

2005 Economics

Intermediate 2

Finalised Marking Instructions

These Marking Instructions have been prepared by Examination Teams for use by SQA Appointed Markers when marking External Course Assessments.

ECONOMICS INTERMEDIATE 2

2005 Marking Scheme

Item A

- (a) The buyers of (or the demand for) mobile phones and the sellers of (or the supply of) mobile phones. 2
- (b) (i) Look for a **simple** explanation of the income effect, the substitution effect or marginal utility eg if the price of a good falls, consumers buy more of it (one mark) because more consumers can now afford the good (credit references to the rise in the real incomes of existing consumers); it might now be cheaper than a substitute (causing some consumers to switch); the good now becomes a 'better' buy ie it gives consumers more value for their money. Note that a simple explanation will gain full marks. 2
- (ii) An increase in the price of a good will lead to more being supplied (one mark) because the producer is now making more profit on the good (one mark) and will therefore be willing and able to produce more (one mark). Credit references to the ability to cover the extra (marginal) production costs. 2
- (c) A wide variety of answers possible, so accept any plausible reason. The reasons include: an increase in income; increased advertising; increase in phone facilities (eg full internet access); a fall in the price of phone calls; health warnings proved to be wrong. 2
- (d) $TR = P \times \text{quantity sold}$ (one mark). TR changes from £10,000 to £15,000 (one mark) – a change (increase) of £5,000 (one mark). Look out for consequential errors. 2
- (e) (i) The question says 'suggest' so accept any plausible answer eg to reduce the consumption of mobile phones for health reasons; to discourage the use of mobile phones by car drivers; to reduce the overall level of demand to slow down the economy. 2
- (ii) The diagram should show a decrease in supply (one mark) and an increase in the equilibrium price (one mark). Candidate should explain how a tax will increase producers costs (one mark) which will reduce their (profit) supply (one mark) which will increase the market price (one mark). 4
- (f) (i) Look for a **simple** explanation of public goods eg goods which the producer cannot prevent the public benefiting from even though they refuse to pay for them. Examples include lighthouses, defence, roads; but accept any reasonable example. 2
- (ii) Look for a **simple** explanation of merit goods eg goods which are so important that (society believes) they should be free (at the point of use). The obvious examples are health and education, but accept any reasonable example. 2

(20)

Item B

- (a) Although the ‘official’ answer is ‘two successive quarters of negative growth’, accept any answer which refers to the economy slowing down, total demand falling and unemployment rising. 2
- (b) (i) Look for a simple explanation eg all those countries (one mark) whose currency is the euro (one mark). No need to mention the number of countries or the fact that they are all members of the EU. 2
- (ii) Reasons include: our trade with the eurozone countries is ‘free’ (credit reason); the eurozone produces the type of consumer goods that we want (credit examples); we produce the type of goods the eurozone wants; proximity ie we are close to each other therefore transport cost are relatively low. Two reasons for full marks. 3
- (c) Low inflation, low unemployment, a balanced payments (accept exports = imports), greater income equality, environmental improvement, reducing world poverty etc. 3
- (d) (i) Look for a **simple** explanation of either the claimant count or the labour force survey. 2
- (ii) Main benefits are a reduction in spending (one mark) on JSA (one mark) and an increase in taxation revenue (one mark) because of higher incomes/spending (one mark). Also credit reductions in social problems, increased FDI, greater popularity with voters etc. 4
- (e) (i) Question refers to the UK economy, so look for an economic advantage eg increased skill levels, higher productivity, better quality goods and services, increased competitiveness, increased exports etc. Mark according to overall quality. 2
- (ii) Look for a description of the danger of overheating (leading to increased inflation etc), the possible need for higher taxation, the possible need for increased government borrowing which could increase inflation (and interest rates) etc. Mark according to overall quality. 2
- (20)

