

Markscheme

November 2024

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.

1. (a) Explain why a decrease in the supply of a good would normally lead to an increase in its price, while an increase in the price of a good would normally lead to more of it being produced. **[10]**

Answers **may** include:

- Terminology: supply.
- Explanation: that a decrease in supply, caused by any of the factors that can shift a supply curve, will shift the supply curve to the left (resulting in a shortage), which then leads to an increase in price; whereas an increase in price, caused by a rightward shift of the demand curve, will cause a movement along the supply curve with an increase in the quantity supplied.
- Diagram: demand and supply diagram(s) showing a shift of the supply curve to the left and an increase in price; and/or a shift of the demand curve to the right, showing an increase in price and a movement along the supply curve.

*A maximum of [6] should be awarded if **only one** of the **two** aspects of the question is addressed.*

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 fixing of maximum prices by governments will always have negative effects on markets and stakeholders.

[15]

Answers may include:

- Terminology: maximum price, markets, stakeholders.
- Explanation: of the view in terms of the various drawbacks to maximum prices such as the generation of shortages, negative welfare impacts, profitability of producers, resource misallocation, non-price rationing, underground markets
- Diagram: use of a maximum price diagram
- Synthesis (evaluate): a challenge to the view in terms of the benefits of maximum prices such as encouraging the consumption of a merit good and the positive externality effects likely to follow, the increase in consumer surplus for those consumers who purchase the good at the lower price, the benefits to low-income consumers, possible popularity effects for the government.
- Example(s): use of real-world examples to show instances of maximum prices being used.

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 how supply-side policies may have both supply-side **and** demand-side effects on the level of GDP. **[10]**

Answers may include:

- Terminology: supply-side policies, GDP. Explanation: of how the various market-based and interventionist supply-side policies may increase the productive capacity of the economy, shift the LRAS curve to the right and increase the full employment level of GDP; and an explanation that interventionist policies involving increased government spending and market-based policies, such as tax cuts, can impact on the demand-side of the economy, increasing AD and the nominal/real level of GDP.
- Diagram: AD/AS diagram(s) showing LRAS shifting to the right and/or AD shifting to the right.

*A maximum of [6] should be awarded if **only** supply-side **or** demand side effects are addressed.*

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.
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- (b) Using real-world examples, evaluate whether the benefits of supply-side policies for the economy will always outweigh their limitations. [15]

Answers may include:

- Terminology: supply-side policies, interventionist supply-side policies, market-based supply-side policies.
- Explanation: of the various benefits of supply-side policies, such as long-term growth of productive capacity; improved competition and efficiency; greater market flexibility and lower unemployment; reduced inflation and benefits to international competitiveness; incentives to innovate; direct support to important sectors of the economy in the case of interventionist policies; improved resource allocation and no burden on government in the case of market-based policies.
- Diagram: an AD/AS diagram to show LRAS being shifted to the right, use of a PPC diagram or a Lorenz curve diagram to show the impact on income distribution.
- Synthesis (evaluate): the various limitations of supply-side policies, such as may not be sufficient on their own to combat high cyclical (demand deficient) unemployment; market-based policies may involve equity and environmental issues, time lags and vested interests; interventionist policies will necessitate higher government spending and may also be subject to time lags; consideration of “always”; overall assessment.
- Example(s): real-world examples of where supply-side policies have been used with either beneficial or adverse effects.

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.

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Assessment Criteria

Part (b) 15 marks

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3. (a) Explain how dependence on primary sector production may act as a barrier to economic growth. **[10]**

Answers may include:

- Terminology: primary sector production, economic growth.
- Explanation: of how, when there are changes in demand and/or supply, the prices of primary products fluctuate more widely than the prices of manufactured goods because they have low PEDs and low PESs; this has implications for farmers' incomes, agricultural investment, employment and wages in the primary sector, export earnings, the balance of payments and government revenues; primary products also tend to have a lower income elasticity of demand than manufactured goods; the problems of over-specialization; the supply side problems of climate change leading to freak weather patterns; how all of the above impact negatively on economic growth.
- Diagram: use of any relevant diagram such as a demand and supply diagram showing price volatility of primary products or use of an AD/AS diagram.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, evaluate the view that economic growth **and** economic development are best achieved through government intervention.

[15]

Answers may include:

- Terminology: economic growth, economic development, government intervention.
- Explanation: of the view in terms of the effectiveness of interventionist supply-side policies such as government provision of merit goods and infrastructure and redistribution policies involving taxation, transfer payments and minimum wages and trade strategies. Answers could include coverage of intervention through market-based supply-side policies such as deregulation, privatization and trade liberalization. There could also be coverage of intervention through monetary and fiscal policy.
- Diagram: any relevant diagram such as an AD/AS, PPC, minimum wage or Lorenz curve diagram.
- Synthesis (evaluate): a challenge to the view in terms of the drawbacks of interventionist policies involving redistribution of income and government provision of merit goods; the possible advantages of market-based policies such as trade liberalization, privatization and deregulation in promoting economic growth and development; the question of the right balance between interventionist and market-based policies; consideration of “best”.
- Example(s): real-world examples of countries which have used interventionist policies or market-based policies to achieve economic growth and development.

*A maximum of [9] should be awarded if **only** growth **or** development is considered.*

As the question requires an evaluation of “best achieved”, a maximum of [12] should be awarded where no other policies are considered, as the question would not be fully addressed. For [13] or more, the synthesis and evaluation must be effective and balanced and there must at least be some mention of alternative policies.

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.*

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Assessment Criteria

Part (b) 15 marks

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