



2007 Economics

Standard Grade – Credit

Finalised Marking Instructions

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Marking Instructions

Question 1

- (a) (i) **Work to Rule** – to do no more than the minimum required of them

Strike – workers refuse to come to their place of work until the problem is resolved or steps taken to negotiate

Go Slow – workers work at the slowest pace possible.

No marks for identification

2 KU

- (ii) Strike action would lead to lost output/growth which could signify lost revenue for the Government in terms of taxation. Reduced level of output may mean more imports are required and so a worsening of the Balance of Trade. In the long term, industrial action could be very damaging to that particular industry and job losses may result – employers may see that they would be better to replace at least some of the workforce with capital equipment.

The Government may have to pay out more benefits (1 mark). The unemployed spend less, therefore overall demand would fall causing a deficit.

4 ES

- (b) (i) **Public Sector**

Government financed through taxation. Given budgets within which to operate and not always required to make a profit, simply to break even year on year (1 mark).

Run/owned by Government (1 mark).

Private Sector

Financed by individuals who contribute capital in the form of cash, other assets or shares. Profits are then returned to owners (1 mark). Privately run but still subject to considerable amount of Government influence through legislation etc. (“Owned by individuals” not enough).

2 KU

- (ii) Loss of services – private sector slows down.
Action causes loss of public sector demand, therefore private sector lose benefit.
Slower roadworks lead to congestion therefore higher costs.
Projects could be shelved – no private sector contracts.
Government costs rise therefore higher tax and less public spending.

4 ES

Question 2

- (a) (i) Capacity of stadium is fixed – finite number of seats. Therefore the supply curve can reflect only one quantity in the short run.
- Supply is the same at all prices (1 mark).
There is a set quantity of seats (1 mark). **2 KU**
- (ii) Demand cannot be satisfied as it is greater than the stadium's capacity. It will experience restricted income because this is determined by supply rather than demand.
- Shortage (1 mark). **2 ES**
- (b) (i) Liable to increase the price of each flight ticket (1 mark) and so reduce demand (1 mark). Potential passengers may choose alternative methods of travel for domestic journeys.
Lower supply (1 mark). **2 ES**
- (ii) Demand for domestic flights may increase (1 mark) as more people are able to afford holidays and air flights generally. However, it could have the opposite effect as more people might choose to travel abroad rather than just domestically. **2 ES**
- (iii) Falling UK interest rates may mean that people have less in their savings and so demand for domestic flights may fall – other forms of transport may be preferred. **2 ES**
It may increase if people are prepared to borrow (1 mark) and supply will have to rise to cope (1 mark).

Question 3

- (a) (i) This reflects the rate at which the general price level (consumer prices) rises with reference to base year. It is expressed as a percentage. **1 KU**
- (ii) Retail price inflation is that measure of price increases which most closely reflects the true spending power of the £ for the general population. Workers are aware that their monetary income does not buy the same amount of goods as it used to. Firms want to keep costs down below inflation if possible. **2 ES**
- (b) (i) Anyone whose income is partly or entirely based on commission will benefit from increasing levels of inflation, eg auctioneers, salesmen, estate agents, debtors etc.
- Those who might suffer would be those on fixed income or those who have very weak powers to influence the level of their incomes eg pensioners (1 mark). **2 KU**
- (ii) Auctioneers etc have incomes which are based on a percentage of selling price and so in times of rising inflation, as prices go up, so does the income of this category of worker (2 marks).
- Pensions tend to be fixed for a set period of time – usually a year – and so cannot adjust immediately to price increases (2 marks).
- This section should be marked consequentially on (b) (i). **4KU**
- (c) (i) The trend is always upward – rising steadily from 2003 until 2006 and then rising much more sharply from 2006 until 2007. (Pace must be given for full marks). **2 ES**
- (ii) There may have been more demand for flights (passenger and cargo) between 2006 and 2007.
- The tax on fuel may have increased over this period. **2 ES**
- (d) The Government could:
- Increase direct taxation such as income tax. By raising the income tax rates and/or thresholds of tax bands more revenue could be raised.
- They could also impose/increase charges on consumers of public services eg prescription charges, parking fines etc.
- Borrowing and tariffs expanded are acceptable answers. Two answers, 2 marks each. **4 ES**

Question 4

- (a) (i) A – 7.5 bottles
B – 10 bottles 2 ES
- (ii) UK 1 ES
- (iii) The opportunity cost of producing one CD recorder in the UK is only 7.5 bottles of wine whereas Germany would have to give up 10 bottles of wine in order to produce one CD recorder. UK has comparative advantage (1 mark). 2 ES
- (b) (i) Greater variety of goods including certain items which could not be produced in some countries – UK for example – because of climatic conditions – exotic fruits and vegetables. Improved quality. Greater choice. 2 KU
- (ii) To reduce its unemployment levels.
To reduce the amount of its imports (Balance of Trade).
To protect strategic/young industry.
For political reasons.
Accept “Retaliation” well explained, 2 KU
- (c) Weak currency leads to cheaper exports (1 mark) and more expensive imports (1 mark) of goods and services. Liable to lead to a worsening (greater surplus) of the Current Account.
- (Beware of inelastic demand). 2 KU

Question 5

- (a) (i) Police car, lighting, roads, lollipop person. **1 KU**
- (ii) Aracnia General Hospital, ambulance, High School, rescue helicopter. **1 KU**
- (iii) Shazia's shop, Julie's gift shop, Wylie's fish and chip van, car park, cars. **1 KU**
- (b) (i) Shorter waiting time – patients can be treated sooner than in public sector hospitals.
"Better" facilities ie single rooms, TVs. **1 KU**
- (ii) No cost (0) to the user at point of consumption.
There is very little to pay (1 mark). **1 KU**
- (c) (i) These are sums of money raised through taxation which are then used (transferred) to pay for pensions and sickness benefits.
If an example only is given – no marks. **1 KU**
- (ii) Encourage workers to take out their own private health cover through insurance and to encourage workers to save/invest from an early age towards the creation of a private pension fund. Increase unemployment. Encourage preventative medicine. **4 ES**

Question 6

(a) (i) Multinational

An organisation which has its head office/main place of output in one country and branches in many other countries

Plc

A public limited company (0). This is an organisation which is owned by shareholders – its shares being advertised on the Stock Exchange for sale to the general public.

2 KU

- (ii)** A greater variety of products available to consumer at lower prices because of the benefits of specialisation available to multinational organisations.

2 KU

May monopolise the market and then raise prices.

- (b)** Average Total Cost has increased between 2005 and 2007 (1 mark). This would indicate that Ceeyou Lamps plc has moved to a production level beyond its optimum point (1 mark) ie ATC is no longer falling and the firm is experiencing diseconomies of scale (1 mark).

Credit can be given for examples of diseconomies of scale, eg admin costs, too complex, over specialised (maximum of 5) and also for inclusion of a diagram.

6 ES

- (c) (i)** The order for 40,000 will seriously strain the company's ability to produce at a competitive price as its ATC is already rising at an output level of 30,000. It cannot complete the order.

1 ES

- (ii)** Ceeyou Lamps plc might sub-contract the order to another supplier or introduce more capital-intensive methods of production (difficult in the immediate term). They might also ask staff to work overtime/shifts. Back up stock could be used.

2 ES

- (d)**
- Pollution - air, noise etc.
 - Traffic congestion.
 - Upset to the environment – reduced recreational facilities, more roads etc.
 - Loss of scenery.

3 KU

[END OF MARKING INSTRUCTIONS]