg some consumers and producers will benefit more than others).

Assessment Criteria

Part (b) 15 marks

| Level | | Marks |
|-------|---|-------|
| 0 | <i>The work does not meet a standard described by the descriptors below.</i> | 0 |
| 1 | <i>There is little understanding of the specific demands of the question.</i> | 1–5 |
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| 2 | <i>There is some understanding of the specific demands of the question.</i> | 6–9 |
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| 3 | <i>There is understanding of the specific demands of the question.</i> | 10–12 |
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| 4 | <i>There is clear understanding of the specific demands of the question.</i> | 13–15 |
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2. (a) Explain why public transport, such as buses and trains, might be under-provided in a market economy.

[10]

Answers **may** include:

- definition of under-provision, market economy
- diagram to show a positive externality of consumption
- explanation of how the use of public transport results in marginal social benefit exceeding marginal private benefit
- examples of under-provision of public transport.

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- (b) Discuss the view that imposing an indirect tax on gasoline (petrol) is the most effective way of reducing the market failure caused by cars. [15]

Answers may include:

- definition of indirect tax, market failure
- diagram to illustrate the imposition of an indirect tax
- explanation of how taxation can be used to reduce the demand for gasoline/cars
- examples of where a government has applied such taxes
- synthesis or evaluation (discuss).

Discussion may include: the disadvantages of indirect tax on gasoline, such as: effects on the rate of inflation, equity (some stakeholders affected more than others) and the importance of price elasticity of demand (PED) in affecting the incidence of the tax. Consideration of other policies that can be used, such as: subsidies to public transport, subsidies for electric car producers, government providing infrastructure for the use of electric cars (eg charging points), advertising (eg encourage the use of public transport) and government regulations to reduce car use.

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Section B

Macroeconomics

3. (a) Explain how increased investment by the government in education and training can affect both aggregate demand and aggregate supply. [10]

Answers may include:

- definition of investment, aggregate demand, aggregate supply
- diagrams to show aggregate demand (AD) shifting right and LRAS shifting right
- explanation of how increased investment by the government in education and training can increase AD in the short term by increasing the G component of C+I+G+X-M and increase LRAS in the long term as labour productivity increases
- examples of countries in which the government has increased investment in education and training.

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- (b) Evaluate the view that inflationary pressures in an economy are best reduced using supply-side policies.

[15]

Answers may include:

- definition of inflation, inflationary pressures, supply-side policies
- diagram to show the impact of supply-side policies on inflation via the shift of long-run aggregate supply (LRAS) to the right
- explanation of how market based (eg deregulation, anti-monopoly policy, etc) and/or interventionist supply-side policies (eg price controls, subsidies, etc) may reduce inflationary pressures in an economy
- examples of situations where supply-side policies have helped to reduce inflationary pressures
- synthesis and evaluation.

Evaluation may include: the disadvantages of using particular supply-side policies, such as: the impact of market-based policies on equity, not as effective with demand-pull inflation, the impact of interventionist policies on the government budget and the time lags associated with supply-side policies. The advantages of supply-side policies, such as: increased real GDP, increased employment, more effective with cost-push inflation and possible improvement in economic efficiency. Consideration of deflationary monetary and fiscal policies as alternative policies to reduce inflation.

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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
- 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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