



MARKSCHEME

May 2014

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 *two* reasons why governments impose indirect taxes. [10 marks]

Answers **may** include:

- definition of an indirect tax
- diagram showing the effect of an indirect tax
- an explanation that indirect taxes are a source of government revenue, a method to correct negative externalities of production and consumption, a way to redistribute income if levied on luxury goods, and a method of trade protection
- examples of the imposition of indirect taxes.

N.B. Award a maximum of level 2 if only one reason is explained.

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 consumers, producers and the government of imposing a specific tax on cigarettes.**

[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 demerit goods and specific tax
- diagram to show the imposition of a specific tax on cigarettes
- an explanation of how the indirect tax raises the price to consumers and reduces the quantity demanded of cigarettes; the indirect tax increases the cost of production, resulting in less supply of cigarettes; the low PED for cigarettes will affect the effectiveness of the policy and the revenue raised by government
- examples of when a specific tax is used on cigarettes
- synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses.

Discussion **may** include: the advantages and disadvantages for the different stakeholders and the overall effectiveness of the policy.

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.

N.B. Award a maximum of level 2 if only one stakeholder is discussed.

Award a maximum of level 3 if only two stakeholders are discussed.

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 why the price elasticity of supply (PES) for primary commodities tends to be relatively low, while the PES for manufactured products tends to be relatively high.**

[10 marks]

Answers **may** include:

- definition of price elasticity of supply
- diagram to illustrate PES of manufactured goods and primary commodities
- an explanation of the various determinants of PES (including time, mobility of factors of production, unused capacity and ability to store stocks) leading to an explanation of why the PES for primary commodities tends to be relatively low and PES for manufactured products tends to be relatively high
- examples of PES for primary and manufactured goods, or examples of primary and manufactured products.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) **Discuss possible consequences of a government imposing a price floor on an agricultural product.**

[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 price floor
- diagram showing a price floor
- an explanation of the impact of the price floor on market outcomes including: surpluses, government measures to dispose of surpluses, inefficient allocation of resources and welfare impacts on various stakeholders
- examples of a price floor or of its consequences
- synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses.

Discussion **may** include: the advantages and disadvantages to different stakeholders of price floors.

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 |
|--|--------------|
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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. | 13–15 |

SECTION B

Macroeconomics

3. (a) Using a Lorenz curve, explain how the Gini coefficient is derived and interpreted.

[10 marks]

Answers **may** include:

- definitions of Lorenz curve and Gini coefficient
- diagram showing the Lorenz curve
- an explanation of the diagram, formula for the Gini coefficient and interpretation of the resulting coefficient
- examples of countries with high/low Gini coefficient.

N.B. Award a maximum of level 2 if only one factor is explained.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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(b) Evaluate government policies that could be used to promote a more equal distribution of income.

[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 distribution of income
- diagram to show application of policies or shift in Lorenz curve
- an explanation of how taxation, government spending and transfer payments may be used to redistribute income
- examples of countries using particular policies to promote a more equal distribution of income
- synthesis or evaluation.

Command term

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

Evaluation **may** include: the strengths and weaknesses of the policies used to redistribute income.

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.

N.B. Full marks can be achieved without the use of a diagram.

Award a maximum of level 2 if only one policy is evaluated.

Assessment Criteria

Part (b) 15 marks

| Level | Marks |
|--|--------------|
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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. | 13–15 |

4. (a) Explain how an increase in investment might affect aggregate demand and aggregate supply.

[10 marks]

Answers **should** include:

- definitions of investment, aggregate demand and aggregate supply
- diagram to show changes in AD/LRAS
- an explanation that an increase in investment as a component of aggregate demand would increase AD; an explanation that an increase in investment would shift the LRAS curve to the right
- examples of what is meant by an increase in investment like increased spending on capital goods.

N.B. Award a maximum of level 2 if only one of aggregate demand and aggregate supply is explained.

Assessment Criteria

Part (a) 10 marks

| Level | Marks |
|---|-------------|
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- (b) **“An increase in aggregate demand may not lead to an increase in real national income.” To what extent is this statement valid?**

[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 aggregate demand and real national income
- diagram to show an increase in AD when the economy is at and below full employment
- an explanation that an increase in aggregate demand can lead to a rise in real national income if the economy is operating below full employment; an explanation that an increase in aggregate demand will not lead to a rise in real national income of the economy is operating at or approaching full employment
- examples of when an increase in AD has/has not resulted in an increase in real GDP
- synthesis or evaluation (to what extent).

Command term

“To what extent” requires candidates to consider the merits or otherwise of an argument or concept.

Consideration of the merits of the statement **may** include: a review of Keynesian/neoclassical viewpoints and that the effect would depend on where the macroeconomic equilibrium lies. Also, candidates may mention that real national income cannot rise beyond full employment on the Keynesian AS curve, but that output can rise beyond full employment in the short run but not the long run on the monetarist long run AS curve.

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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