

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 firm does not take externalities into account when it is planning its level of production. **[10]**

Answers **may** include:

- Terminology: externalities, production externality.
- Explanation: that the production externality arises because there is a divergence between private and social costs of production. Firms have no incentive to internalize the externality in the absence of regulation.
- Diagram: to show negative and/or positive externalities of production.

Assessment Criteria

Part (a) 10 marks

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

- (b) Using real-world examples, evaluate the view that the use of tradable permits is the best way to reduce threats to sustainability posed by carbon emissions. **[15]**

Answers may include:

- Terminology: tradable permits, sustainability, carbon emissions.
- Explanation: how tradable permit schemes allow firms acceptable levels of emissions. Governments cap the total level of carbon allowed and issue permits to cover that. The cap is reduced over time.
- Diagram: supply and demand to show the market for permits and /or to show alternatives to tradable permits such as carbon taxes.
- Synthesis (evaluate): likely to consider the arguments surrounding permit trading such as difficulties of measurement, the consequences for stakeholders, the degree of effectiveness. Candidates should consider alternative policies such as carbon taxes or subsidies to promote clean technologies, to establish what the best policy might be.
- Example(s): of where governments have adopted cap and trade schemes to manage threats to sustainability.

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

2. (a) Explain why a government seeks to achieve a low and stable rate of inflation. **[10]**

Answers may include:

- Terminology: inflation.
- Explanation: of why governments want to keep inflation low and stable to avoid the costs of higher inflation such as the desire to avoid uncertainty and its impacts on economic decision making. The effect on purchasing power, inequality, competitiveness and savings.
- Diagram: an AD/AS diagram to represent rising AD or falling SRAS to illustrate the process of inflation.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss whether the costs of economic growth are greater than the benefits. [15]

Answers may include:

- Terminology: economic growth.
- Explanation: of what economic growth is and how it is achieved.
- Diagram: AD/AS diagram to show shifting LRAS or an AD/AS diagram to show shifting SRAS for growth in the short run. Candidates might also use a PPC diagram to show a movement closer to the PPC, or a shift in the PPC to show economic growth.
- Synthesis (discuss): the positive and negative impacts economic growth might have on each of, the standard of living, the environment and the distribution of income.
- Example(s): of the impact of economic growth from any relevant context.

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Assessment Criteria

Part (b) 15 marks

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3. (a) Explain how the removal of a quota on imports by a country could lead to a current account deficit. [10]

Answers may include:

- Terminology: quota, current account, current account deficit.
- Explanation: that the removal of a quota would reduce the price of imports and so increase the quantity demanded for them. Therefore, resulting in a current account deficit.
- Diagram: trade diagram to show the impact of the removal of a quota.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss the possible consequences of an appreciation of a country's exchange rate.

[15]

Answers may include:

- Terminology: exchange rate.
- Explanation: that the prices of imports and exports will change, and this will have impacts on economic growth, employment, inflation, the current account balance and living standards.
- Diagram: to show an appreciating exchange rate.
- Synthesis (discuss): the impacts will depend to some extent on why the exchange rate has increased in value. An appreciating exchange rate might decrease AD and cause unemployment however the result could be to restrain inflationary pressures which might be positive. The standard of living might be reduced but if inflationary pressures are reduced then households may benefit. Residents travelling abroad and buying imports and firms buying imports all gain. Exports will cost more but the impact on exports and imports will depend on their respective elasticities
- Example(s): of the impacts that followed an appreciation of an exchange rate in a country.

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Part (b) 15 marks

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