

# Markscheme

**November 2024**

**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.**

1. (a) Explain why a monopoly is able to make abnormal profits in the long run while firms in monopolistic competition cannot.

**[10]**

Answers **may** include:

- Terminology: monopoly, monopolistic competition, abnormal profit, long run.
- Explanation: that the presence of barriers to entry allow monopoly firms to make abnormal profit in the long run by restricting competition. The lack of barriers to entry in monopolistic competition leads to firms entering the industry to compete away abnormal profits in the long run.
- Diagram: to show a monopoly making abnormal profits, with monopolistic competition making normal profits in the long run.

**Assessment Criteria**

**Part (a) 10 marks**

Marks	Level descriptor
<b>0</b>	<ul style="list-style-type: none"> <li>• The work does not reach a standard described by the descriptors below.</li> </ul>
<b>1–2</b>	<ul style="list-style-type: none"> <li>• The response indicates little understanding of the specific demands of the question.</li> <li>• Economic theory is stated but it is not relevant.</li> <li>• Economic terms are stated but they are not relevant.</li> </ul>
<b>3–4</b>	<ul style="list-style-type: none"> <li>• The response indicates some understanding of the specific demands of the question.</li> <li>• Relevant economic theory is described.</li> <li>• Some relevant economic terms are included.</li> </ul>
<b>5–6</b>	<ul style="list-style-type: none"> <li>• The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>• Relevant economic theory is partly explained.</li> <li>• Some relevant economic terms are used appropriately.</li> <li>• Where appropriate, relevant diagram(s) are included.</li> </ul>
<b>7–8</b>	<ul style="list-style-type: none"> <li>• The specific demands of the question are understood and addressed.</li> <li>• Relevant economic theory is explained.</li> <li>• Relevant economic terms are used mostly appropriately.</li> <li>• Where appropriate, relevant diagram(s) are included and explained.</li> </ul>
<b>9–10</b>	<ul style="list-style-type: none"> <li>• The specific demands of the question are understood and addressed.</li> <li>• Relevant economic theory is fully explained.</li> <li>• Relevant economic terms are used appropriately throughout the response.</li> <li>• Where appropriate, relevant diagram(s) are included and fully explained.</li> </ul>

- (b) Using real-world examples, evaluate the view that profit maximization is a firm's main objective.

[15]

*Answers may include:*

- Terminology: profit, profit maximization.
- Explanation: that firms are assumed to profit maximize by producing where marginal revenue is equal to marginal cost ( $MR=MC$ ) and/or where the difference between total revenue and total cost is maximized.
- Diagram: showing firms producing where marginal revenue is equal to marginal cost ( $MR=MC$ ) and/or where the difference between total revenue and total cost is maximized.
- Synthesis (evaluate): firms may seek other business objectives such as corporate social responsibility, market share, satisficing, growth maximization; a challenge to the view in terms of the problems of achieving profit maximization in reality.
- Example: real-world examples of firms pursuing/not pursuing the goal of profit maximization and/or alternate business objectives.

***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.

*Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.*

**Assessment Criteria**

**Part (b) 15 marks**

Marks	Level descriptor
<b>0</b>	<ul style="list-style-type: none"> <li>• The work does not reach a standard described by the descriptors below.</li> </ul>
<b>1–3</b>	<ul style="list-style-type: none"> <li>• The response indicates little understanding of the specific demands of the question.</li> <li>• Economic theory is stated but it is not relevant.</li> <li>• Economic terms are stated but they are not relevant.</li> <li>• The response contains no evidence of synthesis or evaluation.</li> <li>• A real-world example(s) is identified but it is irrelevant.</li> </ul>
<b>4–6</b>	<ul style="list-style-type: none"> <li>• The response indicates some understanding of the specific demands of the question.</li> <li>• Relevant economic theory is described.</li> <li>• Some relevant economic terms are included.</li> <li>• The response contains evidence of superficial synthesis or evaluation.</li> <li>• A relevant real-world example(s) is identified.</li> </ul>
<b>7–9</b>	<ul style="list-style-type: none"> <li>• The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>• Relevant economic theory is partly explained.</li> <li>• Some relevant economic terms are used appropriately.</li> <li>• Where appropriate, relevant diagram(s) are included.</li> <li>• The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>• A relevant real-world example(s) is identified and partly developed in the context of the question.</li> </ul>
<b>10–12</b>	<ul style="list-style-type: none"> <li>• The specific demands of the question are understood and addressed.</li> <li>• Relevant economic theory is explained.</li> <li>• Relevant economic terms are used mostly appropriately.</li> <li>• Where appropriate, relevant diagram(s) are included and explained.</li> <li>• The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>• A relevant real-world example(s) is identified and developed in the context of the question.</li> </ul>
<b>13–15</b>	<ul style="list-style-type: none"> <li>• The specific demands of the question are understood and addressed.</li> <li>• Relevant economic theory is fully explained.</li> <li>• Relevant economic terms are used appropriately throughout the response.</li> <li>• Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>• The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>• A relevant real-world example(s) is identified and fully developed to support the argument.</li> </ul>

