

# Markscheme

**May 2025**

**Economics**

**Higher level**

**Paper 1**

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1. (a) Explain the importance of income elasticity of demand (YED) for the primary, manufacturing and service sectors of the economy when real incomes are rising. **[10]**

Answers **may** include:

- Terminology: YED, primary, manufacturing and service sectors, real incomes.
- Explanation: of how YED (income elastic and income inelastic/ high and low YEDs) affects the rate at which the demand for different goods and services increases as real incomes rise, and thus the relative sizes and composition of the primary, manufacturing (secondary) and service (tertiary) sectors of the economy; of how negative YED results in a decrease in demand for inferior goods and services as real incomes rise.
- Diagram: showing income elastic, income inelastic and inferior goods on an Engel curve and/or a demand and supply diagram showing relevant shifts of the demand curve.

### Assessment Criteria

**Part (a) 10 marks**

Marks	Level descriptor
<b>0</b>	<ul style="list-style-type: none"> <li>• The work does not reach a standard described by the descriptors below.</li> </ul>
<b>1–2</b>	<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>
<b>3–4</b>	<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>
<b>5–6</b>	<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>
<b>7–8</b>	<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>
<b>9–10</b>	<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 the consumption of demerit goods is best reduced through legislation and regulation.

[15]

Answers **may** include:

- Terminology: demerit good, legislation, regulation.
- Explanation: of the advantages of legislation and regulation such as ease of implementation, direct method of control, forcing consumers to comply; forces the MPB curve to shift towards the MSB curve where MPB is above the MSB.
- Diagram: use of any relevant diagram such as a negative consumption externality diagram or an indirect tax diagram (as an alternative type of government intervention).
- Synthesis (evaluate): a challenge to the view in terms of the possible disadvantages of legislation and regulation and the relative effectiveness of using other methods such as indirect taxes, awareness creation/education, nudges, subsidizing less harmful substitute goods; consideration of the word “best”.
- Examples: real-world examples of the consumption of demerit goods being reduced through legislation and regulation or through the use of other forms of government intervention.

*As the question requires an evaluation of “best”, 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.*

*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	<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) Explain how fiscal policy may be used to reduce a deficit on the current account of a country's balance of payments. [10]

Answers **may** include:

- Terminology: fiscal policy, balance of payments, current account, current account deficit.
- Explanation: of fiscal policy as an expenditure-reducing method of reducing a current account deficit via measures designed to reduce AD (contractionary fiscal policy); lower AD leads to lower output and incomes which reduces the demand for imports; reduced AD may reduce demand pull inflation, making domestic goods more price competitive, decreasing demand for imports and increasing the demand for exports.
- Diagram: use of an AD/AS diagram.

### 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, discuss the effectiveness of fiscal policy in reducing the level of unemployment.

[15]

Answers **may** include:

- Terminology: fiscal policy, unemployment.
- Explanation: of expansionary fiscal policy causing a rise in AD and real GDP leading to a fall in unemployment as the demand for labour increases; the influence of the multiplier effect; the supply side effects of fiscal policy shifting LRAS to the right.
- Diagram: AD/AS diagram to show AD shifting right and/or LRAS shifting right where fiscal policy affects the supply side of the economy, and/or a labour market diagram showing an increase in aggregate demand for labour and an increase in employment.
- Synthesis (discuss): the disadvantages of using fiscal policy to reduce unemployment such as time lags, impact on the budget deficit, crowding out, impact on inflation and the current account; more effective against cyclical (demand deficient) than non-cyclical (structural, frictional and seasonal) unemployment; consideration of alternative policies such as monetary and supply-side policies (market-based and/or interventionist), contrasting Keynesian and new classical viewpoints.
- Examples: real-world examples of fiscal policies being used to reduce the level of unemployment or other types of policies being used.

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### Assessment Criteria

#### Part (b) 15 marks

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3. (a) Explain **two** types of trade protection. **[10]**

Answers **may** include:

- Terminology: trade protection.
- Explanation: of any **two** types of trade protection from tariffs, quotas, subsidies (production subsidies), export subsidies and administrative barriers.
- Diagram: appropriate use of any relevant diagram, e.g. tariff diagram, quota diagram or subsidy diagram.

A maximum of **[6]** should be awarded if only **one** type of trade protection is explained.

### Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, evaluate the view that all countries should specialize and trade according to the theory of comparative advantage.

[15]

Answers **may** include:

- Terminology: comparative advantage, specialize.
- Explanation: of specialization according to the theory of comparative advantage leading to more efficient and greater production; the theory being the basis of free trade which can bring about greater competition, lower prices, greater consumer choice, a more efficient allocation of resources, greater economies of scale, access to markets and foreign exchange earnings.
- Diagram: use of a PPC diagram (or diagrams) to show differing opportunity costs and the potential gains from specialization and trade as a result of comparative advantage.
- Synthesis (evaluate): a challenge to the view in terms of the limitations of the theory such as the unrealistic assumptions upon which it is based (e.g. perfect mobility and full employment of resources, constant technology and costs, free trade); the infant industry argument; specialization according to comparative advantage may not allow the necessary structural changes and diversification to occur in an economy; risks associated with over-specialization; use of protectionism in the short-run to achieve comparative advantage in the long-run; specialization according to comparative advantage may be regarded as benefitting richer countries at the expense of poorer countries; consideration of the word “all”.
- Examples: real-world examples of countries that have, or have not, specialized and traded according to the theory of comparative advantage.

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**Assessment Criteria**

**Part (b) 15 marks**

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