



MARKSCHEME

May 2014

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) **Analyse the private and external benefits associated with the consumption of university education.** *[10 marks]*

Answers **may** include:

- definitions of private benefits and external benefits
- diagram to show the private and external benefits associated with the consumption of university education
- an explanation of the private benefits of university education in terms of employment prospects, the enjoyment of the experience and the development of wider life skills; explanation of the external benefits of university education in terms of: improvements in the quality of the workforce, lower unemployment, higher growth rates
- examples of the private and external benefits of university education.

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) Evaluate the policies a government might use to increase the consumption of university education.

[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:

- definition of a merit good
- diagram(s) to show the impact of the policies the government might use to increase in the consumption of university education
- an explanation of the policies a government might use to increase the consumption of university education as a merit good: subsidies to universities, financial support for students, promotion of university education
- example(s) of the policies the government might use to increase the consumption of university education
- synthesis or evaluation.

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Evaluation **may** be in terms of the policies’ costs and effectiveness.

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) **Using a diagram, explain why firms in monopolistic competition are neither allocatively nor productively efficient.** *[10 marks]*

Answers **may** include:

- definitions of monopolistic competition, allocative efficiency and productive efficiency
- diagram of monopolistic competition
- an explanation of monopolistic competition showing that it cannot be productively efficient because it does not produce where $MC = ATC$ or allocatively efficient because it does not produce where $MC = AR$
- examples to support the explanation given.

Assessment Criteria

Part (a) 10 marks

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- (b) **Examine the view that the market for food is more beneficial to consumers if dominated by a monopoly retailer (supermarket) rather than by a large number of small shops operating under monopolistic 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, monopolistic competition
- an explanation of theory of the firm related to retail markets, how both monopoly and monopolistic competition have their advantages and disadvantages in terms of costs, price and output
- diagram to show the possible impact on consumers under monopoly and monopolistic competition in terms of price
- examples of relevant market structures
- synthesis and evaluation (examine).

Command term

“Examine” requires candidates to consider an argument or concept in a way that uncovers the assumptions and interrelationships of the issue.

Factors considered **may** include: the effects on efficiency and customer service, welfare effects, price and output, and economies of scale.

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.

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SECTION B

Macroeconomics

3. (a) **Explain how the aggregate demand curve can be shifted by a reduction in interest rates.**

[10 marks]

Answers **may** include:

- definitions of aggregate demand and interest rates
- diagram to show the impact of a reduction in interest rates on aggregate demand
- an explanation of how the reduction in interest rates might affect aggregate demand, such as an increase in consumption and investment
- examples of how a reduction in interest rates might affect aggregate demand.

Assessment Criteria

Part (a) 10 marks

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(b) Evaluate the effectiveness of monetary policy to increase aggregate demand during a recession.

[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 monetary policy and recession
- diagram to show impacts of monetary policy on aggregate demand. Diagram to show a deflationary (recessionary) gap
- an explanation of factors that might impact effectiveness of monetary policy: ability to adjust interest rates incrementally and relatively quickly, conflict with other objectives, impact on the exchange rate, limited effectiveness in a deep recession. An explanation that it depends on the shape of the aggregate supply curve. Candidates may evaluate the effectiveness of monetary policy through a comparison with alternative policies
- examples of situations where monetary policy has been applied to increase aggregate demand
- synthesis or evaluation.

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Evaluation of the effectiveness of monetary policy to increase aggregate demand.

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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4. (a) Explain *two* factors which might cause economic growth.

[10 marks]

Answers **may** include:

- definition of economic growth
- diagrams to illustrate economic growth, for example by a rightward shift of AD and/or LRAS
- an explanation of any two factors that might lead to economic growth such as investment in physical, human and natural capital, productivity gains, rise in net exports
- examples of instances where the factors identified have led to economic growth.

Assessment Criteria

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- (b) **Evaluate the view that the benefits of economic growth will always outweigh the costs.**

[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:

- definition of economic growth
- diagrams to illustrate the costs and benefits
- an explanation of the potential benefits of growth *eg* higher living standards and on government finances; the potential costs, *eg* on sustainable development and in terms of the possible conflicts with the other goals of economic policy such as low inflation or equity in the distribution of income
- examples of costs/benefits of growth which have occurred
- synthesis or evaluation.

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Discussion **may** include: an evaluation of the positive and negative consequences of growth.

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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