



**2008 Economics**

**Advanced Higher**

**Finalised Marking Instructions**

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**Marking Instructions**  
**Economics Advanced Higher**

**Detailed marking instructions/guidelines**

These are not solutions

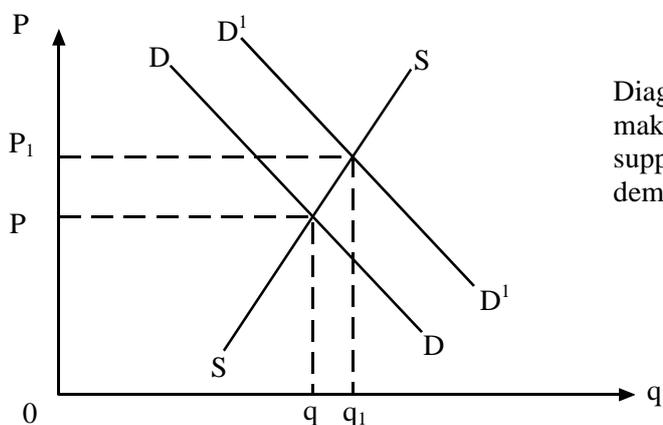
1. The appended marking instructions are guidelines only. Candidates will adopt different ways of tackling particular questions.
2. Differences of interpretation will be resolved at the Markers' meetings in May and June.
3. In essay or extended answers it is not necessary for candidates to include all the points listed in the enclosed mark schemes.
4. Candidates are expected to demonstrate a full appreciation of the topic and a sound understanding of the economic issues under discussion.
5. Marks should not be allocated on a rigid points scoring basis, but on the overall quality of the answer.

**Advanced Higher: Marking Scheme**

**Marks**

**Section A**

- |    |   |          |
|----|---|----------|
| 1. | (a) Fall in GDP for two successive quarters.  |          |
|    | (b) Total value of country's annual output of goods and services before the effects of depreciation and income earned in other countries are considered.  | <b>2</b> |
| 2. | GDP has been rising more rapidly than the demand for oil.<br>More efficient use of oil by individuals and companies because of higher prices.<br>Technological progress.<br>Decline of UK manufacturing.  | <b>2</b> |
| 3. | (a) Oil is priced and traded in US dollars, benefiting those economies with strong currencies.<br>Size of US economy: weaker dollar.  | <b>2</b> |
|    | (b) Tax levels on petrol in the UK are much higher reducing the impact of increases in oil prices.<br>Increase in UK incomes in recent years.   | <b>2</b> |
|    | (c) High oil prices increase production costs, increase energy bills, increase transport and distribution costs leading to inflation. Real disposable income will be reduced leading to unemployment, economic slowdown and perhaps a recession.<br>Both impact on costs and total demand needed. | <b>4</b> |
| 4. | (a) Growth of BRIC and other countries.<br>Rate of global economic growth.<br>Developing economies begin to industrialise.<br>Rising levels of income and car ownership.  | <b>3</b> |
|    | (b) Diagram to show simple supply and demand market equilibrium, but allowing for the fact that OPEC controls 40% of the world supply (inelastic supply).   | <b>3</b> |
|    | Maximum 1 mark if no diagram.<br>Some credit for interruptions in supply.   |          |



Diagrams must make inelastic supply and demand clear

- |    |   |   |
|----|---|---|
| 5. | Investment banks and hedge funds; Commodities are a form of corporate and personal investment in which speculation takes place.   | 2 |
| 6. | (a) Answer should divide into renewable and non renewable sources, for example wind, solar, geothermal, coal and nuclear. For full marks, comment is expected on the realism of the alternatives proposed, for example coal reserves could last for 300 years or how many wind farms would be needed to meet energy demands. At least two alternatives should be discussed. | 3 |
|    | (b) As the price of oil increases the incentive for individuals and firms to develop alternatives will increase leading to high profits for enterprising and successful initiatives.  | 2 |

**Section B**

**Marks**

1.	Comment on the number of migrants is expected.	
(a)	<p><b>Reasons include:</b></p> <ul style="list-style-type: none"><li>• better prospects</li><li>• pay and job opportunities in the UK</li><li>• admission of 12 new members to EU since 2004</li><li>• unemployment in EU accession states</li><li>• many of the other 15 EU members have short term restrictions on entry and non-EU migrant workers coming to UK for economic and political reasons.</li></ul>	7
(b)	<p><b>UK citizens</b> will benefit from the product of hard work, better services, cheaper goods and more wants satisfied especially in agriculture and service industries.</p> <p><b>UK firms</b> will benefit from cheaper workers and lower costs, skilled workers, good quality work, fewer labour shortages and improved competitiveness.</p> <p><b>The UK economy</b> will have increased GDP, higher tax revenue, more exports and in particular an increase in the working population to counter the effects of an ageing population.</p>	9
(c)	<p><b>UK citizens</b> might lose jobs, face depressed wages, pressure on housing, education and social services.</p> <p><b>UK firms</b> will need to provide training and language tuition and may face problems from resentful UK workers.</p> <p><b>UK economy</b> has the cost of legal admission procedures, illegal immigrants to monitor and control, building extra schools, hospitals and other facilities.</p>	9

2. Candidates expected to give some figures to show extent of dollar's fall.

(a) **Reasons include:**

- a persistent current account deficit
- a budget deficit
- strength of other currencies
- relative decline of US economy leading to declining role of the dollar as a reserve currency
- US overseas debts
- impact of credit crisis on US assets held by China, Japan and others
- speculative selling and psychological factors.

