

# Markscheme

**May 2025**

**Economics**

**Standard level**

**Paper 1**

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1. (a) Using a production possibilities curve (PPC), explain the concepts of scarcity **and** opportunity cost. **[10]**

Answers **may** include:

- Terminology: production possibilities curve, scarcity, choice, opportunity cost.
- Explanation: of the assumptions of the production possibilities curve such as factors of production are completely mobile, factors of production are fully employed, state of technology remains constant; of how scarcity arises because there are limited resources but unlimited wants; as a result, choices must be made and opportunity costs incurred; however, if the resources are not fully employed (the country is producing within the PPC), the production of one good can be increased without reducing the production of the other good (no opportunity costs incurred) and hence, there is no need to choose between alternative uses for the scarce resources.
- Diagram: production possibilities curve showing scarcity and opportunity costs.

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

### 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 most effective way of increasing the consumption of healthcare is through the provision of subsidies.

[15]

Answers **may** include:

- Terminology: subsidies, healthcare as a merit good.
- Explanation: of the view in terms of the benefits of subsidies: subsidies lower the cost of production and so reduce the price of healthcare and increase the consumption of healthcare; beneficial to both consumers and producers; increased access to healthcare for the lower income groups.
- Diagram: positive externalities in consumption, demand and supply diagram, subsidies showing a rightward shift of the supply (MPC) curve.
- Synthesis (evaluate): a challenge to the view in terms of the drawbacks of subsidies such as opportunity cost in terms of foregone government projects or expenditure on other items; may encourage complacency and inefficiency; loss in society welfare; consideration of the effectiveness of other policies such as education, legislation and regulation; direct government provision; consideration of “most effective”.
- Real-world examples: of subsidies and other policies used to increase consumption of healthcare.

*As the question requires an evaluation of “most effective”, 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 an increase in the interest rate might influence the size of a country's circular flow of income.

[10]

Answers **may** include:

- Terminology: rate of interest, circular flow of income, injections, withdrawals (leakages).
- Explanation: of the circular flow of income; assumptions of the circular flow of income; how a rise in interest rates may decrease investment by firms (injections) and consumption by households and may increase savings (withdrawals) by households; an increase in withdrawals and a decrease in injections leads to a contraction in the circular flow of income.
- Diagram: circular flow of income.

### 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 in comparing economic well-being between countries.

[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 economic well-being 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: use of any relevant diagram such as a negative externalities diagram, a PPC, a Lorenz Curve or an AD/AS diagram.
- Synthesis (discuss): limitations of real GDP per capita as an indicator of economic well-being between countries in terms of issues such as: the distribution of income; the composition of output; levels of health education and life expectancy; quality of life factors; non-marketed output, the size of the underground economy; the existence of negative externalities; depletion of natural resources; the importance of purchasing power parities; how other indicators of economic well-being might be more useful such as the Human Development Index, Happy Planet Index, OECD Better Life Index, Happiness Index.
- Real-world examples: comparisons of real-world examples of countries with different levels of economic well-being.

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### Assessment Criteria

#### Part (b) 15 marks

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3. (a) Explain **two** reasons for trade protection. **[10]**

Answers **may** include:

- Terminology: trade protection.
- Explanation: of any two reasons from: balance of payments protection; government revenue; protection of jobs; ELDC diversification; protection of infant (sunrise) industries; declining (sunset) industries; national security; health and safety, environmental standards; anti-dumping; unfair competition.
- Diagram: tariffs, quota, subsidies, any relevant international trade diagram, AD/AS.

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

### Assessment Criteria

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- (b) Using real-world examples, evaluate the consequences of trading blocs. **[15]**

*Answers may include:*

- Terminology: trading blocs (free trade areas/agreements, customs unions, common markets, monetary unions).
- Explanation: of how trading blocs are beneficial depending on the degree and type of integration: larger economies of scale reaped from greater market access, higher employment opportunities and economic growth from greater freedom of movement of labour and capital, stronger bargaining power in multilateral negotiations, transfer of technology and skills from increased flows of FDI, lower prices for consumers and greater consumer choice, increased investment, improved resource allocation, stability in supply of raw materials, greater political stability and cooperation.
- Diagrams: AD/AS, PPC, international trade diagrams.
- Synthesis (evaluate): how the costs of trading blocs depend on the degree and type of integration: increased inequalities, unemployment resulting from increased foreign competition, loss of sovereignty, balance of payments problems, issues in relation to multilateral trading negotiations.
- Real-world examples: of countries engaged in trading blocs.

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**Assessment Criteria**

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