

# **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 in perfect competition abnormal profits are only made in the short run. **[10]**

Answers **may** include:

- Terminology: perfect competition, abnormal profit, short run
- Explanation: of how abnormal profits made in the short run attract new entrants and, owing to no barriers to entry, market supply increases which reduces the market price until only normal profits are being made in the long run
- Diagram: a perfect competition diagram showing abnormal profit. Entrants of new firms in the market may be illustrated with a market diagram showing an increase in supply (shift to the right and a fall in the market price) and/or a downward shift in the firm's demand curve until abnormal profits are eliminated.

### Assessment Criteria

#### Part (a) 10 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> <li>• The work does not reach a standard described by the descriptors below.</li> </ul>
1–2	<ul style="list-style-type: none"> <li>• The response indicates little understanding of the specific demands of the question.</li> <li>• Economic theory is stated but it is not relevant.</li> <li>• Economic terms are stated but they are not relevant.</li> </ul>
3–4	<ul style="list-style-type: none"> <li>• The response indicates some understanding of the specific demands of the question.</li> <li>• Relevant economic theory is described.</li> <li>• Some relevant economic terms are included.</li> </ul>
5–6	<ul style="list-style-type: none"> <li>• The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>• Relevant economic theory is partly explained.</li> <li>• Some relevant economic terms are used appropriately.</li> <li>• Where appropriate, relevant diagram(s) are included.</li> </ul>
7–8	<ul style="list-style-type: none"> <li>• The specific demands of the question are understood and addressed.</li> <li>• Relevant economic theory is explained.</li> <li>• Relevant economic terms are used mostly appropriately.</li> <li>• Where appropriate, relevant diagram(s) are included and explained.</li> </ul>
9–10	<ul style="list-style-type: none"> <li>• The specific demands of the question are understood and addressed.</li> <li>• Relevant economic theory is fully explained.</li> <li>• Relevant economic terms are used appropriately throughout the response.</li> <li>• Where appropriate, relevant diagram(s) are included and fully explained.</li> </ul>

- (b) Using real-world examples, evaluate the view that firms will always seek to maximize their profits.

[15]

*Answers may include:*

- Terminology: profit, profit maximization
- Explanation: that a rational producer will maximize profit where marginal revenue (MR) is equal to marginal cost (MC), and where the difference between total revenue (TR) and total cost (TC) is maximized
- Diagram: showing  $MC=MR$  or where the difference between TR and TC is maximized in any chosen market structure
- Synthesis (evaluate): a challenge to the view in terms of the problems of achieving profit maximization in reality; alternate business objectives such as corporate social responsibility, market share, satisficing, growth maximization; the rationality of producers; consideration of the word “always”
- Examples: real-world examples of firms pursuing/not pursuing the goal of profit maximization and/or alternate business objectives.

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

**N.B.** *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.*

### Assessment Criteria

#### Part (b) 15 marks

Marks	Level descriptor
0	<ul style="list-style-type: none"> <li>The work does not reach a standard described by the descriptors below.</li> </ul>
1–3	<ul style="list-style-type: none"> <li>The response indicates little understanding of the specific demands of the question.</li> <li>Economic theory is stated but it is not relevant.</li> <li>Economic terms are stated but they are not relevant.</li> <li>The response contains no evidence of synthesis or evaluation.</li> <li>A real-world example(s) is identified but it is irrelevant.</li> </ul>
4–6	<ul style="list-style-type: none"> <li>The response indicates some understanding of the specific demands of the question.</li> <li>Relevant economic theory is described.</li> <li>Some relevant economic terms are included.</li> <li>The response contains evidence of superficial synthesis or evaluation.</li> <li>A relevant real-world example(s) is identified.</li> </ul>
7–9	<ul style="list-style-type: none"> <li>The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li> <li>Relevant economic theory is partly explained.</li> <li>Some relevant economic terms are used appropriately.</li> <li>Where appropriate, relevant diagram(s) are included.</li> <li>The response contains evidence of appropriate synthesis or evaluation but lacks balance.</li> <li>A relevant real-world example(s) is identified and partly developed in the context of the question.</li> </ul>
10–12	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is explained.</li> <li>Relevant economic terms are used mostly appropriately.</li> <li>Where appropriate, relevant diagram(s) are included and explained.</li> <li>The response contains evidence of appropriate synthesis or evaluation that is mostly balanced.</li> <li>A relevant real-world example(s) is identified and developed in the context of the question.</li> </ul>
13–15	<ul style="list-style-type: none"> <li>The specific demands of the question are understood and addressed.</li> <li>Relevant economic theory is fully explained.</li> <li>Relevant economic terms are used appropriately throughout the response.</li> <li>Where appropriate, relevant diagram(s) are included and fully explained.</li> <li>The response contains evidence of effective and balanced synthesis or evaluation.</li> <li>A relevant real-world example(s) is identified and fully developed to support the argument.</li> </ul>

