

Markscheme

May 2024

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 a decrease in the price of travelling by train might affect the price and output of its substitutes **and** of its complements. **[10]**

Answers **may** include:

- Terminology: substitute, complement
- Explanation: that a decrease in the price of travelling by train would, other things being equal, increase the quantity demanded of rail travel and that this is likely to decrease the demand for substitutes, such as road travel, lowering their price and output; and an explanation that this would be likely to increase the demand for complements, such as food at railway stations, raising their price and output
- Diagram: a demand and supply diagram showing the demand for a substitute shifting to the left, with price and output falling; and a demand and supply diagram showing the demand for a complement shifting to the right, with price and output rising.

*A maximum of [6] should be awarded if **only one** of the **two** aspects of the question 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, evaluate the view that the government should never provide subsidies to firms. [15]

Answers may include:

- Terminology: subsidies
- Explanation: of the view in terms of the drawbacks of subsidies such as resource misallocation, welfare loss, opportunity cost in relation to government spending, the adverse impact on foreign producers and the impact on firms' efficiency
- Diagram: a demand and supply diagram showing the impact of granting a subsidy on a good or service
- Synthesis (evaluate): a challenge to the view in terms of the justifications of subsidies: the benefits of increasing consumption closer to the socially optimum level when there is a positive externality; increasing the revenues and incomes of certain producers; helping low-income consumers; supporting key industries; protecting against imports
- Examples: use of real-world examples to show instances of where subsidies have been provided.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

N.B. *It should be noted that terminology, theory and examples that have already been given in part (a), and then referred to in part (b), 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 the difference between cyclical (demand deficient) unemployment and structural unemployment.

[10]

Answers **may** include:

- Terminology: unemployment
- Explanation: of cyclical (demand deficient) unemployment in terms of insufficient AD to generate a full employment level of output, causing a deflationary gap; structural unemployment being caused by long term changes in the pattern of demand and/or supply in relation to particular industries
- Diagram: a demand and supply of labour diagram showing decreasing demand for a particular type of labour (structural) and an AD/AS diagram showing a leftward shift of AD with a deflationary gap (cyclical).

A maximum of [6] should be awarded if only **one** type of unemployment is addressed.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
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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 fiscal policy is the most effective way of reducing a country's level of unemployment. [15]

Answers may include:

- Terminology: fiscal policy, unemployment
- Explanation: of the view in terms of the way in which expansionary fiscal policy (greater G and/or lower T) might be used to boost the level of AD in order to close a deflationary gap and lower demand deficient unemployment; and in terms of the strengths of fiscal policy
- Diagram: an AD/AS diagram to show AD being shifted to the right
- Synthesis (evaluate): a challenge to the view in terms of how the type of unemployment being tackled affects the policy choice; the limitations of fiscal policy in reducing unemployment; a consideration of the effectiveness of alternate policies, such as monetary and supply-side policies, consideration of “most effective”
- Examples: real-world examples of where governments have attempted to reduce unemployment using fiscal policy and/or other policies.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

N.B. *It should be noted that terminology, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.*

As the question requires an evaluation of the “most effective way”, a maximum of [12] should be awarded where no other policies are considered, as the question would not be fully addressed. For [13] or more the synthesis and evaluation must be effective and balanced and there must at least be some mention of alternative policies.

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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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.

3. (a) Explain how capital flight **and** low levels of investment in human capital can act as barriers to economic growth. **[10]**

Answers may include:

- Terminology: capital flight, investment, human capital, economic growth
- Explanation: of the adverse impact of capital flight on economic growth via its effects on the exchange rate (depreciation), the loss of domestic financial capital, external debt and general instability; importance of low levels of investment in human capital in terms of the skills, abilities and knowledge of people (dependent on education and training), as well as general levels of health; how these might impact on employment, output and economic growth
- Diagram: appropriate use of any relevant diagram such as AD/AS, PPC or poverty cycle.

*A maximum of [6] should be awarded if only **one** of the **two** aspects of the question 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 the view that the level of real gross domestic product (GDP) is the best measure of economic development. **[15]**

Answers may include:

- Terminology: economic development, GDP, real GDP
- Explanation: of the view in terms of the level of real GDP reflecting the level of output, employment, incomes, spending and living standards and thus greater economic development
- Diagram: appropriate use of any relevant diagram such as an AD/AS diagram or a PPC diagram
- Synthesis (evaluate): a challenge to the view in terms of the need to consider real GDP per capita, the multi-dimensional nature of economic development requiring a range of indicators such as health, education, inequality and the environment; consideration of composite indicators such as the HDI, IHDI, GII and the Happy Planet Index; consideration of “best”
- Examples: real-world examples of countries which have or have not experienced economic development through the level of real GDP.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

N.B. *It should be noted that terminology, theory, and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.*

*As the question requires an evaluation of the “best”, a maximum of **[12]** should be awarded where no other methods are considered, as the question would not be fully addressed. For **[13]** or more the synthesis and evaluation must be effective and balanced and there must at least be some mention of alternative measures.*

Assessment Criteria

Part (b) 15 marks

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