



2008 Economics

Intermediate 2

Finalised Marking Instructions

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ECONOMICS INTERMEDIATE 2

2008 Marking Scheme

Item A

	Marks
(a) Two successive quarters of negative growth. Credit references to rising unemployment, falling AMD, economic slowdowns etc.	2
(b) (i) Look for an understanding of how a fall in exports could create an increase in unemployment in our exporting industries. Also credit candidates who explain how the fall in exports could create a fall in national income and an increase in unemployment.	2
(ii) Candidates should explain how an increase in unemployment increases government spending (on eg JSA) and reduces government revenue (from taxation).	4
(c) (i) When the value of our exports of goods is less than the value of our imports of goods. If value is not mentioned, only 1 mark can be given.	2
(ii) Look for an explanation of how any import control (tariffs, quotas, etc) leads to a fall in imports. Also credit explanations of how monetary or fiscal policy can be used to reduce imports; explanations of how exports can be increased and the effects of devaluation. One mark for the measure, 2 for the explanation.	3
(d) (i) When government spending is greater than government revenue.	1
(ii) Look for an understanding of how a budget deficit increases the level of total demand (and therefore inflation) in an economy.	2
(e) (i) Saving will increase because it is more rewarding – credit explanation. Also credit candidates who explain that savings might fall because higher interest rates reduce real incomes.	
(ii) Economic growth will slow down because interest rate rises will reduce borrowing, spending and investment (no need to mention all 3). Mark according to the quality of the explanation.	4

Item B

	Marks
(a) A transfer payment is when money changes hands/moves from one group of people to another, without a good or service being exchanged (2 marks). One mark for a correct example.	3
(b) (i) Price of exports will decrease (1 mark) because the pound is cheaper to buy/foreign currencies now buy more pounds/foreigners have to give up less of their currency to buy a given amount of pounds (1 mark).	
(ii) The number will increase (1 mark) because the holiday is now cheaper (1 mark). Also credit explanation, which will be the same as for (b)(i).	4
(c) (i) Education, NHS, defence, etc. Do not credit any transfer payment.	1
(ii) Look for an economic explanation eg spending on education can lead to a more productive workforce which can lead to increased economic growth.	2
(d) (i) Original D and S curves (1 mark); S curve shifts to the left (1 mark); equilibrium price increases (1 mark).	3
(ii) Gas and electricity can be regarded as substitutes (at least in the long run) (1 mark). Increases in the price of gas may therefore (eventually) lead to an increase in the demand for electricity (1 mark). This increase in demand will increase the price of electricity (1 mark).	3
(e) (i) The ease with which labour can move (1 mark) from job to job (1 mark).	2
(ii) Look for a simple description – government re-training schemes, adult education, etc.	2

PART 2

- Marks
- 1 (a) Credit the following points.
- Scarcity is the basic economic problem.
 - It comes about because our wants (for goods and services) are unlimited.
 - This is because goods wear out/new goods/greed.
 - The resources (used to produce the goods) are land, labour capital and enterprise.
 - Resources are limited.
 - Unlimited wants and limited resources create scarcity.
 - No country has enough resources to satisfy all the wants of its people.
 - Scarcity leads to choice.
- 5
- (b) National Income is the value of the output of goods and services produced in a country in a year (2 marks). Look for a straightforward description of the problems created by: double counting; transfer incomes; the shadow economy; non-marketed output; inflation; population increases etc. Two marks per description. If candidate gives more than 3 descriptions, mark all and credit 3 highest scoring.
- 8
- (c) NI equilibrium occurs when injections (1 mark) are equal to withdrawals/leakages (1 mark). One mark for development. In the diagram, 1 mark for each of the following.
- Firms and households (or similar terms).
 - (Factor) incomes flowing from firms to households.
 - Expenditure flowing from households to firms.
 - Injections entering the flow (with a least one example).
 - Withdrawals/leakages leaving the flow (with at least one example).
- 7
- 2 (a) Credit the following points.
- Ace racquets will now be cheaper in the US.
 - This is because each \$ is now buying more £s.
 - The demand for Ace racquets in the US will increase.
 - This will increase the revenue of Ace.
 - The profits made by Ace will therefore increase.
- 4
- (b) Look for a straightforward description of how 3 of the following could increase the demand for tennis racquets.
- An increase in income.
 - A period of warm weather.
 - The move from Spring to Summer.
 - Wimbledon.
 - Murray winning grand slam tournament.
 - A fall in the cost of joining a tennis club.
- Credit any other plausible reason but do not credit factors that will increase the demand for Ace racquets only.
- 6