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(b) **On USA** cheaper exports leading to improving current account, higher GDP and lower unemployment, but inflation higher, oil price effect greater and more expensive travel overseas for citizens.

**On EU** less competitive leading to economic slowdown or even recession, worsening current account balances, declining travel income from USA, but effect of oil price rises lessened and cheaper foreign travel for EU citizens.

**On world economy** USA likely to grow at expense of other developed countries, declining dominance of USA, countries may revive or cut links with US dollar and they may place reserves in other currencies. Real impact depends on extent of dominance of USA on world economy (declining, but still very significant).

15

3. Candidates must be aware of changes in the first part of 2008.

(a) **Reasons include:**

- rising real incomes
- low interest rates
- availability of cheap accessible mortgages
- changes in population size and structure
- second home market
- role of houses as investments likely to yield capital gains
- planning regulations
- slow rate of house building
- limited supply of land
- decline in public sector housing and the access to short term low cost mortgage deals.

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(b) **Costs of falling prices** include a 'feel bad factor' undermining confidence and spending, reluctance to move leading to bottlenecks, re-emergence of negative equity, impact on all aspects of the housing industry, falling consumption leading to economic slowdown, unemployment and possible recession.

**Benefits of falling prices** more affordable homes for first time buyers, less speculation and profiteering, lower interest rates, more disposable income for mortgage holders, more realistic house prices.

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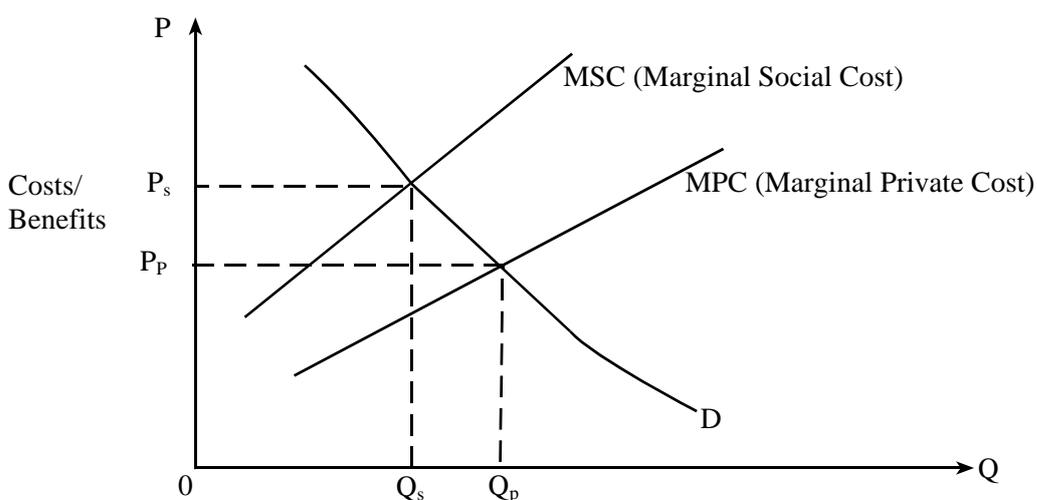
4. (a)(i) **Market failure** market forces fail to deliver economic efficiency – utility for the whole economy is lower than it should be. Misallocation of resources.

2

(ii) Market prices charged do not reflect the full factor cost of production to the supplier or the price charged to the consumer. Prices are too low and output too high to achieve economic efficiency. The cost is charged to third parties – in this case the environment. The allocation of resources is allocatively inefficient. A diagram should be included if the candidate is to earn more than 3 marks.

8

Maximum 4 marks for diagram only.



(b) These include Kyoto and 'Kyoto II', carbon taxation, the Stern Review, air and car travel charges for fuel emissions and congestion, moral suasion and green initiatives. Bali and other meetings should be mentioned. This is very wide ranging – candidates would not be expected to discuss more than a few initiatives but in some depth.

8

(c) **Problems include:**

- opposition from USA, Japan, China and other developed nations
- absence of long term thinking
- initiatives may be too limited to have an impact
- monitoring the behaviour of individual countries
- lack of coherence and political opposition.

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5. Some knowledge about recent rates of interest and inflation is expected.

(a) **Increase rates** inflation persistently in excess of 2%, house price inflation, food prices, consumer debt, overheating in the economy, extent of public sector debt.

8

(b) **Decrease rates** Psychological and real effects of US sub-prime and Northern Rock crises, evidence of coming slowdown, inflation driven by food and commodity prices (external) and housing market (sensitive!), MPC required to take a long term view (2 years).

