



MARKSCHEME

May 2013

ECONOMICS

Standard Level

Paper 1

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

SECTION A

Microeconomics

1. (a) **Explain why the price elasticity of demand for primary commodities tends to be relatively low while the price elasticity of demand for manufactured products tends to be relatively high.**

[10 marks]

Answers **may** include:

- definitions of price elasticity of demand, primary commodities and manufactured products
- application of theory of price elasticity of demand to primary commodities and manufactured products, explaining high and low PED, including reference to factors that determine the price elasticity of demand of primary products and of manufactured goods, *eg*, degree of necessity, availability of substitutes
- diagrams to show the different degrees of price elasticity of demand
- examples of primary commodities and manufactured products to which this might be, or has been, applied.

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) “The income elasticity of demand for primary products tends to be lower than that for manufactured products and services.” Examine the implications of this for producers and for the economy as a whole.

[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 and manufactured products/services; explanation of low YED
- application of theory of income elasticity of demand to primary products, manufactured products and services; distinction between income inelastic and income elastic goods and services in relation to primary products, manufactured products and services
- diagrams to show the possible impact on demand with appropriate explanation
- examples of goods with different income elasticities of demand, perhaps related to ELDCs and EMDCs
- synthesis or evaluation (examine).

Examination **may** include: a consideration of the different implications for producers in terms of the rate of expansion of industries and hence future profitability; the implications for resource allocation; the implications for relative growth rates of the primary, secondary and tertiary sectors of the economy; the different effects for ELDCs and EMDCs; an evaluation of the significance of income elasticity of demand for firms and the economy as a whole.

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 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) **Analyse the consumption externalities which might arise from the provision of education and health care for the citizens of a country.** *[10 marks]*

Answers **may** include:

- definition of positive externalities
- theory of positive externalities in relation to $MSB > MSC$ and/or $MSB > MPB$, applied to health care and education
- diagrams to show the impact of positive externalities of consumption
- examples of positive externalities arising from education and health care in terms of better educated and healthier labour force leading to increased productivity.

Assessment Criteria

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- (b) **Evaluate the use of government policies to increase the consumption of health care.**

[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:

- explanation of health care as a merit good/service which is likely to be underprovided by the free market (market failure)
- diagrams to show under-provision of merit goods through the price mechanism
- identification and explanation of different government responses, *eg* direct provision, subsidies, legislation and advertising to influence consumer behaviour
- diagrams to show the use of subsidies and advertising
- synthesis or evaluation.

Evaluation **may** include: an assessment of the effectiveness of each of the relevant policies.

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SECTION B

Macroeconomics

3. (a) **Explain the difficulties involved in measuring the rate of inflation.** *[10 marks]*

Answers **may** include:

- definitions of inflation, the rate of inflation and the consumer price index
- an explanation of how the consumer price index is constructed and the difficulties involved in terms of different income earners; changes in consumption patterns; changes in quality of products; the measurement of a core rate of inflation
- examples of actual instances of such difficulties.

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- (b) **Discuss the view that deflation is a more serious problem than inflation for the economy of a country.**

[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 deflation and inflation
- explanation of the effects of deflation and inflation
- diagrams (AD/AS) to illustrate deflation and inflation and their effects on the economy
- examples of deflation and inflation and their effects for particular countries
- synthesis or evaluation (discuss).

Discussion **may** include: a consideration of possible positive and/or negative consequences of deflation and inflation, *eg*, in terms of certainty/uncertainty; redistributive effects; impact on savers/borrowers; the impact on international competitiveness; the possibility of deflationary/inflationary spirals; the economic aims of government; the possible short-run and long-run implications; the impact on different stakeholders; whether one is more serious than the other.

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 supported by appropriate examples.

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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) leading 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.

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- (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.

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Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

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