2225 – 5211M

Markscheme

May 2025

Economics

Standard level

Paper 1

11 pages

1. (a) Distinguish between public goods and merit goods. **[10]**

*Answers **may** include:*

- Terminology: public goods, merit goods.
- Explanation: differences between public goods and merit goods in terms of the following features:

Public Goods	Merit Goods
Non-excludable	Excludable
Free-rider problem	No Free-rider problem
Non-rivalrous	Rivalrous
Free-not sold in markets	Sold in markets at a price
Not produced by private firms	Under consumption/production

- Diagram: positive externalities of consumption (merit goods) or any other relevant diagram.

*A maximum of **[6]** should be awarded if **only** public goods **or** merit goods are addressed **OR** if there is no differentiation made between the two goods.*

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. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	• 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	• 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	• 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	• 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 price ceilings (maximum prices) are more effective than subsidies in raising the consumption of merit goods. **[15]**

*Answers **may** include:*

- Terminology: price ceilings, subsidies, merit goods.
- Explanation: of how price ceilings are **more** effective than subsidies in terms of the benefits of price ceilings such as: lower prices for consumers, increased access to merit goods leading to greater equity in the distribution of merit goods and services; and the drawbacks of using subsidies such as greater government expenditure, possible cause of producer inefficiencies, loss of societal welfare.
- Diagram: price ceilings showing a maximum price below the market equilibrium price and/or subsidies showing a rightward shift of the supply (MPC) curve.
- Synthesis (evaluate): Explanation of the view that price ceilings are **less** effective than subsidies in terms of the drawbacks of price ceilings such as: shortages that may arise, loss of revenue for firms, difficulties in establishing the price ceiling, loss of societal welfare; explanation of how subsidies are **more** effective than price ceilings in terms of lower costs of production for producers, more revenues to do research and development, beneficial to both consumers and producers; overall judgment.
- Real-world examples: of price ceilings and subsidies used to lower the prices of merit goods and increase access to them.

*A maximum of **[9]** should be awarded if **only** price ceilings **or** subsidies are evaluated.*

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. • 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	• 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	• 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	• 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	• 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 why, according to the Keynesian model, a country may experience a persistent deflationary (recessionary) gap. **[10]**

*Answers **may** include:*
- Terminology: Keynesian model, deflationary (recessionary) gap.
- Explanation: of the causes of a deflationary gap, that equilibrium may occur below full employment, assumptions of the Keynesian model that prices of factor inputs, especially wages, remain sticky downwards due to such factors as labour contracts, trade union power, employer resistance to lowering wages in order to protect workers' morale/skills, minimum wage; and hence without any government intervention, the country might remain stuck in a deflationary gap, where the level of AD is insufficient to ensure full employment.
- Diagram: Keynesian diagram showing a deflationary gap.

Assessment Criteria

Part (a) 10 marks

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(b) Using real-world examples, discuss the usefulness of real gross domestic product (GDP) per capita as an indicator of economic well-being. **[15]**

*Answers **may** include:*

- Terminology: real gross domestic product (GDP) per capita, economic well-being.
- Explanation: how real GDP per capita is adjusted for inflation and is the average income per resident of the country; the higher the real GDP per capita, the higher the living standards due to more employment, more access to goods and services, and higher tax revenue which can be spent on government provision of public goods, merit goods and transfer payments.
- Diagrams: any relevant diagram such as negative externalities of production, a PPC, a Lorenz Curve, AD/AS.
- Synthesis (discuss): limitations of real GDP per capita as an indicator of economic well-being such as: the distribution of income; the composition of output; exclusion of non-marketed output; the size of the underground market; real GNI per capita may be more accurate if there are significant remittances from overseas; data inaccuracies; negative externalities; higher crime rates; consideration of alternative measures of economic well-being.
- Real-world examples: of countries which may have or have not enjoyed higher economic well-being or living standards.

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Assessment Criteria

Part (b) 15 marks

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3. (a) Explain why countries engage in international trade. **[10]**

*Answers **may** include:*
- Terminology: international trade.
- Explanation: of why countries engage in international trade such as: lower prices, greater consumer choice, acquisition of resources, more foreign exchange earnings, economic growth, access to larger markets, economies of scale, more efficient resource allocation, more efficient production.
- Diagram: international trade diagrams showing the situation before and after allowing international trade, AD/AS, PPC.

Assessment Criteria

Part (a) 10 marks

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(b) Using real-world examples, discuss the effectiveness of interventionist supply-side policies in promoting economic growth **and** economic development. **[15]**

*Answers **may** include:*

- Terminology: interventionist supply-side policies, economic growth, economic development.
- Explanation: how interventionist supply-side policies can promote economic growth through increased human and physical capital, leading to increased productivity; industrial policies can help industries produce more; how interventionist supply-side policies can increase development through education and health expenditure; redistributing income; lowering unemployment; reducing poverty.
- Diagrams: AD shifting to the right, LRAS shifting to the right, outward shift of PPC, Lorenz curve, poverty cycle.
- Synthesis (discuss): limitations of interventionist supply-side policies such as high government expenditure resulting in high levels of indebtedness; protection of inefficient producers; allocative inefficiency; corruption; time lags; situations where interventionist supply-side policies may lead to economic growth but not to economic development; and the discussion of alternative policies such as market-based supply-side policies or demand-side policies might be considered but the emphasis of the response should be on interventionist supply-side policies.
- Real-world examples: of interventionist supply-side policies used to promote economic growth and development.

*A maximum of **[9]** should be awarded if **only** growth **or** development is discussed.*

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Assessment Criteria

Part (b) 15 marks

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