

[C038/SQP065]

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Intermediate 1  
Economics  
Specimen Question Paper

Time: 1 hour 15 minutes

NATIONAL  
QUALIFICATIONS

40 marks are allocated to this paper.

20 marks for Item A and 20 marks for Item B.

Attempt **all** questions.

## ITEM A

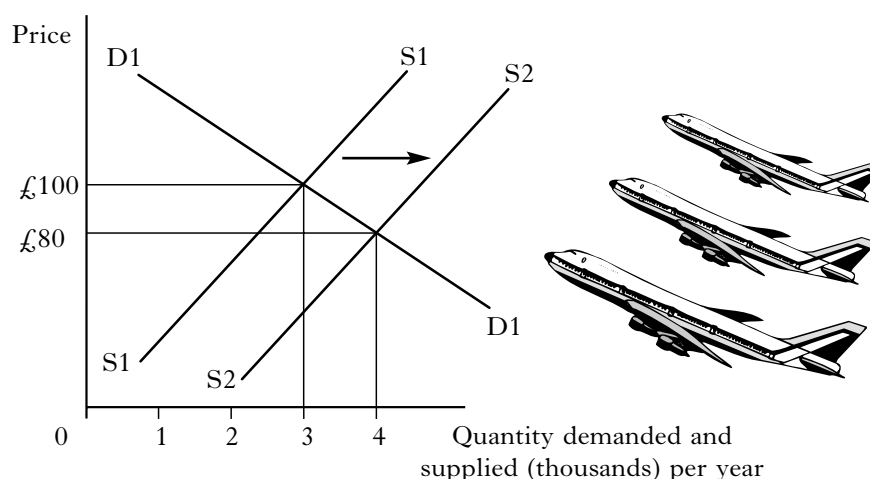
Read the information below, then answer the questions which follow.

Recently a number of airlines have been trying to increase their share of the UK **market for domestic flights**. These airline companies have injected huge amounts of capital into their businesses by buying extra aeroplanes and equipment for their new services in the UK.

Mr Monopolis, owner of one of the airline companies, has been spending millions of pounds expanding his enterprise. By increasing the size of his business he hopes it will benefit from economies of scale, which in turn will benefit his customers.

Shown below is the effect of this investment on the market for flights from Glasgow to London.

### Market for domestic flights—Glasgow to London



Marks

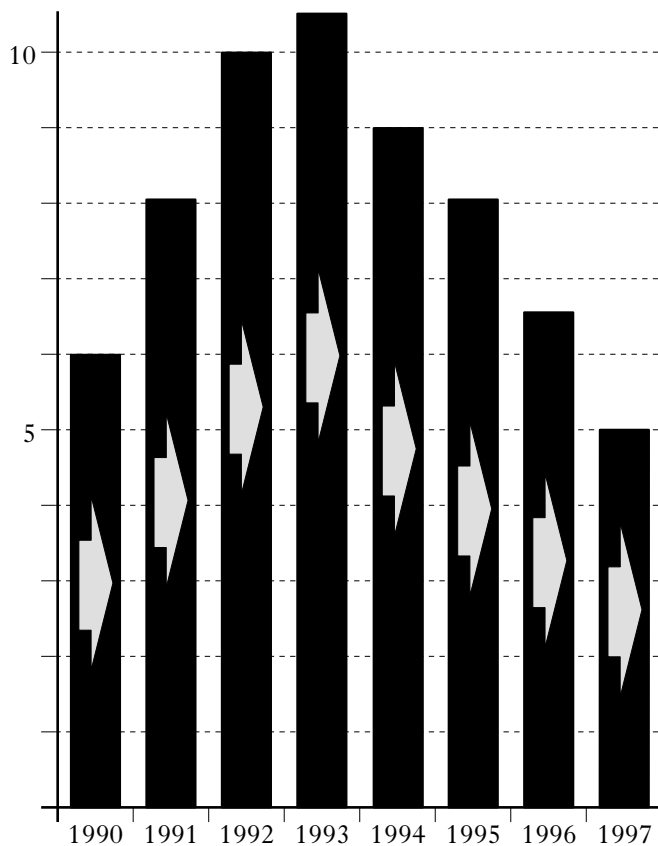
- (a) Explain what is meant by the term “**market for domestic flights**”. 3
- (b) Production requires the use of scarce resources—land, labour, capital and enterprise.
  - (i) Describe, using an example from the passage, what is meant by capital. 2
  - (ii) Describe, using an example from the passage, what is meant by enterprise. 2
  - (iii) Explain why the resources land, labour, capital and enterprise are scarce. 4
- (c) When the market supply was S1, what was the equilibrium price and quantity of domestic flights? 1
- (d)
  - (i) Suggest one reason why the supply curve for flights from Glasgow to London has moved from S1 to S2. 1
  - (ii) Describe the effect that the shift in supply from S1 to S2 has had on the market for flights between Glasgow and London. 2
- (e)
  - (i) Explain, using examples, what is meant by “economies of scale”. 4
  - (ii) How might economies of scale benefit Mr Monopolis’s customers? 1

(20)

