

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 how the availability of substitutes for a good **and** whether a good is a necessity affect its price elasticity of demand. **[10]**

Answers **may** include:

- Terminology: substitutes, necessities, price elasticity of demand.
- Explanation: that the greater the number of close substitutes there are for a good, the more price elastic the demand for it tends to be and the demand for necessities tends to be more inelastic.
- Diagram: to show demand curves with different price elasticities of demand.

*A maximum of [6] should be awarded if **only** substitutes **or** necessities 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 real-world examples, examine the importance of price elasticity of demand to firms **and** to governments.

[15]

Answers may include:

- Terminology: price elasticity of demand.
- Explanation: of how firms can use PED to increase their total revenue and governments can use PED to increase the revenues from indirect taxation and/or to address a market failure such as reducing the consumption of demerit goods.
- Diagram: using demand and supply diagrams to show changes in total revenue and tax revenue when demand is inelastic and elastic.
- Real-world examples: of price changes with different price elasticities of demand that lead to increasing total revenue and tax revenue.
- Synthesis (examine): consideration of the problems for firms and governments of using price elasticity of demand to increase total revenue and tax revenue, such as the impact of time on price elasticity of demand, the problems of measuring price elasticity of demand, situations where a change in price would not lead to a rise/fall in total revenue/tax revenue, and other factors that might affect revenue, such as changes in consumer income.

*A maximum of [9] should be awarded if **only** firms **or** governments in the question item is addressed.*

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 the effects of an improvement in technology **and** an increase in the number of skilled workers on the full employment level of output (potential output). **[10]**

Answers **may** include:

- Terminology: full employment level of output, potential output.
- Explanation: of how improvements in technology increase the quality of capital and an increase in the number of skilled workers increases the quality and/or quantity of labour. Both increase the potential output and cause the long-run aggregate supply curve to shift outwards increasing the full employment level of output.
- Diagram: to show the long-run aggregate supply curve/PPC curve shifting outwards increasing the full employment level of output.

*A maximum of [6] should be awarded if **only** an improvement in technology **or** an increase in the number of skilled workers in the question item is addressed.*

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, evaluate the view that economic growth will always lead to an improvement in living standards in a country. **[15]**

Answers may include:

- Terminology: economic growth, living standards.
- Explanation: that economic growth leads to rising incomes and employment as real GDP rises enabling greater consumption of goods and services and possible improvements in healthcare, education and infrastructure as tax revenues rise.
- Diagram: using a PPC or AD/AS diagram to show economic growth.
- Real-world examples: of how economic growth has led to rising living standards in a country.
- Synthesis (evaluate): consideration of the negative impact of economic growth on living standards in a country, such as environmental costs and a widening in the distribution of income, degree to which government invests in merit goods and infrastructure and use of the word “always”. The answer could also consider non-monetary factors that affect living standards, such as community life, leisure time, and crime rates.

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 a country might use trade protection to prevent dumping **and** to protect an infant industry. [10]

Answers may include:

- Terminology: trade protection, dumping, infant industry.
- Explanation: that trade protection can be used to protect an infant (new) industry so that it can establish itself, achieve efficiencies and compete in international markets. Trade protection may be used to counteract dumping when domestic producers face unfair competition from foreign competitors that export goods at very low prices or prices below the cost of production.
- Diagram: a trade protection diagram such as tariff or quota used to support an infant industry or to counteract dumping.

*A maximum of [6] should be awarded if **only** preventing dumping **or** protecting an infant industry in the question item is addressed.*

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, evaluate the effects of a country imposing a tariff on a good. **[15]**

Answers may include:

- Terminology: tariff.
- Explanation: of how a tariff will increase prices for domestic consumers, decrease their quantity demanded and reduce their consumer surplus. A tariff will also increase the price for domestic producers, increase their quantity supplied and increase their revenues and producer surplus. Additionally, a tariff will increase domestic government tax revenue and reduce the quantity imported.
- Diagram: a tariff diagram to show the impact on consumers, producers, and the government.
- Real-world examples: of where a tariff has been applied to an industry and the impact it has had on consumers, producers, and the government.
- Synthesis (evaluate): effect on different stakeholders, consideration of the advantages and disadvantages of imposing a tariff such as retaliation by other countries, which affects domestic producers' export markets and how tariffs might lead to higher costs of production for domestic producers, causing cost-push inflation. There could also be evaluation of the efficiency losses caused by a tariff.

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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