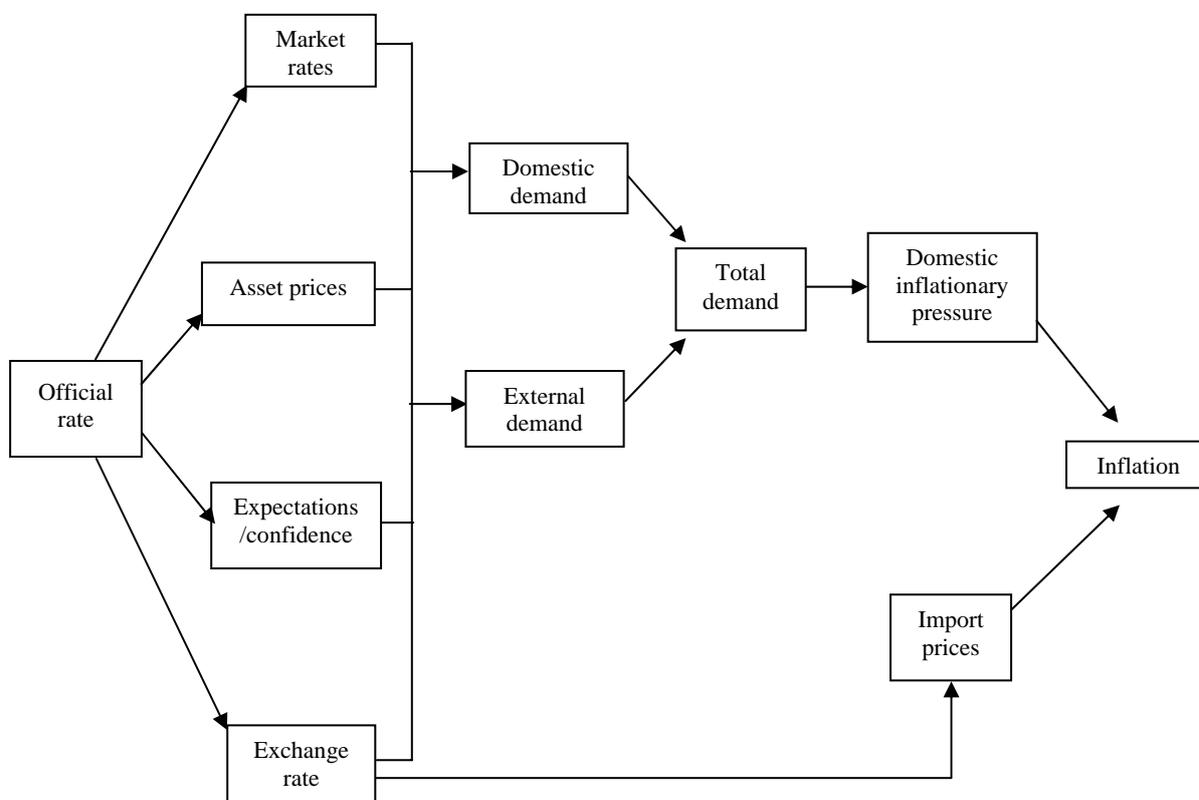
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(c) **Diagram** (see below) to show monetary transmission mechanism. This should lead to a discussion of the impact on domestic demand, asset prices, expectations and confidence and the exchange rate and the eventual impact on inflation rates.

**NB** Diagram not essential provided all four ‘channels’: market rates, asset prices, expectations and exchange rates – are discussed fully.

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The transmission mechanism of monetary policy



6. Some background information about the crisis should be given
- (a) **Reasons include:**
- links with the US sub-prime crisis
  - poor lending strategy to marginal customers
  - inadequate reserves
  - inter-bank cash crisis
  - poor management
  - inadequate regulation and control by the Financial Services Authority (FSA), the Bank of England and the Treasury.
- Discussion of the nature of a liquidity crisis is expected. 8
- (b) **Options include:**
- administration/nationalisation
  - continue on a reduced scale
  - selling off Northern Rock in whole or in part and bankruptcy
  - depositors and mortgage holders (but not shareholders) have received Government protection
  - provision of short term credit by Treasury of at least £25 billion, even £55 billion
  - securitisation of debt as announced in January 2008. 9
- (c) **Wide range of possible implications include:**
- loss of confidence in financial services sector
  - lost jobs
  - key international role of ‘the city’ and recent rapid growth of its role in UK economy undermined
  - dangerous precedent set by UK Government
  - bailing out any firms and encouraging others to look for similar treatment
  - job losses in Northern Rock
  - effectiveness of UK monetary supervision questioned after many successful years – have the FSA and the Bank of England been too complacent
  - were the divisions in responsibility unclear and is the structure as strong as previously thought?
  - contribution to economic slow down and/or recession
  - effects on housing market
  - fall in credit availability and level of approvals
  - repossessions 8
- Candidates are expected to be up to date with developments that take place during the course of 2008.

[END OF SECTION B]

[END OF MARKING INSTRUCTIONS]