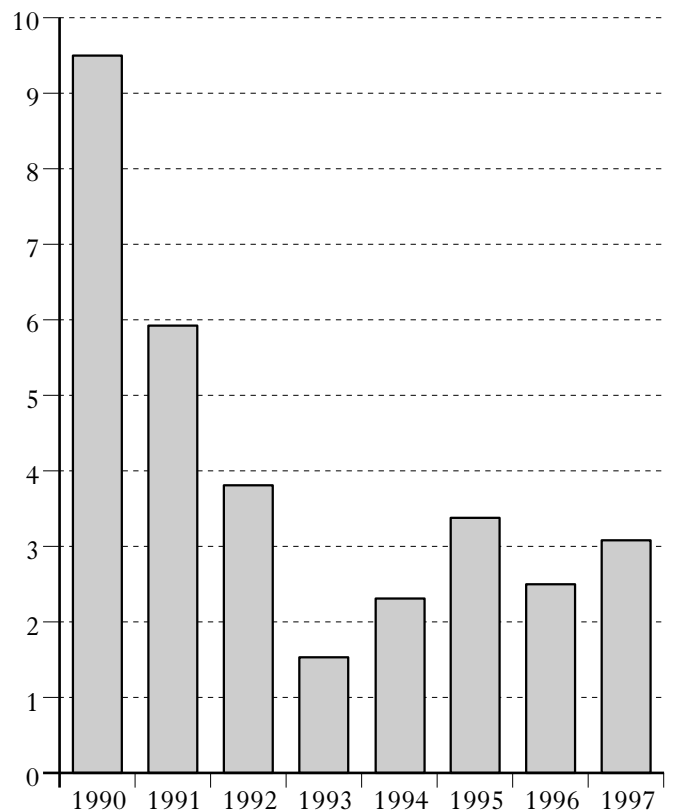
**ITEM B**

**Study the following diagrams, then answer the questions which follow.**

**DIAGRAM A—UK Rate of Unemployment (%)**



**DIAGRAM B—UK Rate of Inflation (%)**



*Marks*

- (a) Explain what is meant by the following terms:
- (i) Rate of Unemployment; 2
  - (ii) Rate of Inflation. 2
- (b) (i) Describe the trend in the UK unemployment rate as shown in Diagram A. 2
- (ii) Describe the main causes of unemployment. 4
- (iii) What effects can being unemployed have on an individual? 2
- (iv) Describe one measure which the UK Government could take to reduce the rate of unemployment. 2
- (c) (i) What has happened to prices between 1990 and 1997? 2
- (ii) Describe one main cause of inflation. 2
- (iii) If, in 1990, a worker received a wage rise of 5%, explain what happened to his/her purchasing power in that year. 2

**(20)**

[END OF QUESTION PAPER]

**[C038/SQP065]**

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Intermediate 1  
Economics  
Specimen Marking Instructions

NATIONAL  
QUALIFICATIONS

## Intermediate 1 Economics

### Item A

#### Solution

- (a) Market for domestic flights — demand for flights by consumers and supply of flights by producers. Refers to flights within the UK.
- (b)
  - (i) Capital — the contribution to productive activity made by investment, durable goods which are used/necessary for the production of other goods and services, for example aeroplanes or equipment.
  - (ii) Enterprise — ability to organise and assemble the factors of production in order to make a profit, for example Mr Monopolis. Makes decisions/takes risks (enterprise in the context of the passage means a business enterprise ie a business venture).
  - (iii) Resources are limited in supply (finite) in relation to the demands made on them by consumers (unlimited wants), therefore there are insufficient resources to satisfy all wants.
- (c) At S1 — equilibrium price is £100 and equilibrium quantity is 3 thousand flights.
- (d)
  - (i) Increased supply of flights due to increased number of aeroplanes available as a result of investment by airline companies.
  - (ii) Increase in supply of flights — equilibrium price falls to £80 and equilibrium quantity increases to 4 thousand flights.
- (e)
  - (i) The benefits to a firm of operating on a large scale.  
  
The long run reduction in average costs that occur as the scale of the firm's output is increased.  
  
Examples — indivisibility of machinery or equipment, economies of increased dimensions, specialisation/division of labour, technical economies, marketing, bulk-buying, financial economies etc.
  - (ii) Lower cost of flights, increased number of services etc.

## Item B

### Solution

- (a) (i) This is the percentage of the labour force that is unemployed at a given time.
- (ii) Sustained percentage rise in the general (aggregate) level of prices over a period of time.
- (b) (i) 1990-1993 — Rate of unemployment increased from 6% to 10.5% then fell to 5% by 1997.
- (ii) The main cause of general unemployment is a fall in the level of demand in an economy (recession), but can also be caused by a decline in an industry (problems arising in certain regions eg Scottish Borders at present), wrong skills etc.
- Accept answers which are either theoretical or related specifically to the diagram.
- (iii) Reduced living standards (due to reduction in income), lower self-esteem, social problems, family problems, health problems, increase in debt (eg unable to pay mortgages).
- (iv) Skillseekers, YTS, New Deal, Government capital expenditure etc.
- (c) (i) Prices increased throughout years shown. Between 1990 and 1993 rate of increase fell from 9.5% to 1.5%. Rate of increase then rose from 1993-1995, fell between 1995 and 1996 then rose again in 1997.
- (ii) Too much money chasing too few goods (demand pull inflation).
- Rise in costs of production which are passed on to consumer in higher prices (eg wage increases or increase in cost of raw materials).
- Imported inflation (UK has a high propensity to import — especially raw materials).
- Increases in the money supply.
- (iii) Purchasing power fell because real income fell. Money wage increased by 5%, but prices rose by 9.5% (real income fell by 4.5%).

[END OF MARKING INSTRUCTIONS]