Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2015

Economics

Standard level

Paper 1

Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

Section A

Microeconomics

1. (a) Explain why governments impose price floors (minimum prices). **[10]**

*Answers **may** include:*
- definition of price floor
- diagram of the application of a price floor
- explanation of possible reasons for a price floor, for example regarding equity (minimum wage), to support the income of producers (agricultural price supports) or to discourage the consumption of demerit goods
- examples of where a price floor has been applied.

Award a maximum of level 2 if only one reason is given.
Level 4 can be awarded if two reasons are given.

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) Discuss the consequences for producers, consumers and the government of imposing a price floor (minimum price) on a good. **[15]**

Answers ***may*** *include:*
- definition of price floor
- diagram to illustrate possible impacts (*eg* to show a change in business revenues)
- explanation of the consequences for producers (change in revenues), consumers (higher prices) and government (cost of implementation)
- examples of consequences when a price floor has been introduced
- synthesis or evaluation (discuss).

Discussion **may** include: the consequences of introducing a price floor on the different stakeholders.

Award a maximum of level 2 if only minimum wage is discussed.
Award a maximum of level 2 if only one stakeholder is discussed.
Award a maximum of level 3 if only two stakeholders are discussed.
Level 4 can be awarded if three stakeholders have been discussed.

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 view that an increase in price will lead to a decrease in the quantity demanded whilst an increase in demand will lead to an increase in price. **[10]**

*Answers **may** include:*
- definition of demand
- diagrams to illustrate the difference between movements along the demand curve and shifts of the demand curve
- theory to explain an increase in price leading to a decrease in the quantity demanded, due to the law of demand, through a movement along the demand curve, and an increase in demand due to a change in non-price determinants, leading to an increase in price through a shift to the right of the demand curve
- examples of instances to which this might be, or has been, applied.

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(b) Discuss the significance of price elasticity of demand for government intervention in markets. **[15]**

*Answers **may** include:*
- definition of PED
- diagram to illustrate the impact of PED on government intervention
- theory to explain the relevance of PED for government in terms of decision making regarding taxes, subsidies and price controls
- examples of use of the concept of PED in practice
- synthesis or evaluation (discuss) to show the implications.

Discussion **may** include: the relative importance of PED and the difficulties of obtaining an accurate measure in reality; a consideration of the impact on different stakeholders, producers, consumers, taxpayers, *etc*.

Level 4 can be awarded if there has been a consideration of just one of taxes, subsidies or price controls providing there is a comparison of elastic and inelastic demand.

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Section B

Macroeconomics

3. (a) Explain the effect of a rise in taxation and a fall in government expenditure on the circular flow of income of an economy. **[10]**

*Answers **may** include:*

- definition of taxation and government expenditure
- diagram to show the circular flow of income or diagram to show AS/AD diagram but needs to explain the link to the circular flow
- explanation of how taxation affects the circular flow of income as a withdrawal and an explanation of how government expenditure affects the circular flow of income as an injection
- examples of where governments have raised taxation and reduced government expenditure.

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(b) Evaluate the effectiveness of fiscal policy to reduce the rate of inflation. **[15]**

*Answers **may** include:*
- definition of inflation and fiscal policy
- AD/AS diagram to show how contractionary fiscal policy leads to a fall in inflation
- explanation of how a tight fiscal policy leads to a fall in inflation
- examples of a tight fiscal policy reducing inflation
- synthesis or evaluation.

Evaluation **may** include: the effectiveness of a contractionary fiscal policy to reduce inflation in terms of the: negative impact on economic growth; the impact of increasing taxation on worker and business incentives and the impact of reduced government expenditure on the quality of public services, time lags, political constraints, *etc*. Comparison of effectiveness of alternative solutions such as supply-side and monetary policy may be given.

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Assessment Criteria

Part (b) 15 marks

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4. (a) Explain how business spending on research and development and government expenditure on infrastructure might shift the long-run aggregate supply curve. **[10]**

*Answers **may** include:*

- definitions of research and development, infrastructure, long-run aggregate supply
- diagram to show a shift in the LRAS
- explanation of how research and development in new technology will improve the quality of physical capital, hence increasing productive capacity and shifting the LRAS to the right. Explanation of how increased government expenditure in infrastructure will increase productive capacity and shift the LRAS to the right
- examples of research and development and infrastructure.

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(b) Evaluate the effectiveness of interventionist supply-side policies to achieve economic growth. **[15]**

*Answers **may** include:*
- definition of interventionist supply-side policies and economic growth
- diagram to show the impact of interventionist supply-side policies on economic growth
- explanation of the interventionist supply-side policies that could be used to increase the rate of economic growth through:
  - education and training
  - research and development
  - infrastructure
  - industrial policy
- examples of the application of interventionist supply-side policies
- synthesis or evaluation.

Evaluation **may** include: the use of interventionist supply-side policies used to increase economic growth including:
- cost and effectiveness of the interventionist supply-side policies
- time it takes for the policy to increase economic growth
- implications for different stakeholders
- suggestion of alternatives to interventionist supply-side policies.

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Assessment Criteria

Part (b) 15 marks

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