

Markscheme

November 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 how a system of tradeable permits could be used to reduce externalities caused by high levels of carbon emissions.

[10]

Answers **may** include:

- Terminology: tradeable permits, externalities.
- Explanation: of how a system of tradeable permits establishes a cap on carbon emissions and distributes permits to firms to allow them to produce carbon emissions up to the level set by their permits. They can then sell unused permits to the market for permits. Firms unable to keep emissions within the levels set by their allocation of permits need to purchase more permits. Lower carbon emitters thus are given a financial advantage. The cap can be reduced over time to reduce carbon emissions.
- Diagrams: candidates may use a market failure diagram to illustrate the impact on firms of being required to produce at a more socially efficient output. Candidates may choose to represent the carbon market with a simple supply and demand diagram.

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.

NB Unfortunately, this question did not include the “Using real-world examples” prompt in the exam but an erratum message was sent out to all affected schools, which was read out to the students responding to the question.

- (b) Using real-world examples, discuss the view that providing a subsidy is the best way to encourage an increased use of clean technologies.

[15]

Answers **may** include:

- Terminology: subsidy.
- Explanation: that subsidies increase supply, resulting in lower prices and higher equilibrium quantity.
- Diagram: to show the effect of a subsidy on the market for clean technologies.
- Synthesis (discuss): the importance of PED, opportunity cost issues, externality issues, equity issues and efficiency issues. Consideration of alternative policies such as carbon taxes and tradeable permits. Candidates may take a market failure approach, with the use of clean technologies as an example of a positive production externality where MSC is less than MPC and thus the market economy is producing less than is socially optimum, under allocating resources in the production of this good. Consideration of what the “best” policy is.
- Examples: of real-world subsidies for clean technologies.

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 the limitations of using the consumer price index (CPI) to measure the rate of inflation. [10]

Answers may include:

- Terminology: consumer price index (CPI), rate of inflation.
- Explanation: that the consumer price index measures what the average consumer is buying. Different groups of people buy different things. It is inaccurate to use this so-called average consumer to calculate how much government might intervene to support pensions or welfare as prices change. Consumption patterns differ by age, gender, geographical location, income levels. Prices might rise but quality may have improved. New products, even when widely used, take time to appear in the CPI. The weights used only adjust slowly and do not reflect where consumers act to substitute more expensive products.
- Diagram: not needed for this question.

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.

NB Unfortunately, this question did not include the “Using real-world examples” prompt in the exam but an erratum message was sent out to all affected schools, which was read out to the students responding to the question.

- (b) Using real-world examples, examine the view that there is a possible trade-off between unemployment **and** inflation.

[15]

Answers **may** include:

- Terminology: unemployment, inflation.
- Explanation: that in the short run there is a possible inverse relationship between the rate of inflation and the rate of unemployment, thus a higher inflation rate can be associated with a lower unemployment rate and vice-versa.
- Diagram: AD/AS diagram to examine a trade-off. Short-run and long-run Phillips curve.
- Synthesis (examine): argument that the trade-off between the unemployment rate and the inflation rate in the short-run Phillips curve implied a choice for policymakers. However, the inverse relationship breaks down in the long run according to some interpretations: thus, the only impact of an increase in AD is to increase the rate of inflation while real output and the rate of unemployment are unchanged.
- Examples: of situations of where a trade-off between unemployment and inflation is, or is not, observed.

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.
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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.
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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.
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3. (a) Explain how a floating exchange rate is determined. [10]

Answers may include:

- Terminology: exchange rate, floating exchange rate.
- Explanation: that a floating exchange rates value is determined by changes in the demand and supply of the currency. Factors that could lead to a change in demand and supply for a currency value might include changes in exports and imports, FDI flows, portfolio investment, relative real interest rates, speculation, relative growth rates and remittances.
- Diagram: a supply and demand diagram showing how a floating exchange rate is determined.

Assessment Criteria

Part (a) 10 marks

Marks	Level descriptor
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- (b) Using real-world examples, discuss the impact of a falling exchange rate on a country's rate of unemployment **and** on its current account balance. **[15]**

Answers may include:

- Terminology: unemployment, rate of unemployment, exchange rate, balance of payments on current account.
- Explanation: of how a falling exchange rate might increase the competitiveness of exports and decrease competitiveness of imports which might help lower unemployment. The impact on the balance of payments might be to raise export revenues and decrease import revenues but this would depend on elasticities of imports and exports.
- Diagram: to illustrate a falling exchange rate caused by demand or supply factors.
- Synthesis (discuss): the impact of a falling exchange rate might raise employment independently of whether exports and imports are inelastic or elastic because volumes of domestic production are likely to grow, however investment in capital might substitute additional demand for labour as scale is increased. Imported cost-push inflation might raise costs and raise unemployment. The impact on the current account of the balance of payments is dependent on elasticities of imports and exports. Candidates might use the J-curve effect and Marshall-Lerner condition to explain this.
- Examples: of countries where a falling exchange rate has been experienced.

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.

A maximum of **[9]** should be awarded if **only** unemployment **or** current account balance in the question item is addressed.

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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