

Markscheme

May 2022

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) Distinguish between perfect competition and monopolistic competition. **[10]**

Answers may include:

- Terminology: monopolistic competition, perfect competition
- Explanation: that perfect competition is characterised by many firms, free entry and exit, homogeneous products and perfect knowledge, whereas monopolistic competition is characterised by many firms, free entry and exit and product differentiation; and the impact of these features on the two markets with regard to pricing power, long-term economic profits and allocative efficiency
- Diagram: use of a perfect competition diagram and/or a monopolistic competition diagram.

NB A maximum of **[6]** should be awarded for responses that confuse monopoly with monopolistic competition.

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 the impact of large firms having significant market power.

[15]

Answers may include:

- Terminology: market power
- Explanation: of the impact of significant market power in terms of the monopoly and oligopoly models
- Diagram: showing monopoly/collusive oligopoly (significant market power)
- Synthesis (discuss): the advantages and disadvantages of significant market power in terms of economies of scale, including natural monopolies, abnormal profits to finance investment in R&D and innovation; the possible welfare loss, the risks in relation to price, output and consumer choice, the possibility that such firms may pursue goals other than profit maximization
- Examples: real-world examples of large firms that have significant market power.

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

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.*

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 the use of supply-side policies might encourage greater domestic competition **and** improve the international competitiveness of a country. **[10]**

Answers may include:

- Terminology: supply-side policies, international competitiveness, competition
- Explanation: of how the use of market-based supply-side policies such as privatization, deregulation, trade liberalization and anti-monopoly legislation and interventionist supply-side policies such as government spending on education and training, R&D and infrastructure might encourage greater competition; an explanation that international competitiveness may be improved as a result of the LRAS increasing and lowering the rate of inflation/the price level, hence making exports relatively cheaper
- Diagram: an AD/AS diagram showing a rightward shift of LRAS.

*A maximum of [6] should be awarded if only **one** of the two goals 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 the use of interventionist supply-side policies is the most effective way of reducing a country's rate of unemployment.

[15]

Answers may include:

- Terminology: interventionist supply-side policies, unemployment
- Explanation: of the view in terms of the successful implementation of interventionist supply-side policies increasing the productive capacity of the economy, increasing the demand for labour in the long run and thus lowering the level of unemployment; such policies are also likely to increase AD
- Diagram: an AD/AS diagram to show LRAS being shifted to the right and/or AD shifting right
- Synthesis (evaluate): the supply-side policy applied depends on the type of unemployment, the limitations of using interventionist supply-side policy in reducing unemployment; interventionist policies compared with market-based supply-side policies; the potential benefits of alternative policies such as monetary and fiscal policies; consideration of “most effective”; overall assessment
- Examples: real-world examples of where governments have attempted to reduce unemployment using interventionist supply-side policies and/or other policies.

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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 wouldn't 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
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3. (a) Countries often specialize and trade according to the theory of comparative advantage. Explain the limitations of this approach. [10]

Answers may include:

- Terminology: comparative advantage
- Explanation: of any limitations, such as it may lead to excessive specialization, specialization according to comparative advantage may not allow necessary structural changes to occur in an economy, viewed as the “rich man’s theory” by poorer nations as it mostly benefits the MDCs/MNCs, unrealistic assumptions, eg immobile and fixed factors of production, fixed technology, free trade, an absence of transport costs
- Diagram: PPC diagram to illustrate comparative advantage.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss the advantages **and** disadvantages for a country of being a member of a trading bloc.

[15]

Answers may include:

- Terminology: trading bloc
- Explanation: of possible advantages such as trade creation, access to markets and greater potential for economies of scale; free movement of labour and greater employment possibilities, stronger bargaining power in multilateral negotiations, greater political stability and cooperation
- Diagram: use of a PPC diagram, a tariff diagram or any other relevant diagram
- Synthesis (discuss): the potential disadvantages, if advantages discussed first, eg trade diversion, loss of sovereignty, challenge to multilateral trading negotiations; or a discussion of the potential advantages if the other way round; overall assessment
- Examples: real-world examples of countries that have become members of a trading bloc or left a trading bloc.

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Assessment Criteria

Part (b) 15 marks

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