



## **2007 Economics**

### **Intermediate 2**

# **Finalised Marking Instructions**

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## ECONOMICS INTERMEDIATE 2

### 2007 Marking Scheme

#### Item A

	Marks
<p>(a) The situation in which the buyers/consumers of Z-Boxes (1 mark) meet with the sellers/producers of Z-Boxes (1 mark). If no mention of Z-boxes maximum is 1 mark.</p>	2
<p>(b) (i) £300 and 200 per day (1 mark).</p>	1
<p>(ii) £60,000 (2 marks). <math>TR = P \times \text{Quantity sold}</math> or <math>£300 \times 200</math> (1 mark).</p>	2
<p>(c) (i) £250 (1 mark) and 350 (1 mark).</p>	2
<p>(ii) The factors include:</p> <ul style="list-style-type: none"><li>• a reduction in costs</li><li>• an increase in, or the granting of, a subsidy</li><li>• a reduction in VAT</li><li>• an increase in productivity</li><li>• a decrease in the price of another good (that the producer is making).</li></ul>	2
<p>(d) (i) The UK demand for it would fall (1 mark – provided the explanation is correct) because the tariff would increase its price (1 mark).</p>	2
<p>(ii) The reasons include:</p> <ul style="list-style-type: none"><li>• to protect infant industries (1 mark) until they can stand on their own/grow up (1 mark)</li><li>• to protect essential industries (1 mark) eg farming (1 mark) as we do not want to become totally dependent on other countries for these goods (1 mark)</li><li>• to protect employment (1 mark) by making our goods more competitive (1 mark)</li><li>• to guard against dumping (1 mark) ie when countries sell us their products below cost (1 mark)</li><li>• to protect us from harmful or dangerous products (1 mark) eg Spanish toy donkeys (1 mark)</li><li>• to increase taxation revenue by placing a tariff on the imported good (1 mark)</li><li>• to reduce a trade deficit (1 mark) by reducing the volume of imports (1 mark)</li><li>• to retaliate (1 mark) when a country impose restrictions on our exports.</li></ul> <p>Maximum of 2 marks per reason. If candidate gives more than 2 reasons, mark the first 2 only.</p>	4
<p>(e) (i) Opportunity cost is the sacrifice (1 mark) of the next best alternative choice (1 mark). Credit examples (1 mark)</p>	2
<p>(ii) Credit any plausible (ie similar cost) example.</p>	1
<p>(f) In the short run at least one factor is fixed (1 mark). In the long run no factor is fixed/all are variable (1 mark).</p>	2

## Item B

	Marks
<b>(a) (i)</b> Look for a definition that conveys the idea of an increase in average prices eg an increase in the general level of prices/a general increase in the price level. This is all that is required for full marks, but also credit references to falls in the value of money and the RPI. If candidate simply says an increase in prices – 1 mark.	2
<b>(ii)</b> An increase in a country's ability to produce/productive capacity – 2 marks. Also credit references to increases in national income/GDP.	2
<b>(b) (i)</b> Correct original demand and supply curves – 1 mark; increase in demand – 1 mark; increase in price – 1 mark. No credit for correct axes but if they are omitted or wrongly labelled, maximum mark is 2.	3
<b>(ii)</b> Candidates should explain how rising oil prices put up industrial costs (transport costs, electricity costs etc) or the cost of goods made from oil. These cost increases will lead to higher prices (as producers wish to maintain profit margins).	2
<b>(c)</b> Look for a simple description of demand-pull or monetary inflation.	2
<b>(d)</b> Problems include: <ul style="list-style-type: none"><li>• the price of UK exports will increase which will lead to a fall in demand</li><li>• profit margins of UK exporters will fall which will lead to fall in profits</li><li>• higher interest rates (to combat inflation) will put up costs which will make UK exports less competitive.</li></ul>	2
<b>(e)</b> Look for a simple description of cyclical, structural, frictional, technical or seasonal unemployment.	2
<b>(f)</b> An increase in spending (G) – 1 mark, because of an increase in JSA – 1 mark. A reduction in taxation revenue (T) – 1 mark, because of a reduction in income/spending/profits – 1 mark.	4
<b>(g)</b> The price of UK exports would fall.	1

