

Markscheme

November 2021

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.

Section A

Microeconomics

1. (a) Explain how a decrease in income might affect the demand for normal goods **and** the demand for inferior goods.

[10]

Answers **may** include:

- definitions of demand, normal good, inferior good
- diagram(s) to show a how a decrease in income affects the demand for a normal good and an inferior good
- explanation of how a decrease in income reduces the demand for normal goods and increases the demand for inferior goods
- examples of normal goods and inferior goods.

A maximum of **[6]** should be awarded if a candidate has only covered normal goods **OR** inferior goods.

Assessment Criteria

Part (a) 10 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–3
	Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	
2	<i>There is some understanding of the specific demands of the question.</i>	4–6
	Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	
3	<i>There is understanding of the specific demands of the question.</i>	7–8
	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.	
4	<i>There is clear understanding of the specific demands of the question.</i>	9–10
	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.	

- (b) Discuss the significance of income elasticity of demand for producers of primary products **and** producers of manufactured goods when incomes are rising.

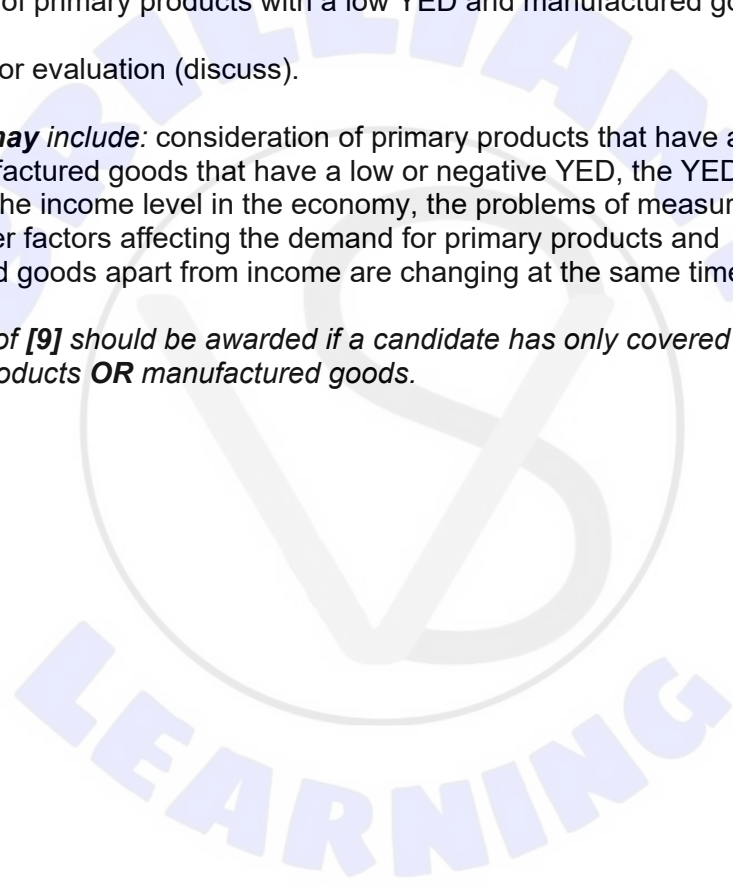
[15]

Answers may include:

- definitions of primary products, manufactured goods, income elasticity of demand
- diagrams to show how the demand for primary products and for manufactured goods is affected by a rise in incomes
- explanation of the impact on producers of how primary products tend to have a low YED because they are necessities (with few or no substitutes) for their buyers and demand for them changes less than proportionally when incomes change; explanation of the impact on producers of how manufactured goods tend to have a high YED because they can be luxury goods and demand for them increases more than proportionally when incomes increase
- examples of primary products with a low YED and manufactured goods with a high YED
- synthesis or evaluation (discuss).

Discussion may include: consideration of primary products that have a high YED and/or manufactured goods that have a low or negative YED, the YED of a good depends on the income level in the economy, the problems of measuring YED because other factors affecting the demand for primary products and manufactured goods apart from income are changing at the same time.

