



# Markscheme

November 2015

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 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.	<b>0</b>
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.	<b>1–3</b>
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.	<b>4–6</b>
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.	<b>7–8</b>
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.	<b>9–10</b>

- (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.	<b>0</b>
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.	<b>1–5</b>
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.	<b>6–9</b>
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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.	<b>13–15</b>

2. (a) Explain the concepts of consumer surplus and producer surplus in the market for air travel.

[10]

*Answers may include:*

- definitions of consumer surplus and producer surplus
- theory to explain that consumer surplus is to be found above equilibrium price and below the demand curve, and that producer surplus is below equilibrium price but above the supply curve
- diagram to show consumer surplus and producer surplus in the market for air travel
- examples of consumer surplus and producer surplus in airline ticket pricing.

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- (b) Discuss the view that a free market at competitive market equilibrium leads to the most efficient allocation of resources from society's point of view.

[15]

Answers **may** include:

- definitions of competitive market equilibrium, community/social surplus, allocative efficiency
- theory to explain that the demand curve represents benefits to society hence marginal social benefit and the supply curve costs to society hence marginal social cost. At equilibrium  $MSB = MSC$  so it is the optimum allocation of resources from society's point of view
- diagram to show community/social surplus in a market at equilibrium
- examples of markets in allocative efficiency
- synthesis and evaluation (discuss).

Candidates **may** argue that a market for a demerit good or in an unsustainable activity, even if in equilibrium, might not imply the most efficient allocation of resources for society. Candidates who challenge the quotation by presenting a convincing argument with examples that market failure undermines allocative efficiency should be fully rewarded. Market failure could be illustrated using externalities (production and consumption), lack of public goods or depletion of common access resources/threat to sustainability.

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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, using a diagram, how interest rates are determined in an economy. [10]

Answers *may* include:

- definition of interest rates
- explanation of how interest rates are determined by the demand and supply for money. Explanation of how the central bank influences interest rates
- diagram to show the demand and supply curve for money (loanable funds) determining the equilibrium interest rate
- examples of interest rates being determined.

**N.B.** Where candidates just explain that the central bank sets interest rates as part of monetary policy with no consideration of demand and supply for money, a maximum of level 2 can be awarded.

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- (b) Discuss the effectiveness of using expansionary monetary policy to reduce unemployment.

[15]

*Answers may include:*

- definitions of monetary policy and unemployment
- explain how reducing interest rates will increase economic growth and reduce unemployment
- demand and supply diagram to show how a rise in demand for labour reduces unemployment
- examples of countries using expansionary monetary policy to reduce unemployment
- synthesis or evaluation (discuss).

Discussion **may** include: the use of monetary policy to reduce unemployment in terms of:

- cutting interest rates may not increase the demand for labour
- time lags associated with monetary policy
- the policy is not appropriate for other types of unemployment like structural and frictional
- expansionary monetary policy might lead to inflation
- reduced borrowing costs could lead to substitution of labour with capital.

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4. (a) Explain how a rise in consumer confidence and business confidence might affect economic growth.

[10]

*Answers may include:*

- definitions of consumer confidence, business confidence and economic growth
- explanation of how rising consumer confidence might increase consumption and AD leading to economic growth. Explanation of how rising business confidence might increase investment and AD leading to economic growth
- AD/AS diagram to show an increase in GDP brought about by rising consumption and investment
- examples of situations where rising consumer and business confidence have affected economic growth.

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- (b) Discuss the view that economic growth always raises living standards in a country.

[15]

Answers **may** include:

- definitions of economic growth and living standards
- explanation that economic growth may lead to a rise in living standards through: increasing incomes; a fall in unemployment; more tax revenue to improve public services and provide merit goods
- diagram to show economic growth increasing incomes and employment
- examples of economic growth increasing living standards
- synthesis or evaluation (discuss).

Discussion **may** include: economic growth increasing living standards in terms of the: income benefits of economic growth going to the richest people and widening the income disparity; economic growth leading to negative externalities; not being sustainable; impact growth has on inflation.

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**N.B.** Diagrams are not essential in part (b) for this question to access level 3 and 4.



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