International Baccalaureate®
Baccalauréat International
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# MARKSCHEME

# May 2013

# ECONOMICS

# Higher Level

# Paper 1

17 pages

*In addition to the assessment criteria, use the paper-specific markscheme below. Award up to the maximum marks indicated.*

## SECTION A

**Microeconomics**

1. **(a)** **Distinguish between decreasing returns to scale and the law of diminishing returns.** *[10 marks]*

   Answers **may** include:
   - definitions of decreasing returns to scale and the law of diminishing returns
   - theory of costs, particularly short run and long run, with reference to fixed and variable costs
   - diagrams to show a long run average total costs curve with increasing, constant and decreasing returns to scale, and diminishing returns to one factor of production in the short run
   - examples such as agricultural labour or natural monopoly.

   Allow access to Level 3 for students who can explain either one clearly.

### 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)** **Using diagrams, compare and contrast the market structure of monopoly with that of perfect competition.**                        *[15 marks]*

*N.B.* It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:
- definitions of monopoly, perfect competition
- theory of the firm, how both monopoly and perfect competition have their advantages and disadvantages in terms of efficiency, price and output
- diagram to show the possible market outcomes under monopoly and perfect competition
- examples of natural monopolies, agricultural markets
- synthesis and evaluation (compare and contrast).

Factors considered **may** include: the effects on efficiency, welfare effects, price and output, research and development and economies of scale. Points of comparison could be that they both profit maximise and can both make abnormal profits in the short run. Candidates may obtain level 3 where they have discussed the two market structures in terms of their respective advantages and disadvantages. Level 4 is for those who compare and contrast.

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 the factors which might influence the cross price elasticity of demand between different products.**                    *[10 marks]*

Answers **may** include:
- definitions of cross price elasticity of demand
- theory to include explanation of formula, significance of positive and negative coefficient of cross price elasticity. Emphasis is likely to be on complements and substitutes.
- diagrams to show markets where the change in price of one good influences demand for another good positively (substitutes) or negatively (complements)
- examples of substitutes, complements and unrelated goods.

## Assessment Criteria

**Part (a) 10 marks**

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|---|---|---|
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| 2 | There is some understanding of the specific demands of the question.<br>Some relevant economic terms are defined.<br>There is some knowledge of relevant economic theory.<br>There are some errors. | **4–6** |
| 3 | There is understanding of the specific demands of the question.<br>Relevant economic terms are defined.<br>Relevant economic theory is explained and applied.<br>Where appropriate, diagrams are included and applied.<br>Where appropriate, examples are used.<br>There are few errors. | **7–8** |
| 4 | There is clear understanding of the specific demands of the question.<br>Relevant economic terms are clearly defined.<br>Relevant economic theory is clearly explained and applied.<br>Where appropriate, diagrams are included and applied effectively.<br>Where appropriate, examples are used effectively.<br>There are no significant errors. | **9–10** |

**(b)** **Examine the importance of income elasticity of demand for the producers of primary products, manufactured goods and services.**                    *[15 marks]*

*N.B.* It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:
- definitions of income elasticity of demand, primary products
- theory of the importance of income elasticity for producers of primary products, manufactured goods and services
- diagrams to show the effect of differing coefficients of income elasticity of demand
- examples of different types of primary products, manufactured goods and services
- synthesis and evaluation (examine).

Examination **may** include: knowledge that a change in income will have differing effects on the three types of products specified in the question necessitating different strategies for the producers of these products, for example, diversification, value added.

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** |
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| 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** |

**SECTION B**

**Macroeconomics**

3.   (a)   **Using a diagram, describe how expansionary monetary policy might be used to close a deflationary (recessionary) gap.**                    *[10 marks]*

Answers **may** include:
- definitions of expansionary monetary policy, deflationary (recessionary) gap
- theory of the mechanism through which expansionary policy can help close a deflationary gap
- diagram to show expansionary monetary policy shifting the AD curve with effects dependent on the shape of the AS curve (neoclassical/Keynesian)
- examples of policies which might be used such as reducing the rate of interest.

**Assessment Criteria**

**Part (a) 10 marks**

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|---|---|---|
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| 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 why, in contrast to the monetarist/new classical model, an economy can remain stuck in a deflationary (recessionary) gap according to the Keynesian model.**       *[15 marks]*

*N.B.* It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:
- definitions of monetarist/new classical model, deflationary (recessionary) gap, Keynesian model
- theory of why deflationary (recessionary) gaps can persist according to the Keynesian model whereas they cannot in the monetarist/new classical model
- diagrams to show monetarist model and Keynesian model
- examples such as Japan in the 1990s
- synthesis and evaluation (discuss).

Discussion **may** include: the Keynesian argument that deflationary (recessionary) gaps persist because of the inability of wages and prices to fall and the Keynesian assumption that the AS curve has a long, horizontal section meaning that equilibrium GDP is lower than potential GDP. In the monetarist model, wages and prices are assumed to be flexible, allowing markets to clear thus maintaining full employment of resources.

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** |
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| 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** |

**4.** **(a)** **Explain how labour market reforms may be used to promote economic growth.** *[10 marks]*

Answers **may** include:
- definitions of labour market reforms, economic growth
- explanation of how making labour markets more flexible may lead to an increase in efficiency and economic growth
- diagram to show the labour market (AD/AS or ADL/ASL) lending to economic growth
- examples of labour market reforms, both interventionist and market-oriented, such as reducing unemployment benefits, reducing the power of labour unions and abolishing minimum wages, expenditure on education and training, introduction of minimum wages to increase participation rates, to increase consumption and promote economic growth.

**Assessment Criteria**

**Part (a) 10 marks**

Level                                                                                           Marks

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    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)** **"Market-oriented supply-side policies will always be more effective in promoting economic growth than demand-side policies." To what extent do you agree with this statement?**                    *[15 marks]*

*N.B.* It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:
- definitions of market-oriented policies (as against interventionist policies), demand-side policies and economic growth
- theory of Aggregate Demand and Aggregate Supply and how either may be used to increase real GDP
- diagrams to show increased real GDP resulting from changes to AD and AS
- examples of market-oriented supply-side policies and demand-side policies
- synthesis and evaluation (to what extent).

Consideration of the merits of the statement **may** include: discussion of the term effectiveness in the context of economics. Candidates may distinguish the effectiveness of each policy in the short run and the long run.

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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| 3 | There is understanding of the specific demands of the question.<br>Relevant economic terms are defined.<br>Relevant economic theory is explained and applied.<br>Where appropriate, diagrams are included and applied.<br>Where appropriate, examples are used.<br>There is an attempt at synthesis or evaluation.<br>There are few errors. | **10–12** |
| 4 | There is clear understanding of the specific demands of the question.<br>Relevant economic terms are clearly defined.<br>Relevant economic theory is clearly explained and applied.<br>Where appropriate, diagrams are included and applied effectively.<br>Where appropriate, examples are used effectively.<br>There is evidence of appropriate synthesis or evaluation.<br>There are no significant errors. | **13–15** |