*A maximum of [9] should be awarded if a candidate has only covered producers of primary products **OR** manufactured goods.*



Assessment Criteria

Part (b) 15 marks

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is little understanding of the specific demands of the question.</i>	1–5
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3	<i>There is understanding of the specific demands of the question.</i>	10–12
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4	<i>There is clear understanding of the specific demands of the question.</i>	13–15
	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.	

2. (a) Explain the impact on consumers, producers and the government of a price floor being introduced in an agricultural market.

[10]

Answers **may** include:

- definition of price floor
- diagram to show the impact of a price floor on an agricultural market
- explanation of how a price floor leads to a higher price and lower quantity demanded from consumers, and a higher price to producers increases quantity supplied because it increases revenues and an opportunity cost to governments because of the expense of buying surplus production
- examples of agricultural markets.

A maximum of [6] should be awarded if a candidate has only considered **one** stakeholder. A maximum of [8] should be awarded if a candidate has only considered **two** stakeholders. All three stakeholders are needed to reach level 4.

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- (b) Evaluate the view that a price ceiling is an ineffective policy to protect low-income consumers.

[15]

Answers **may** include:

- definition of price ceiling
- diagram to show the impact of a price ceiling on the market for a necessity good
- explanation of how a price ceiling leads to excess demand/shortage for a necessity good and leads to problems like queues, parallel markets and corruption
- examples of the use of price ceilings
- synthesis or evaluation.

Evaluation **may** include: the benefits a price ceiling might bring to low-income consumers if the ceiling is managed through an effective alternative rationing system and how some consumers will gain significantly through a price ceiling even if others lose.

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Section B

Macroeconomics

3. (a) Explain how in the Keynesian AD/AS model an economy can be in equilibrium while producing below the full employment level of output.

[10]

Answers *may* include:

- definitions of equilibrium, full employment level of output
- diagram to show the Keynesian model of an economy at equilibrium income below the full employment level of output
- explanation of how an economy can be in equilibrium income below full employment when AD falls, leading to a deflationary gap when wage and price rigidity keep the economy below the full employment level of output
- examples of when economies have experienced equilibrium income below the full employment level of output.

Assessment Criteria

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(b) Evaluate the view that fiscal policy is the best way to reduce unemployment. [15]

Answers may include:

- definitions of fiscal policy, unemployment
- diagram to show how fiscal policy leads to a fall in unemployment
- explanation of how expansionary fiscal policy leads to a rise in AD and real GDP, leading to a fall in unemployment as more workers are needed in production
- examples of where fiscal policy has been used to reduce unemployment
- synthesis or evaluation.

Evaluation may include: consideration of the problems of using fiscal policy to reduce unemployment such as; budget deficit, inflation and it is not as effective at reducing unemployment that is not demand-deficient (structural, frictional). There could also be coverage of alternative policies such as monetary and supply side.

*A maximum of [12] should be awarded if a candidate has **not** considered an alternative policy.*

Assessment Criteria

Part (b) 15 marks

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4. (a) Explain how economic growth might reduce the level of absolute poverty in a country.

[10]

Answers **may** include:

- definitions of economic growth, absolute poverty
- diagram to show how economic growth leads to a rise in income which could reduce poverty
- explanation of how economic growth might lead to a rise in household income, which reduces absolute poverty
- examples of countries where economic growth has reduced absolute poverty.

NB Where a money value is given for absolute poverty there is flexibility on the value. Anything around \$2 a day is acceptable.

Assessment Criteria

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- (b) Evaluate the view that progressive income tax is the best way to increase equity in an economy.

[15]

Answers may include:

- definitions of progressive income tax, equity
- diagram to show the impact of progressive income tax on equity
- explanation of how progressive income tax increases equity by taxing high-income people at a higher rate, which provides more funds for public services that can increase equity, such as education and healthcare
- examples of progressive taxation to increase equity
- synthesis or evaluation.

Evaluation may include: consideration of the problems of applying progressive taxation if high-income people avoid paying or people do not expand their businesses and how this can reduce opportunities for people of low incomes. Answers might also include consideration of alternative policies to increase equity such as increased transfer payments and improvements to the functioning of the labour market.

A maximum of [12] should be awarded if a candidate has not considered an alternative policy.

Assessment Criteria

Part (b) 15 marks

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