2. (a) Using an AD/AS diagram, explain why in the monetarist/new classical model an economy will always operate at the natural rate of unemployment in the long run. **[10]**

Answers **may** include:

- Terminology: aggregate demand, aggregate supply, natural rate of unemployment, long run.
- Explanation: that money wages and prices are assumed to be flexible in the long run and a change in aggregate demand in the short run will produce a deflationary or an inflationary gap. Wages and prices then adjust in the long run to close the gap and restore the level of output to where unemployment is equal to the natural rate.
- Diagram: showing the economy transitioning from short run equilibrium (where short run aggregate supply is equal to aggregate demand (SRAS=AD) but not on the long run aggregate supply (LRAS)) to long run equilibrium with AD and SRAS intersecting on the LRAS curve at the level of output where the unemployment is at the natural rate.

**Assessment Criteria**

**Part (a) 10 marks**

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- (b) Using real-world examples, discuss the view that high unemployment is a greater economic problem than high inflation.

[15]

*Answers may include:*

- Terminology: inflation, unemployment.
- Explanation: of the costs of unemployment such as the economic, personal and social costs. An explanation of the costs of inflation such as on uncertainty, redistributive effects, reducing export competitiveness, impact on economic growth, inefficient resource allocation and effects on savings.
- Diagram: AD/AS diagrams to illustrate unemployment and inflation, labour market diagram to show structural unemployment, Phillips curve diagram or any other relevant diagram.
- Synthesis (discuss): the extent to which inflation or unemployment may be more of a problem depending on the magnitude of the inflation or unemployment rates. It may depend on the type of inflation or unemployment and the duration of the unemployment or inflation.
- Example: real-world examples of countries that have experienced inflation or unemployment and the consequences that followed.

***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.

*Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.*

**Assessment Criteria**

**Part (b) 15 marks**

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<b>0</b>	<ul style="list-style-type: none"> <li>• The work does not reach a standard described by the descriptors below.</li> </ul>
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<b>4–6</b>	<ul style="list-style-type: none"> <li>• The response indicates some understanding of the specific demands of the question.</li> <li>• Relevant economic theory is described.</li> <li>• Some relevant economic terms are included.</li> <li>• The response contains evidence of superficial synthesis or evaluation.</li> <li>• A relevant real-world example(s) is identified.</li> </ul>
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3. (a) Explain how a change in relative inflation rates in countries that trade with each other is likely to affect demand for their currencies. **[10]**

*Answers may include:*

- Terminology: inflation rate, relative inflation rates, exchange rate.
- Explanation: that a change in relative inflation rates, ceteris paribus, is likely to change relative levels of exports and imports. As changes in the demand for exports and imports occur, the demand for the trading countries' currencies also change.
- Diagram: floating exchange rate diagram to show the determination of the exchange rate following a change in relative inflation rates.

### Assessment Criteria

**Part (a) 10 marks**

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- (b) Using real-world examples, discuss the advantages **and** disadvantages for a country of joining a monetary union. **[15]**

*Answers may include:*

- Terminology: monetary union.
- Explanation: of the advantages that monetary union membership may lead to including greater access to markets, free movement of labour and greater employment possibilities, stronger bargaining power at the global level, and reduced uncertainty over the exchange rate. Disadvantages of monetary union membership including the loss of independent monetary policy, loss of exchange rate policy, restricted independence over fiscal policy, loss of sovereignty and challenge to multilateral trading negotiations.
- Diagram: AD/AS diagrams to illustrate the impacts of monetary union membership on the economy, trade protection diagram which identifies the advantages and disadvantages of monetary union membership, PPC diagram or any other relevant diagram.
- Synthesis (discuss): consideration of whether the advantages outweigh the disadvantages of monetary union membership; a consideration that some members of the monetary union may experience more advantages/disadvantages from monetary union membership than other members. Overall assessment.
- Example: candidates are likely to consider the European Union (EU).

*A maximum of [9] should be awarded if **only** advantages **or** disadvantages is addressed.*

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*Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.*

### Assessment Criteria

#### Part (b) 15 marks

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