

Markscheme

May 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 why products may have different income elasticities of demand. **[10]**

Answers may include:

- Terminology: income elasticity of demand (YED)
- Explanation: that a positive YED is where an increase in income leads to an increase in demand/a decrease in income leads to a decrease in demand and that this is associated with normal goods; that a negative YED is where an increase in income leads to a decrease in demand/a decrease in income leads to an increase in demand and that is associated with inferior goods; that some goods may have a high income elasticity of demand (*ie* income elastic) and some may have a low income elasticity of demand (*ie* income inelastic).
- Diagram: demand and supply diagram showing relevant shifts of demand, Engel curve.

*A maximum of [6] should be awarded if **only one** aspect 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, discuss the assumption that consumers always seek to maximize their utility.

[15]

Answers may include:

- Terminology: utility.
- Explanation: of the assumption in terms of consumer rationality, perfect information and the maximization of total utility.
- Diagram: not needed for this question.
- Synthesis (discuss): a challenge to the assumption in terms of the limitations to rational consumer choice such as imperfect information, bounded rationality, bounded selfishness, biases – rule of thumb, anchoring and framing, availability; consideration of the word “always”.
- Examples: real-world examples of consumers acting rationally or where there are limitations to their ability to do so.

***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.
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 **two** economic costs of high unemployment. **[10]**

Answers may include:

- Terminology: unemployment.
- Explanation: of any two economic costs such as a loss of real output; higher spending and lower tax revenues for the government with the possibility of a larger budget deficit/ a smaller budget surplus; a more unequal distribution of income; costs to the government of dealing with social problems caused by unemployment; unemployed people may have difficulty finding work in the future; specific problems related to the type of unemployment, eg structural or cyclical.
- Diagram: any relevant diagram related to the particular cost being explained, eg use of a PPC diagram or an AD/AS diagram.

*A maximum of [6] may be awarded if **only one** cost is explained.*

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- (b) Using real-world examples, discuss the view that low unemployment can only be achieved at the expense of higher inflation.

[15]

Answers may include:

- Terminology: unemployment, inflation.
- Explanation: of the view in terms of higher AD as unemployment falls and thus higher demand inflation and/or in terms of the short-run Phillips curve relationship.
- Diagram: use of an AD/AS diagram, a short-run Phillips curve diagram and/or a long-run Phillips curve diagram
- Synthesis (discuss): a challenge to the view in terms of the importance of the type of unemployment being tackled, eg structural or cyclical, and the way in which it is tackled, eg through the use of demand-side or supply-side policies; Monetarist/new classical perspectives versus Keynesian perspectives; the possibility of higher inflation and higher unemployment; the possibility of no negative stable relationship between unemployment and inflation using the long-run Phillips curve; consideration of the importance of technological progress; consideration of the word “only”.
- Examples: real-world examples of situations where low unemployment may or may not have coincided with higher inflation; use of empirical evidence.

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Assessment Criteria

Part (b) 15 marks

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3. (a) Explain how dependence on primary sector production may be a barrier to economic growth.

[10]

Answers **may** include:

- Terminology: primary sector production, economic growth.
- Explanation: of the problems of overspecialization/lack of diversification, the reasons for price volatility of primary products and the impact of this volatility on farmers' incomes, agricultural investment, employment and wages of agricultural workers, export earnings and the balance of payments and government revenues; how these factors impact negatively on economic growth.
- Diagram: demand and supply diagram showing inelastic demand and supply curves, with large fluctuations in price when demand and/or supply shift or any other relevant diagram.

Assessment Criteria

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- (b) Using real-world examples, evaluate the view that market-based policies may be ineffective in promoting the economic development of the world's poorest countries.

[15]

Answers may include:

- Terminology: market-based policy, economic development.
- Explanation: of the view in terms of what market-based policies are, eg trade liberalization, privatization and deregulation and why such policies might be ineffective; eg limited benefits for export growth and diversification, the creation of a variety of market failures, limited effects on economic growth, the creation of winners and losers, increasing income inequalities and poverty, problems of foreign ownership of privatized utilities, the benefits of interventionist policies.
- Diagram: use of a PPC diagram and/or an AD/AS diagram.
- Synthesis (evaluate): a challenge to the view in terms of such benefits of market-based policies as greater competition and consumer choice, greater efficiency and productivity, an increase in the productive potential of economies, greater economic growth and thus development and an improvement in the allocation of resources.
- Examples: real-world examples of countries which have adopted market-based policies and the effects of these policies on economic development.

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