

Markscheme

November 2025

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 a firm in an oligopoly market structure might collude with other firms in the same market.

[10]

Answers **may** include:

- Terminology: oligopoly, market structure, collusion.
- Diagram: to show a collusive oligopoly, payoff matrix.
- Theory: an explanation of why an oligopoly might collude with other firms, including to increase profits, to reduce uncertainty, to prevent price wars, to maintain market share, and to gain more market power by acting like a monopoly.

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.

- (b) Using real-world examples, evaluate the effectiveness of government intervention to control the abuse of significant market power.

[15]

Answers may include:

- Terminology: government intervention, market power.
- Diagram: to show a monopoly or a collusive oligopoly.
- Theory: an explanation of interventions that the government might make to control the abuse of significant market power, such as legislation and regulation, imposing fines, and government ownership.
- Synthesis (evaluate): may include consideration of the impacts of potential government intervention in markets where significant market power is abused, such as the advantages and disadvantages of government ownership of an industry, ineffectiveness of fines in cases where the fines are too low compared to the profits to be made, implementation and political issues with legislation and regulation.
- Example(s): of where firms with significant market power abused this power and where government intervention, fines, or government ownership were implemented to control the abuse.

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 what impact rising unemployment has on a government’s revenue **and** government spending. **[10]**

Answers may include:

- Terminology: unemployment, government revenue, and government spending.
- Diagram: AD/AS diagrams to illustrate the macroeconomic impacts of falling aggregate demand on output and therefore unemployment. Business cycle diagram showing the contractionary phase of the business cycle.
- Theory: an explanation that rising unemployment will impact a government’s revenue through the lower collection of income tax, as there will be fewer taxpayers. The collection of indirect tax will also decline as the consumption of the unemployed is reduced. Government spending might rise if welfare payments (unemployment benefits) are provided to the unemployed and if expansionary fiscal policy is used to reduce unemployment, potentially increasing the budget deficit and national debt.

*N.B. A maximum of [6] should be awarded if only government revenue **or** government spending, is addressed.*

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss the view that the use of fiscal policy is the most effective way to reduce the rate of unemployment. **[15]**

Answers may include:

- Terminology: fiscal policy, unemployment.
- Diagram: AD/AS diagram to show the impacts of the use of fiscal policy to reduce unemployment.
- Theory: an explanation of how expansionary fiscal policy (such as decreased taxes and increased government spending) may be used to reduce unemployment.
- Synthesis (evaluate): may include the advantages (*i.e.* multiplier effect, automatic stabilizers that do not require government actions, ability to correct cyclical unemployment, political popularity of cutting taxes and increasing government spending) and disadvantages (*i.e.* crowding out, time lags, political pressure, sustainable debt) of using fiscal policy as a means to reduce unemployment. The effectiveness of fiscal policy depends on the type of unemployment being reduced. Consideration of alternative policies, such as monetary and supply-side policies, to deal with unemployment, and any relevant arguments.
- Example(s): of a country where unemployment is an issue and where action against it has been taken.

N.B. As the question requires a discussion of “the most effective” policy, 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.

N.B. It should be noted that definitions, 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

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3. (a) Explain how inward foreign direct investment could be used to break the poverty cycle.

[10]

Answers may include:

- Terminology: foreign direct investment (FDI), poverty cycle.
- Diagram: poverty cycle diagram, AD/AS diagram to illustrate the impact on investment (and aggregate demand) of increased FDI.
- Theory: an explanation of how increased FDI can help close the economy's savings gap by providing additional funds for investment, thereby impacting physical capital. This, in turn, boosts economic growth. As growth and productivity rise, incomes increase, encouraging more savings and further investment, thereby breaking the poverty cycle.

Assessment Criteria

Part (a) 10 marks

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- (b) Using real-world examples, discuss whether a country would benefit from joining other countries in a monetary union.

[15]

Answers may include:

- Terminology: monetary union.
- Diagram: AD/AS diagrams to illustrate the impacts of monetary union membership on the economy, trade protection diagram, which identifies the advantages and disadvantages of monetary union membership, PPC diagram, or any other relevant diagram.
- Theory: may include consideration of the benefits arising from monetary union membership, including greater access to markets, free movement of labour and greater employment possibilities, stronger bargaining power at the global level, and reduced uncertainty over the exchange rate.
- Synthesis (discuss): costs of monetary union membership, including the loss of independent monetary policy, loss of exchange rate policy, restricted independence over fiscal policy, loss of sovereignty, and challenge to multilateral trading negotiations. Consideration of whether the benefits outweigh the costs of monetary union membership; a consideration that some members of the monetary union may experience more benefits/costs from monetary union membership than other members. Overall assessment.
- Example(s): candidates are likely to consider the European Union (EU).

Assessment Criteria

Part (b) 15 marks

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