Essay Questions

- 1 (a) Resources are the inputs/factors of production required to produce goods and services ie land, labour, capital and enterprise (2 marks). They are scarce because there are not enough of them to produce all the goods and services that people want. This is because, although resources are limited (in supply), our wants for goods and services (because of greed etc) is unlimited (max 4 marks). 5
- (b) Look for a simple understanding of how scarcity leads to choice and every choice has an opportunity cost. As producers do not have enough resources to produce all the goods they could produce (as the resources are scarce), they have to choose what to produce (and what not to produce). Once they decide to use their resources to produce one good they cannot use these same resources to produce another good. The good they chose not to produce is the opportunity cost (of their decision). Credit examples and definitions of opportunity cost. 6
- (c) As the methods could relate to either geographical or occupational mobility, a variety of answers is possible. Each description could gain 2 marks and each explanation 3 marks. Also credit definitions of labour mobility eg the ease with which a factor can move (either from place to place or from job to job) – one mark. 9
- (20)
- 2 (a) (i) Fixed costs do not change (one mark) when output changes (one mark). Variable costs change (one mark) when output changes (one mark). 4
- (ii) Possible fixed costs: the cost of buying the taxis, rent of the taxi office, interest on the loan to set up the taxi business, road tax per taxi etc. Possible variable costs: petrol, wages of taxi drivers, the cost of servicing the taxis, tyres etc. As it is not always easy to distinguish the two types of cost, be lenient in the marking eg taxi insurance can be regarded as either a fixed or variable cost but, if no attempt to relate the cost to a taxi company, half marks. 4
- (b) Look for a description of how Ace Taxis could either have increased its revenue or reduced its (fixed) costs eg by a ‘successful’ advertising campaign, by increasing the price of a taxi journey and the number of journeys not falling, by moving to smaller premises with lower rent, by finding a cheaper source of finance. Accept any plausible answer. 4
- (c) For full marks (4) the diagram must be fully labelled and show a fall in demand and a fall in the equilibrium price. The explanation should mention that bus fares and taxi fares are substitutes, therefore a fall in the price of one will cause a fall in the demand for the other – as some consumers will switch to the cheaper substitute. The fall in demand for taxi journeys will reduce the price of taxi journeys. 8
- (20)

- 3 (a)** Look for a simple explanation of three uses of National Income figures eg to measure a country's rate of economic growth and standard of living, to compare a country's growth rate with that of other countries, to compare growth rates over time, to help the government plan future economic policies etc. **6**
- (b)** Look for straightforward descriptions of the difficulties caused by double counting, transfer incomes, the black economy, subsistence farming etc. At least three difficulties for full marks. **8**
- (c)** A straightforward question which simply requires an understanding of the fact that AMD will be falling. However, credit any other plausible explanations.
- (i)** The rate should decrease as a decrease in NY implies a fall in the level of total demand. **2**
- (ii)** The level should decrease as the fall in total demand will reduce the demand for labour. **2**
- (iii)** The volume should decrease as the fall in demand will apply to our demand for imports. **2**
- One mark for the effect and one mark for the explanation. **(20)**
- 4 (a) (i)** The volume would fall (one mark) as our export will now be dearer in the US (one mark) as Americans will now have to give up more \$s to buy a given amount of sterling (one mark).
- (ii)** The volume should fall (one mark) as these imports will now be dearer in the UK (one mark) as we will now have to give up more £s to buy a given amount of euros (one mark).
- (iii)** A UK citizen will prefer the holiday in America (one mark) as this holiday will now be cheaper (one mark) whereas the holiday in Europe will now be dearer (one mark). **8**
- (b)** The main sections are: trade in goods, trade in services, IPD and transfers – one mark each. The descriptions can gain a maximum of 3 marks, therefore candidates who omit transfers (regarding them as unimportant), can still score full marks. **6**
- (c)** Look for a simple explanation of how tariffs, quotas, embargoes, high safety standards, exchange control, subsidies etc, will reduce the value/volume of imports and hence reduce a Current Account deficit. Marks should be awarded for a description of the measure and an explanation of how it would work. **6**
- (20)**

- 5 (a)** Mark according to the number of characteristics and/or the quality of the descriptions. Candidates can therefore gain full marks for 4, well described characteristics (2 for each type of country) or 8 characteristics with little description.
- Characteristics of developing countries include: poor living standards, limited technology, poor infrastructure, large debts, low productivity, inadequate education, high population growth. Characteristics of NICs include: high rates of economic growth (until recently), markets allowed to work freely, high spending on education and training, large volume of exports, large increases in investment, weak (pegged) currencies. **8**
- (b) (i)** Advantages include: an increase in employment, increase in wages, faster economic growth, improved trade balance.
- (ii)** Advantages centre around the reduction in production costs. The lower wage rates in these countries will reduce the UK companies production costs which will make them more competitive. This could result in greater sales and higher profit.
- Can mark 2:4, 3:3 or 4:2. **6**
- (c)** Look for two measures, well explained, for full marks. The more measures that are given, the less well explained they have to be. Measures can be macro eg cuts in taxation or increases in government spending (accept cuts in interest rates) or micro eg the New Deal, from welfare to work etc. **6**
- (20)**

[END OF MARKING INSTRUCTIONS]