## PART 2

	Marks
<p>1 (a) Look for a simple explanation of scarcity eg although our wants for goods and services are unlimited (credit reasons) the resources (land, labour, capital and enterprise) needed to produce the goods and services are limited. This is true in all countries – rich and poor. If no reference to all countries, the maximum is 3.</p>	4
<p>(b) What to produce – 1 mark, eg 1 mark. How to produce – 1 mark, eg 1 mark. For whom to produce – 1 mark, eg 1 mark.</p>	6
<p>(c) (i) When workers concentrate on doing one part of a production process instead of doing it from start to finish (2 marks). Credit examples. Efficiency increases because:</p> <ul style="list-style-type: none"><li>• practice makes perfect</li><li>• less time is wasted moving between processes</li><li>• easier to mechanise</li><li>• less training time required.</li></ul> <p>Two marks per description.</p>	6
<p>(ii) Disadvantages include:</p> <ul style="list-style-type: none"><li>• boredom</li><li>• loss of craftsmanship</li><li>• increased stress</li><li>• greater risk of unemployment.</li></ul> <p>Two marks per description.</p>	4
<p>2 (a) Reasons include:</p> <ul style="list-style-type: none"><li>• an increase in income, therefore more people can afford to buy cakes</li><li>• an increase in the price of a substitute good eg biscuits, causing some people to switch to cakes</li><li>• a decrease in the price of a complementary good eg tea or coffee, resulting in more tea/coffee and therefore more cakes being bought</li><li>• increased advertising which increases consumers desire for cakes.</li></ul> <p>One mark for the reason and 1 for the description.</p>	6
<p>(b) Original demand and supply curves – 1 mark. Shift in demand – 1 mark. Shift in supply – 1 mark. New equilibrium price – 1 mark.</p>	4
<p>(c) Diagram: labels – 1 mark; AFC falling continuously – 1 mark. Explanation – fixed costs are being divided by a bigger and bigger output – 2 marks.</p>	4
<p>(d) Look for a straightforward description of any 3 internal or external (no need to mention the difference) economies of scale eg bulk buying, increasing dimensions, lower interest rates etc. Mark according to the quality of the description.</p>	6

- 3 (a) The aims include:
- low/full employment
  - steady growth
  - balanced payments
  - greater equality of income. 2
- (b) (i) A variety of answers possible, but obvious ones will involve an explanation of how a reduction in interest rates will reduce unemployment/increase economic growth as it will increase the level of total demand. 4
- (ii) Again a variety of answers are possible but the obvious answers will explain how budget deficits can increase employment/economic growth by increasing total demand. Alternatively, increased (progressive) taxation and higher welfare benefits should reduce income inequalities. 4
- (c) (i) Direct taxation is levied on income and wealth (1 mark) and is sent directly to the revenue authority – (1 mark); examples – 1 mark. Indirect taxation is levied on expenditure (1 mark) and is collected by an intermediary who sends it to the revenue authority (1 mark); examples – 1 mark. 6
- (ii) With a progressive tax, the rich pay more than the poor (1 mark).  
 With a progressive tax the rich pay proportionately more than the poor (2 marks).  
 With a regressive tax, the poor pay more than the rich (1 mark).  
 With a regressive tax, the poor pay proportionately more than the rich (2 marks). 4
- 4 (a) The uses include:
- to help the government plan future economic policy
  - to measure the rate of economic growth
  - to measure the increase in the standard of living
  - to compare the growth rates of different countries
  - to compare growth rates over a number of years
  - to calculate a country's contribution to international organisations
  - to calculate the amount of aid a country gets. 6
- (b) Government capital expenditure is spending by the government (1 mark) on long term projects (1 mark) – examples gain 2 marks.  
 Government current expenditure is spending by the government (1 mark) on short term/day to day items (1 mark) – examples gain 2 marks. 4
- (c) (i) The questions asks candidates to identify, therefore all that is required is a list of 4 characteristics; accept socio-economic ones as well as economic ones. 4
- (ii) Look for a description of 2 forms of effective aid eg the provision of capital equipment, technical assistance, educational help, cheap medicines, debt relief, free trade. The descriptions should show how the aid will increase NY. 4

- 5 (a) (i) The factors include:
- foreign demand for our exports
  - the level of foreign direct investment in the UK
  - the amount of tourists visiting the UK
  - hot money inflows.
- One mark per influence and one for the description eg an increase in our exports will increase the demand for sterling needed to buy our exports. Also credit references to our inflation and interest rates.
- (ii) The factors include:
- our demand for imports
  - the level of UK overseas investment
  - the amount of UK tourists abroad
  - hot money outflows.
- One mark per influence and one for the description eg we sell sterling to buy the currency we need to buy the imports. 4
- (b) An increase – 1 mark, if the explanation is correct. Each pound will now ‘buy’ more euros (1 mark) therefore her money will now go further (1 mark) and her holiday will be effectively cheaper (1 mark). If sterling decreases, the opposite will happen (1 mark). 4
- (c) Trade in goods (1 mark); trade in services (1 mark). Examples of internationally traded goods or services – 1 mark. Interest, profit and dividends (1 mark), credit explanations of how they arise (1 mark); transfers (1 mark) credit examples (1 mark). 5
- (d) The diagram should show income (wages, interest, rent and profit) (1 mark), flowing from firms to households (1 mark) and back again in the form of expenditure (1 mark). The diagram should also show the 3 injections (1 mark) and the 3 withdrawals (1 mark). Candidates should explain that NY equilibrium occurs when the level of injections equals the level of withdrawals (1 mark) and as money from the sale of exports flows into the UK (ie it is an injection) (1 mark), it will increase the level of NY (1 mark). 7

[END OF MARKING INSTRUCTIONS]