

Markscheme

May 2023

Economics

Standard level

Paper 1

11 pages

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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, in the case of healthcare **and** education, positive externalities might cause market failure.

[10]

Answers **may** include:

- Terminology: positive externalities, market failure.
- Explanation: of healthcare and education as merit goods which generate external benefits, as well as private benefits, and whose consumption is therefore likely to be less than the socially optimal level if left to the free market to provide; explanation of positive externalities in the case of healthcare, eg control the spread of contagious diseases and healthy workers being more productive; and an explanation of the positive externalities in the case of education, eg the positive relationship between education, productivity, employment, innovation and economic growth.
- Diagram: positive externalities of consumption diagram showing MSB above MPB, MSB not equalling MSC and welfare loss.

*A maximum of [6] should be awarded if **only one** of healthcare **or** education is explained and developed.*

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, discuss whether the provision of subsidies is the best way to increase the consumption of merit goods.

[15]

Answers may include:

- Terminology: merit good, subsidy.
- Explanation: of the impact of subsidies in terms of lowering production costs, increasing supply, lowering price and increasing the quantity demanded.
- Diagram: demand and supply diagram showing the impact of a subsidy, or use of an MSC/MSB diagram.
- Synthesis (discuss): the strengths and weaknesses of the use of subsidies, the strengths and weaknesses of other measures such as, direct government provision, legislation and regulation, awareness creation through education/advertising, consideration of “best”.
- Examples: use of real-world examples to show instances of the consumption merit goods being increased through the use of subsidies or through the use of other means.

*A maximum of [12] should be awarded if **only** subsidies are considered.*

***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 **two** costs of deflation. [10]

Answers **may** include:

- Terminology: deflation.
- Explanation: of any **two** costs of deflation such as uncertainty, redistributive effects, deferred consumption, association with high levels of cyclical unemployment, risk of bankruptcies, negative economic growth/recession, an increase in the real value of debt, inefficient resource allocation and policy ineffectiveness.
- Diagram: use of an AD/AS diagram showing AD shifting to the left or AS shifting to the right.

A maximum of [6] should be awarded if **only one** cost is considered.

Assessment Criteria

Part (a) 10 marks

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

[15]

Answers may include:

- Terminology: inflation, unemployment.
- Explanation: explanation of the view in terms of the various costs of inflation such as uncertainty, redistributive effects, effects on saving, damage to export competitiveness, impact on economic growth, inefficient resource allocation.
- Diagram: AD/AS diagram(s) showing inflation and/or demand-deficient unemployment, and/or a demand for and supply of labour diagram to show structural unemployment.
- Synthesis (discuss): a challenge to the view in terms of the various costs of unemployment such as the various economic, social and personal costs; the importance of the types of inflation and unemployment occurring, the duration and rates of inflation and unemployment, the relative difficulty of implementing policies to address inflation and unemployment; consideration of “more significant” and the possibility that they are both equally serious.
- Examples: real-world examples of the impact of high rates of inflation and unemployment.

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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

Marks	Level descriptor
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3. (a) Explain how being trapped in a poverty cycle may be a barrier to economic growth for a country.

[10]

Answers may include:

- Terminology: poverty, poverty cycle, economic growth.
- Explanation: of the perpetuation of poverty through low incomes, low savings, low investment in physical, human and natural capital, low productivity and low economic growth.
- Diagram: a poverty cycle diagram or a PPC diagram.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss the view that economic growth will always lead to economic development.

[15]

Answers may include:

- Terminology: economic growth, economic development.
- Explanation: of the view in terms of the impact that economic growth may have on output and employment, on real GDP/GNI per capita at PPP and thus on human welfare and living standards; the impact on government tax revenues and the ability of governments to increase their spending on education, health care and infrastructure; GNI per capita at PPP as part of the HDI.
- Diagram: use of a PPC diagram to show the difference between growth and development and/or the use of an AD/AS diagram to show economic growth.
- Synthesis (discuss): a challenge to the view in terms of the fact that development is multi-dimensional and an increase in GDP/GNI might have no impact on several indicators of development such as health and education, economic, social and gender inequality, energy, quality of the environment; consideration of “always”.
- Examples: real-world examples of countries which have experienced growth and development and/or countries that have experienced growth without development.

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Assessment Criteria

Part (b) 15 marks

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