

Markscheme

November 2023

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 **two** determinants of price elasticity of demand. **[10]**

*Answers **may** include:*

- Terminology: price elasticity of demand, demand.
- Explanation: that price elasticity of demand depends upon a number of determinants and two of them should be explained, such as the number and closeness of substitutes, degree of necessity, proportion of income spent on the good, time and others.
- Diagram: to show price elasticity of demand, for example changing along a straight-line demand curve or diagrams of relatively more or less elastic demand curves.

*A maximum of **[6]** should be awarded if only **one** of the two determinants 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, discuss how a government might respond to a situation in which there is a high concentration ratio in a market.

[15]

Answers may include:

- Terminology: concentration ratio, oligopoly, monopoly, market.
- Explanation: governments might intervene in markets where there is a high concentration ratio because it might indicate abuse of market power from either monopoly or oligopoly firms, leading to higher prices, lower output, and allocative inefficiency. Therefore, the government might intervene in the form of taking ownership, regulation and legislation, and fines.
- Diagram: to show a firm with market power in imperfect competition such as monopoly/collusive oligopoly.
- Real-world example: of where a government has intervened in a market where there is a high concentration ratio. Examples might be government ownership (nationalization) of key industries, price controls in natural monopolies, regulation, legislation and fines imposed on monopoly/oligopoly firms.
- Synthesis (discuss): might be framed around the different policy options open to government and the advantages and disadvantages they might present or how effective they are likely to be. Increased government influence through nationalization, fines and regulations and legislation has advantages and disadvantages. Students might also choose to contest the idea that intervention is necessary, and they might give reasons for where government might allow a highly concentrated market where there were economies of scale or innovation.

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 changes in **two** determinants of investment could lead to an increase in real gross domestic product (GDP). **[10]**

Answers may include:

- Terminology: investment, real gross domestic product (GDP).
- Explanation: of how a change in any of the determinants of investment, such as interest rates, technology, business confidence, business taxes, and level of corporate indebtedness, could lead to increased investment spending. Increased investment spending leads to increases in aggregate demand and increased real GDP. In addition, increased investment, by increasing the quantity of capital goods, a factor of production, leads to increases in long-run aggregate supply in the monetarist/new classical model or increases in Keynesian AS in the Keynesian model (increased real GDP).
- Diagram: showing a shift of aggregate demand and an increase in AS in the Keynesian model **OR** an increase in long run aggregate supply in the monetarist/new classical model. Students may use either a Keynesian **OR** monetarist/new classical approach and still obtain full marks.

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

Assessment Criteria

Part (a) 10 marks

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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, discuss whether gross national income (GNI) is a useful measure of economic well-being.

[15]

Answers may include:

- Terminology: gross national income, economic well-being.
- Explanation: an explanation of the ways in which measures for GNI indicate higher economic well-being (standards of living) through the increases in incomes they measure and the increased living standards they can support.
- Diagram: not needed for this question.
- Real-world example: real-world examples of where GNI statistics are, or are not, a useful way of measuring economic well-being.
- Synthesis (discuss): consideration of where GNI statistics are or are not a good measure of economic well-being. Discussion might include consideration of inequality of income and wealth, externalities, the informal economy, output not put up for sale, unpaid work, statistical error, composition of output, depletion of natural resources and so on. Consideration of alternative measures of economic well-being such as the OECD Better Life Index, Happiness Index and Happy Planet Index.

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.
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3. (a) Explain how specialization according to comparative advantage leads to beneficial international trade.

[10]

Answers may include:

- Terminology: comparative advantage, specialization, international trade.
- Explanation: specialization based on comparative advantage may lead to better resource allocation, leading to lower prices, more output, greater choice, more employment, economic growth and higher standards of living. An explanation of the main advantages that are associated with international trade.
- Diagram: linear production possibilities curves (PPC) showing differing opportunity costs and the potential gains from specialization and trade as a result of comparative advantage.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss the advantages **and** disadvantages of trading blocs. **[15]**

Answers may include:

- Terminology: trading blocs.
- Explanation: explanation of the advantages of trade bloc membership such as trade creation, greater access to markets (economies of scale), free movement of labour and greater employment possibilities, stronger bargaining power in multilateral negotiations, greater political stability and cooperation, living standards and growth. Disadvantages of trading bloc membership including trade diversion, loss of sovereignty and challenge to multilateral trading negotiations.
- Diagram: a trade protection diagram which identifies advantages and disadvantages of free trade between members of a bloc.
- Real-world example: examples of one or more of the world's trading blocs and the advantages and disadvantages of trading bloc membership.
- Synthesis (discuss): the members of the bloc may experience disadvantages if significant trade diversion takes place. If non-members with absolute and comparative advantage are restricted in their ability to trade or excluded by prohibitive tariffs, then consumers and businesses will face additional costs. Discussion of whether the advantages outweigh the disadvantages of trading bloc membership. Overall assessment.

*A maximum of [9] should be awarded if only advantages **or** disadvantages is addressed.*

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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