

Markscheme

November 2023

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 the difference between price elasticity of demand and income elasticity of demand.

[10]

Answers **may** include:

- Terminology: price elasticity of demand (PED), income elasticity of demand (YED).
- Explanation: that price elasticity of demand measures the relationship between a change in the price of a good and a change in quantity demanded and can be measured by % change in QD / % change in price. The PED value of goods and services means they can be elastic, unitary or inelastic. Explanation that income elasticity of demand measures the relationship between a change in income and demand and can be measured by % change in QD / % change in income. The YED value of goods means they are normal, luxury, necessity or inferior.
- Diagram: demand and supply diagram and/or Engel's curve to show goods and services with different PEDs or YEDs.

A maximum of **[6]** should be awarded if **only PED or YED** in the question item is addressed.

Assessment Criteria

Part (a) 10 marks

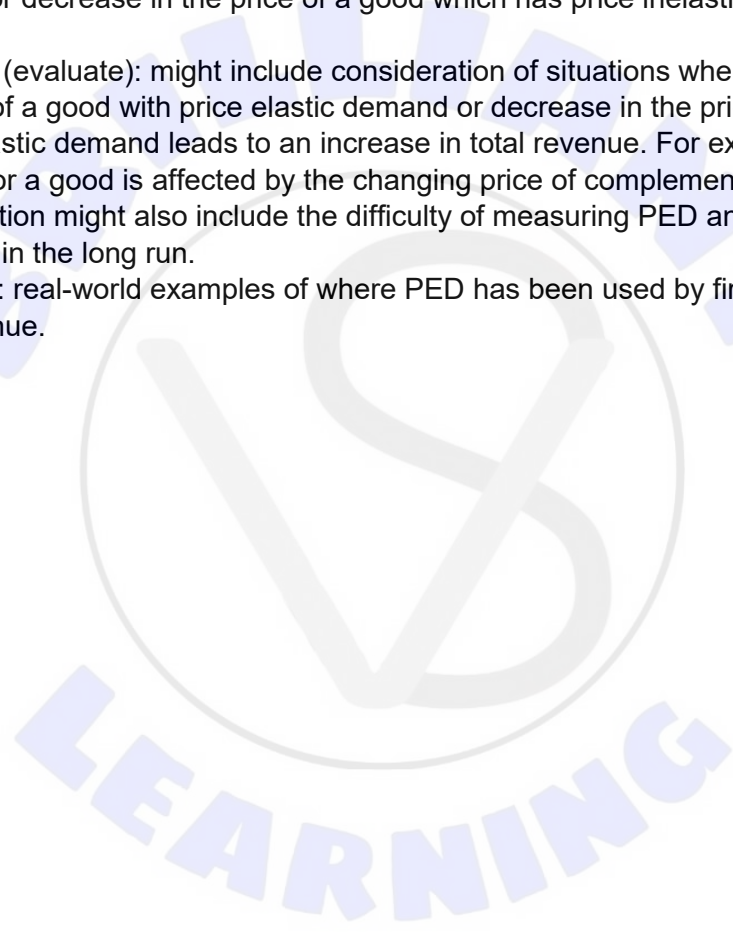
Marks	Level descriptor
0	<ul style="list-style-type: none"> • The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not 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 a real-world example, evaluate the view that an understanding of price elasticity of demand can be useful for firms trying to increase total revenue.

[15]

Answers may include:

- Terminology: total revenue, price elasticity of demand.
- Explanation: of how the increase in the price of a good which is price inelastic leads to an increase in total revenue because the price of a good increases by proportionately more than the decrease in quantity demanded. An explanation of how the decrease in the price of a good which is price elastic leads to an increase in total revenue because the price of a good decreases by proportionately less than the increase in quantity demanded.
- Diagram: a demand and supply diagram to show the impact on total revenue of an increase or decrease in the price of a good which has price inelastic or elastic demand.
- Synthesis (evaluate): might include consideration of situations where an increase in the price of a good with price elastic demand or decrease in the price of a good with price inelastic demand leads to an increase in total revenue. For example, when the demand for a good is affected by the changing price of complements or substitutes. An evaluation might also include the difficulty of measuring PED and the way PED increases in the long run.
- Examples: real-world examples of where PED has been used by firms to increase in total revenue.



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 an increase in consumer confidence **and** an increase in interest rates might affect macroeconomic equilibrium in the short run in an economy. **[10]**

Answers may include:

- Terminology: consumer confidence, interest rates, macroeconomic equilibrium in the short run.
- Explanation: that an increase in consumer confidence will lead to an increase in consumption and cause an increase in aggregate demand and the macroeconomic equilibrium will lead to higher price level and real GDP and an increase in interest rates will lead to a decrease in consumption and investment which decreases aggregate demand and cause the macroeconomic equilibrium to lead to a lower price level and real GDP.
- Diagram: AD/AS diagrams showing the effect of an increase in consumer confidence and an increase in interest rates on macroeconomic equilibrium in the short run.

*A maximum of [6] should be awarded if **only** consumer confidence **or** interest rates in the question item 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.
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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 economic growth always leads to a rise in economic well-being. **[15]**

Answers may include:

- Terminology: economic growth, economic well-being.
- Explanation: that economic growth leads to a rise in economic well-being as household incomes rise, unemployment decreases, investment increases and more tax revenue is generated to improve public services.
- Diagram: AD/AS diagram or PPC diagram to show economic growth.
- Synthesis (evaluate): might include consideration of the negative impact economic growth can have on economic well-being such as environmental costs, inflation and the widening in income inequality. Evaluation might also include a discussion of other factors that contribute to economic well-being that do not arise from economic growth such as leisure time, political stability and crime.
- Examples: real-world examples of where economic growth does or does not lead to a rise in economic well-being.



Assessment Criteria

Part (b) 15 marks

Marks	Level descriptor
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3. (a) Explain how a country might use trade protection to raise government revenue **and** protect employment in an industry. **[10]**

Answers may include:

- Terminology: trade protection, government revenue, employment.
- Explanation: that the imposition of tariffs as trade protection can increase government revenue and how trade protection can increase domestic output and increase employment in an industry.
- Diagram: trade diagram to show how trade protection such as a tariff raises government revenue and increases an industry's output which protects employment.

*A maximum of [6] should be awarded if **only** government revenue **or** employment in the question item 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.
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- (b) Using real-world examples, evaluate a country's decision to impose trade protection on imported goods.

[15]

Answers may include:

- Terminology: trade protection, imported goods.
- Explanation: the decision to impose trade barriers might be explained in terms of the arguments for trade protection such as protection of infant industries, national security, health and safety, protect domestic employment, *etc.*
- Diagram: tariff, quota or subsidy diagram to show the impact of trade protection.
- Synthesis (evaluate): might include the arguments against protection such as misallocation of resources, retaliation, increased costs, higher prices, less choice, reduced export competitiveness, *etc.*
- Examples: real-world examples of where countries have imposed trade barriers on imported goods.

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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