2225 – 5202M

Diploma Programme
Programme du diplôme
Programa del Diploma

# Markscheme

## May 2025

## Economics

## Higher level

## Paper 1

12 pages

International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

**1.** (a) Explain why the price elasticity of demand (PED) for primary commodities is generally lower than the PED for manufactured products. **[10]**

*Answers **may** include:*

- Terminology: PED, primary commodities, manufactured products.
- Explanation: of relatively low PED for primary commodities and relatively high PED for manufactured products in terms of the number and closeness of substitutes, degree of necessity, and proportion of income spent on the good.
- Diagram(s): to show inelastic demand for primary commodities and elastic demand for manufactured products.

**Assessment Criteria**

**Part (a) 10 marks**

| Marks | Level descriptor |
|---|---|
| **0** | • The work does not reach a standard described by the descriptors below. |
| **1–2** | • The response indicates little understanding of the specific demands of the question.<br>• Economic theory is stated but it is not relevant.<br>• Economic terms are stated but they are not relevant. |
| **3–4** | • The response indicates some understanding of the specific demands of the question.<br>• Relevant economic theory is described.<br>• Some relevant economic terms are included. |
| **5–6** | • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.<br>• Relevant economic theory is partly explained.<br>• Some relevant economic terms are used appropriately.<br>• Where appropriate, relevant diagram(s) are included. |
| **7–8** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is explained.<br>• Relevant economic terms are used mostly appropriately.<br>• Where appropriate, relevant diagram(s) are included and explained. |
| **9–10** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is fully explained.<br>• Relevant economic terms are used appropriately throughout the response.<br>• Where appropriate, relevant diagram(s) are included and fully explained. |

(b) Using real-world examples, discuss the importance of PED for the decision-making of firms **and** government. **[15]**

*Answers **may** include:*

- Terminology: PED.
- Explanation: of the importance of PED for firms in terms of the impact on total revenue of price changes; importance of PED for the government in terms of the impact of an indirect tax/subsidy on government revenues/expenditures, and resource allocation/market failure.
- Diagram(s): to show how PED impacts a firm’s total revenue due to price changes and/or how PED impacts tax revenue/expenditure and resource allocation/market failure.
- Synthesis (discuss): the difficulty for firms and government of knowing the exact values for PED for different goods; the problem of imperfect information; the problem in practice of estimating PED with “other things being held constant”; discussion of other objectives of the firm such as profit maximization, satisficing, CSR, *etc.*; and for the government such as political and social objectives derived from the intervention.
- Examples: real-world examples of the importance of PED for business revenues when price changes and the importance of PED for governments when deciding to levy an indirect tax or change the level of indirect tax on a product or to grant a subsidy.

*A maximum of **[9]** should be awarded if **only** the importance for firms **or** the government is discussed.*

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

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

***N.B.** some candidates might extend the government part of their answer to the Marshall-Lerner condition (PED of exports and imports), which, if appropriate, should be rewarded.*

## Assessment Criteria

**Part (b) 15 marks**

| Marks | Level descriptor |
|---|---|
| **0** | • The work does not reach a standard described by the descriptors below. |
| **1–3** | • The response indicates little understanding of the specific demands of the question.<br>• Economic theory is stated but it is not relevant.<br>• Economic terms are stated but they are not relevant.<br>• The response contains no evidence of synthesis or evaluation.<br>• A real-world example(s) is identified but it is irrelevant. |
| **4–6** | • The response indicates some understanding of the specific demands of the question.<br>• Relevant economic theory is described.<br>• Some relevant economic terms are included.<br>• The response contains evidence of superficial synthesis or evaluation.<br>• A relevant real-world example(s) is identified. |
| **7–9** | • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.<br>• Relevant economic theory is partly explained.<br>• Some relevant economic terms are used appropriately.<br>• Where appropriate, relevant diagram(s) are included.<br>• The response contains evidence of appropriate synthesis or evaluation but lacks balance.<br>• A relevant real-world example(s) is identified and partly developed in the context of the question. |
| **10–12** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is explained.<br>• Relevant economic terms are used mostly appropriately.<br>• Where appropriate, relevant diagram(s) are included and explained.<br>• The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.<br>• A relevant real-world example(s) is identified and developed in the context of the question. |
| **13–15** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is fully explained.<br>• Relevant economic terms are used appropriately throughout the response.<br>• Where appropriate, relevant diagram(s) are included and fully explained.<br>• The response contains evidence of effective and balanced synthesis or evaluation.<br>• A relevant real-world example(s) is identified and fully developed to support the argument. |

**2.** (a) Explain how interventionist supply-side policies can have both demand-side **and** supply-side effects on the economy. **[10]**

*Answers **may** include:*

- Terminology: interventionist supply-side policies, supply-side policies.
- Explanation: of interventionist supply-side policies, such as education/training, improving quality, quantity and access to healthcare, research and development, provision of infrastructure and industrial policies, and how these can increase both aggregate demand (AD) and long-run aggregate supply (LRAS) through an increase in the productive capacity of the economy.
- Diagram: AD/AS showing AD and LRAS shifting to the right.

