

2003 Economics

Intermediate 2

Finalised Marking Instructions

ECONOMICS INTERMEDIATE 2

2003 Marking Scheme

ITEM A

- (a) Question asks for a brief explanation, therefore that is all that is required. A full answer (ie one that is worth more than full marks) would be along the following lines: the prices of a basket of goods (600) consumed by the 'average family' are noted every month and index numbers are used to calculate any price changes from a base year. Credit reference to the RPI 2
- (b) (i) They rose 1
- (ii) Look for an understanding of the difference between a fall in the rate of inflation and a fall in prices. 2
- (c) Difficult question. The correct answer is that they rose every year because in every year (money) wages rose faster than prices. This is all that is required for full marks – but credit candidates who attempt to link wage growth to inflation rates. Also credit definition of real wages. 3
- (d) (i) The main sections are Trade in Goods (credit Visible Trade and Balance of Trade), Trade in Services and IPD (credit Invisible Trade). 2
- (ii) Reasons include: increased competition (loss of comparative advantage) from NICs, Japan etc; strong pound – making exports less competitive and imports more competitive; relatively poor quality of some UK goods. If candidate simply says because we are importing more goods and services than we are exporting – one mark. 2
- (e) The value of the pound against (in terms of) the dollar. 1
- (f) Difficult question, requiring candidates to make a few links. Look for an appreciation of the fact that a fall in the value of the pound will make our exports cheaper and our imports dearer. This change in competitiveness should result in more exports and fewer imports. Therefore our Current Account deficit (no need for candidates to talk about the deficit on Trade in Goods and Services) will fall. 4
- (g) Two possible explanations (although candidates may come up with others!), both of which can gain full marks. A falling deficit implies that exports are rising faster than imports (credit candidates who say exports are rising and imports are falling). This should increase demand and therefore employment in our exporting industries and our import-competing industries. An alternative explanation is that as exports are an injection into, and imports a withdrawal from, the circular flow of income, a falling deficit (rising exports and falling imports), will increase National Income, demand and employment. 3
- (20)

ITEM B

- (a) (i) One explanation for full marks.
- When a good falls in price it gives consumers more value (utility) for their money (ie it becomes a better buy), therefore they will buy more.
 - The price may fall below that of a substitute good, therefore some consumers might switch to the cheaper substitute.
 - Existing consumers of the good will experience a rise in their real income, enabling them to buy more.
- 2
- (ii) Look for an understanding of how an increase in price increases the profit on a good therefore producers are willing (and able) to supply more. Credit references to the ability to cover the increase in marginal cost, and the fact that new producers might now enter the market.
- 2
- (b) (i) 300p (£3) and 500 (per week) 1
- (ii) Total revenue = price x quantity sold ie $500 \times £3 = £1500$. 2
- (c) (i) 320p (demand and supply = 460). If candidates answer 340p, half a mark. 2
- (ii) Reasons include:
- to gain the revenue they require for education etc
 - to discourage the consumption of (de-merit) goods eg cigarettes
 - to reduce our demand for imports (tariffs).
- One explanation for full marks. 2
- (d) Reasons include:
- to reduce the price of some essential goods eg milk
 - to encourage production, by increasing producers profit
 - to support an industry and prevent unemployment
 - to prevent shortages – look for possible causes
 - to protect the environment
- 2

- (e) (i) Candidates must give the correct answer and a valid explanation for full marks. The increase in demand will create a shortage, which will push up both the equilibrium price and the equilibrium quantity. The new equilibrium price will be 340p, because, at that price, demand (400 + 200) will equal supply (600) ie the new equilibrium quantity will be 600/week. **3**
- (ii) Reward highly candidates who explain factors (or, at least, one) which can cause an increase in demand for one make of golf ball. If they explain factors which could increase the demand for golf balls in general (eg a fall in the price of golf clubs). Factors include:
- a rise in the price of other makes of golf ball
 - a famous golfer starting to play with 'Hit Me'
 - a major tournament won by someone playing 'Hit Me'
- Look for a valid explanation **4**

- (c) (i) Government income should increase because revenue from income tax will increase (as people have more income) and the revenue from VAT will also increase (because of the resultant increase in spending).
(ii) Government spending should fall because of the fall in spending on Job Seekers Allowance (because of the fall in unemployment – implied by the increase in National Income). Credit candidates who mention that the government does not need to spend money to stimulate the economy. **5**
- 4** (a) Scarcity refers to the situation where there are not enough resources to produce enough goods to completely satisfy everyone's wants. This is because resources (credit examples) are limited but wants (for goods) are unlimited (credit reasons). Opportunity cost occurs when a choice is made and it is the sacrifice of the next best alternative choice ie the choice that would have been made had the first one not been available. **6**
- (b) Wide range of answers possible but look for some economic reason for full marks eg spending on education to produce a more highly skilled workforce, spending on the NHS to create a healthier and more productive society etc. **6**
- (c) (i) Look for a description of the main types of taxes (2 marks each) and a simple explanation of how the government borrows money (2 marks). **6**
- (ii) This is a very difficult question and one that is open to confusion. Candidates have to realise that the implied assumption is that the government is attempting to increase AMD. An alternative to increasing its spending is therefore cutting taxation. **2**
- 5** (a) LDCs – poor standard of living (low GNP per capita), lack of capital (credit examples), poor infrastructure (credit examples), low levels of education – inefficient workforce, over-dependence on agriculture and export of primary products, poor health and high mortality rates, debt burden etc. One mark per description, maximum 3 marks.
- NICs – high growth rates, large investment in capital and education and training, switch from primary to secondary production, large exporting markets, increase standard of living. One mark per description, maximum 3 marks. **5**

- (b) (i) This is a difficult question, so reward valid points highly. Candidates must realise that one country's imports are another country's exports ie EU imports from LDCs are the same as LDC exports to the EU. Candidates must therefore explain how a cut in EU tariffs will increase the level of LDC exports to the EU. This increase in exports will increase the National Income, standard of living and growth rate of the LDCs. **5**
- (ii) Another difficult question, so again reward valid points highly. A decrease in the ER of the Euro will make exports from the Euro-zone (ie other countries imports from the Euro-zone) more competitive and imports into the Euro-zone (ie other countries exports to the Euro-zone) less competitive. LDCs will therefore buy more imports from the Euro-zone and sell fewer exports to the Euro-zone. This will reduce the National Income, standard of living and growth rates of LDCs. **5**
- (c) Question asks for a description of the measure and some explanation of how it would restrict imports. Two well explained measures (quotas, subsidies, embargoes, high standards etc) are therefore all that is required for full marks. **5**

[END OF MARKING INSTRUCTIONS]