2. (a) Using the Keynesian multiplier, explain how an increase in government spending can result in short-term economic growth. [10]

Answers **may** include:

- Terminology: Keynesian multiplier, government spending, short-term economic growth
- Explanation: of how an increase in government spending, as an injection into the circular flow of income, will cause AD to increase through several rounds of spending (depending on the marginal propensity to consume (mpc) or marginal propensity withdraw (mpw)) and bring about a larger increase in real GDP than the initial increase in government spending (short-term economic growth)
- Diagram: AD/AS diagram showing AD shifting to the right due to the initial government spending (injection) and another shift in AD due to the multiplier effect resulting in an increase in real GDP.

### Assessment Criteria

#### Part (a) 10 marks

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9–10	<ul style="list-style-type: none"> <li>• The specific demands of the question are understood and addressed.</li> <li>• Relevant economic theory is fully explained.</li> <li>• Relevant economic terms are used appropriately throughout the response.</li> <li>• Where appropriate, relevant diagram(s) are included and fully explained.</li> </ul>

- (b) Using real-world examples, evaluate the view that high economic growth rates can only be achieved at the expense of other macroeconomic objectives. **[15]**

*Answers may include:*

- Terminology: economic growth, macroeconomic objectives
- Explanation: of the view in terms of potential conflicts of economic growth with low inflation, environmental sustainability, equity in income distribution, employment (possibility of greater structural unemployment), balanced trade (possibility of a worsening of the balance of trade deficit)
- Diagram: AD/AS diagram to show AD shifting right with greater inflation or LRAS shifting right showing lower inflation; or any other relevant diagram
- Synthesis (evaluate): a challenge to the view in terms of situations in which high economic growth may not conflict with other macroeconomic objectives (e.g. the possibility of greater levels of employment); long-term economic growth may avoid inflationary pressures; growth may be accompanied by measures to make the distribution of income and wealth more equal; “green” growth may not adversely affect the environment; growth may benefit the trade balance if export led and lead to a reduction in government debt
- Examples: real-world examples where high economic growth has/has not conflicted with other objectives.

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

**N.B.** *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.*

### Assessment Criteria

#### Part (b) 15 marks

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3. (a) Explain how poverty may have a negative impact on sustainability. **[10]**

*Answers may include:*

- Terminology: poverty, sustainability
- Explanation: that sustainability implies the ability of the present generation to meet its needs without compromising the ability of future generations to meet their own needs. These can be in the form of environmental (e.g. overuse of scarce common pool resources, exploitation of natural capital) and/or economic (e.g. low levels of human capital, population growth, limited markets, lack of access to finance for investment, unsustainable debt) sustainability
- Diagram: poverty cycle diagram, negative externalities of production diagram or any other relevant diagram.

### Assessment Criteria

#### Part (a) 10 marks

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- (b) Using real-world examples, discuss the strengths **and** limitations of government intervention as a strategy for promoting economic development. [15]

*Answers may include:*

- Terminology: economic development, government intervention
- Explanation: of the strengths of government intervention strategies (microeconomics and macroeconomics) to promote economic development. These interventionist strategies may include the provision of merit goods, infrastructure investment, redistribution policies and institutional changes
- Diagram: appropriate use of any relevant diagram such as an AD/AS diagram, a PPC diagram, or a Lorenz curve diagram
- Synthesis (discuss): discussion of the various limitations of government intervention strategies; consideration of other strategies to promote economic development
- Examples: real-world examples of government intervention strategies to promote economic development.

**N.B.** if candidates start their answer with the limitations of government intervention strategies, a counterbalancing discussion of the strengths could count as evaluation.

A maximum of [9] should be awarded if **only** strengths **or** limitations are addressed.

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

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### Assessment Criteria

#### Part (b) 15 marks

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