

Markscheme

May 2024

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 firms in monopolistic competition may make abnormal profit in the short-run but not in the long-run.

[10]

Answers **may** include:

- Terminology: monopolistic competition, abnormal profit, short run, long run
- Explanation: of abnormal profit being possible in the short run but not in the long run, determined by freedom of entry to the market and the shift of the firm’s demand (AR) curve to the left eliminating the abnormal profits
- Diagram: diagram(s) showing abnormal profit in the short run and normal profit in the long run.

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 existence of significant market power is always undesirable.

[15]

Answers may include:

- Terminology: market power
- Explanation: of the view in terms of the possible disadvantages of significant market power, such as higher prices and lower output, allocative inefficiency, welfare loss in comparison with perfect competition
- Diagram: diagram comparing the monopoly price and output with that under perfect competition and the resulting welfare loss
- Synthesis (evaluate): a challenge to the view in terms of the possible advantages of significant market power such as economies of scale, the case of natural monopolies, greater investment in R&D and innovation financed by abnormal profit
- Examples: real-world examples of markets where significant market power has proved to be desirable and/or undesirable.

NB 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.

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 how a decrease in interest rates is likely to affect the equilibrium level of national income.

[10]

Answers may include:

- Terminology: interest rate, national income, equilibrium level of national income
- Explanation: of how lower interest rates reduce borrowing costs for consumers, reduce the willingness of consumers to save and increase the amount of household income available, all of which are likely to increase consumption and AD and increase the equilibrium level of national income; an explanation of lower interest rates reducing borrowing costs for firms, which may increase the expected rate of return on investment and improve the confidence/expectations of businesses, all of which are likely to increase investment and AD, and thus increase the equilibrium level of national income
- Diagram: showing an increase in AD increasing the equilibrium level of national income.

NB A maximum of [6] may be awarded if the question is answered in terms of AS **only**.

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, evaluate the view that the most effective way to increase economic growth, reduce unemployment and maintain a low rate of inflation is by using supply-side policies.

[15]

Answers may include:

- Terminology: supply side policies, economic growth, unemployment, inflation
- Explanation: of the view in terms of how supply-side policies (SSPs), which shift LRAS to the right, can increase the productive potential of the economy, raise the full employment level of output, lower unemployment, increase LR economic growth and lower the price level/the rate of inflation; and how expansionary fiscal and monetary policies may well conflict with the objective of price stability.
- Diagram: AD/AS diagram to show LRAS shifting to the right.
- Synthesis (evaluate): a challenge to the view in terms of demand-side policies achieving all 3 objectives, especially where the economy is at less than full employment with spare capacity; and in terms of SSPs not working in this way, e.g. being ineffective against demand deficient unemployment and causing inflation where interventionist policies involve an increase in government spending and hence AD; length of time SSPs take to be effective and their impact on inequality.
- Examples: real-world examples of SSPs working to achieve the 3 stated objectives of economic policy simultaneously, or not working in that way; examples of the way in which demand side policies have worked.

NB 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.

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.

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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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.

3. (a) Explain the benefits of foreign aid for economically less developed countries. **[10]**

Answers may include:

- Terminology: foreign aid, economically less developed country
- Explanation: of the benefits of foreign aid such as breaking the poverty cycle, bridging the savings and foreign exchange gaps, promoting economic growth, lessening income inequality, provision of resources for health, education and infrastructure, helping to achieve the sustainable development goals (SDGs)
- Diagram: appropriate use of any relevant diagram such as an AD/AS diagram, a poverty cycle diagram or a Lorenz curve diagram.

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

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 the benefits and costs of inward foreign direct investment (FDI) for economically less developed countries. **[15]**

Answers may include:

- Terminology: economically less developed country, foreign direct investment
- Explanation: of the benefits of FDI such as higher economic growth, greater employment opportunities, provision of technical and management skills, provision of advanced technology, a bridging of the savings and foreign exchange gaps.
- Diagram: appropriate use of any relevant diagram such as a PPC diagram, an AD/AS diagram.
- Synthesis (discuss): the drawbacks of inward FDI such as the capital-intensive nature of the FDI, repatriation of profits, tax avoidance schemes, limited benefits for local economies, competition with domestic firms, exploitation of workers, environmental impact, misallocation of resources from a social point of view
- Examples: real-world examples of economically less developed countries which either have or have not benefited from inward FDI.

NB if candidates start their answer with the costs of FDI, a counterbalancing discussion of the benefits could count as evaluation.

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.

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

Assessment Criteria

Part (b) 15 marks

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