*A maximum of **[6]** should be awarded if **only** the demand-side **or** the supply-side effects are explained.*

**Assessment Criteria**

**Part (a) 10 marks**

| Marks | Level descriptor |
|---|---|
| **0** | • The work does not reach a standard described by the descriptors below. |
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| **3–4** | • The response indicates some understanding of the specific demands of the question.<br>• Relevant economic theory is described.<br>• Some relevant economic terms are included. |
| **5–6** | • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.<br>• Relevant economic theory is partly explained.<br>• Some relevant economic terms are used appropriately.<br>• Where appropriate, relevant diagram(s) are included. |
| **7–8** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is explained.<br>• Relevant economic terms are used mostly appropriately.<br>• Where appropriate, relevant diagram(s) are included and explained. |
| **9–10** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is fully explained.<br>• Relevant economic terms are used appropriately throughout the response.<br>• Where appropriate, relevant diagram(s) are included and fully explained. |

(b) Using real-world examples, evaluate the effectiveness of market-based supply-side policies in reducing the level of unemployment in a country. **[15]**

*Answers* ***may*** *include:*

- Terminology: market-based supply-side policies, unemployment.
- Explanation: of the way in which market based SSPs can be used to reduce the level of unemployment; *e.g.* market-based policies might make markets work better through reducing trade union power, decreasing the level of unemployment benefits and minimum wages; may provide incentives through tax cuts; may encourage competition, privatization and reducing trade barriers, all of which may increase the demand for labour and increase the AD and LRAS by increasing the productive capacity of the economy.
- Diagram: AD/AS diagram to show the LRAS shifting right or any other relevant diagram, such as a minimum wage diagram.
- Synthesis (evaluate): issues with market-based SSPs in terms of equity, time lags, vested interests, impact on the government budget and the environment; importance of the type of unemployment (*e.g.* unlikely to be successful in reducing cyclical unemployment unless the policy is a tax cut); the possibility of such policies, *e.g.* privatization and abolition of the minimum wage, actually increasing unemployment; consideration of other policies.
- Examples: real-world examples of market-based SSPs being used to reduce the level of unemployment or the use of 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 terms, diagrams, 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** | • The work does not reach a standard described by the descriptors below. |
| **1–3** | • The response indicates little understanding of the specific demands of the question.<br>• Economic theory is stated but it is not relevant.<br>• Economic terms are stated but they are not relevant.<br>• The response contains no evidence of synthesis or evaluation.<br>• A real-world example(s) is identified but it is irrelevant. |
| **4–6** | • The response indicates some understanding of the specific demands of the question.<br>• Relevant economic theory is described.<br>• Some relevant economic terms are included.<br>• The response contains evidence of superficial synthesis or evaluation.<br>• A relevant real-world example(s) is identified. |
| **7–9** | • The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.<br>• Relevant economic theory is partly explained.<br>• Some relevant economic terms are used appropriately.<br>• Where appropriate, relevant diagram(s) are included.<br>• The response contains evidence of appropriate synthesis or evaluation but lacks balance.<br>• A relevant real-world example(s) is identified and partly developed in the context of the question. |
| **10–12** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is explained.<br>• Relevant economic terms are used mostly appropriately.<br>• Where appropriate, relevant diagram(s) are included and explained.<br>• The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.<br>• A relevant real-world example(s) is identified and developed in the context of the question. |
| **13–15** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is fully explained.<br>• Relevant economic terms are used appropriately throughout the response.<br>• Where appropriate, relevant diagram(s) are included and fully explained.<br>• The response contains evidence of effective and balanced synthesis or evaluation.<br>• A relevant real-world example(s) is identified and fully developed to support the argument. |

**3.** (a) Explain the difference between a floating exchange rate system and a fixed exchange rate system. **[10]**

*Answers **may** include:*

- Terminology: exchange rate, fixed exchange rate, floating exchange rate.
- Explanation: of how fixed exchange rates are maintained and the process of devaluation and revaluation; and floating exchange rates in terms of changes in the demand for, and supply of, a currency causing depreciation and appreciation. The increased uncertainty in a floating exchange rate system compared to a fixed exchange rate system; the need for foreign reserves and more government intervention to maintain a fixed exchange rate system.
- Diagram: showing how a fixed exchange rate system is maintained and/or how a floating exchange rate system determines the exchange rate and changes in the equilibrium rate.

*A maximum of **[6]** should be awarded if **only** the fixed exchange rate system **or** the floating exchange rate system is explained.*

**Assessment Criteria**

**Part (a) 10 marks**

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| **7–8** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is explained.<br>• Relevant economic terms are used mostly appropriately.<br>• Where appropriate, relevant diagram(s) are included and explained. |
| **9–10** | • The specific demands of the question are understood and addressed.<br>• Relevant economic theory is fully explained.<br>• Relevant economic terms are used appropriately throughout the response.<br>• Where appropriate, relevant diagram(s) are included and fully explained. |

(b) Using real-world examples, discuss the consequences for an economy of a depreciation of its exchange rate. **[15]**

*Answers **may** include:*

- Terminology: exchange rate, depreciation.
- Explanation: of the likely impact of a depreciation on inflation, economic growth, unemployment, living standards and the current account balance.
- Diagram: appropriate use of any relevant diagram such as an AD/AS diagram or an exchange rate diagram to show a currency depreciation, or a J-curve diagram to show potential consequences of a depreciation on the economy.
- Synthesis (discuss): discussion of the size of the depreciation; the importance of the Marshall-Lerner condition and the J-curve effect; short-run versus long-run impacts, and/or impacts on different stakeholders/sectors of the economy.
- Examples: real-world examples of the impact of depreciation on economies.

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## Assessment Criteria

**Part (b) 15 marks**

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