

Markscheme

May 2019

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) 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	<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>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	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	<i>There is clear understanding of the specific demands of the question.</i>	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	<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
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	6–9
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	10–12
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	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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