- (c) (i) Fixed costs do not change with output (1 mark), variable costs vary (directly) with output (1 mark).
(ii) One mark for the cost and 1 mark for correctly relating it to the Ace Tennis Company. **6**
- (d) One mark for the labels and 1 mark for each correctly drawn cost curve. **4**
- 3** (a) Look for a simple explanation of how the RPI is constructed. Credit references to: basket of goods; FES; prices from retailers around the country; index numbers; weights; base year. Also credit explanations of the RPIX and the CPI. **4**
- (b) Look for a straightforward description of any 2 of the following: demand-pull, cost-push and monetary inflation. **6**
- (c) (i) A wide variety of answers is possible, so credit any plausible policy. Look for policies which will either increase the quantity or quality of our factors of production or encourage technical progress eg increased government spending on education and training (to increase labour productivity); cuts in interest rates to encourage investment; increased government spending on R&D. However most candidates will probably concentrate on policies aimed at increasing AMD ie budget deficits and interest rate cuts – these can be marked 4:2, 3:3 or 2:4. If the policies are not directly linked to growth, maximum is 4. **6**
- (ii) Look for an explanation of how the policy will reduce unemployment. This may be difficult if the chosen policy is neither budget deficits nor interest rate cuts. **4**
- 4** (a) The crux of the answer is, by making taxes more progressive and spending more on welfare benefits. Candidates should therefore explain, with examples, what is meant by progressive taxation ie a tax which results in the rich paying proportionately more than the poor eg surtax and CGT. They should then describe how progressive taxes reduce income inequality (max 5 marks). Candidates should then explain how increased spending on welfare benefits (credit examples) will raise the income levels/standard of living of the poorer in society and therefore close the gap between rich and poor (max 4 marks). **8**
- (b) The economics aims include: low inflation; low unemployment; steady growth; balanced payments; sustainable development. The mention of any 4, or a detailed description of any 2, for full marks. **4**
- (c) Candidates should explain how a tax on a good increases the cost of producing the good (ie the producer receives the market price less the tax) and will induce the producer to produce less of it. This reduction in supply will increase the equilibrium price (max 5 marks). The diagram should show:
- a demand and supply curve and the EP
 - correctly labelled axis
 - a decrease in supply
 - an increase in the EP.
- One mark for each point. **8**

- 5 (a) Straightforward question but to gain 8 marks, candidates might be tempted to give numerical examples to aid their explanations. These are notoriously difficult to get right so be aware of this when marking them. Absolute advantage is when one country is better/more efficient at producing one good and another country is better/more efficient at producing another good. Credit highly candidates who explain this in terms of opportunity cost. If each country specialises in the production of the good in which it has an absolute advantage, world output will be maximised. Comparative advantage occurs when one country is better at producing both goods but its absolute advantage is greater in one of them. It therefore has a comparative advantage in that good and the other country has a comparative advantage (ie less of an absolute disadvantage) in the other good. Again credit explanations based on opportunity cost. If each country specialises in the good in which it has a comparative advantage, world output will be maximised.

Mark according to the overall quality of the explanation.

8

- (b) The benefits include: lower prices; higher quality; greater choice; better value for money. Any 2, plus some description for full marks.

4

- (c) The advantages include: they get better at producing the good as practice makes perfect; they can work at what they do best; less strain as they do not have to multi-task; shorter training period as they only have to be taught how to do one thing; higher pay – if they are paid ‘piece rates’.

The disadvantages include: boredom from doing the same job over and over again; increased risk of RSI; increased risk of being replaced by a machine; increased occupational immobility; if unemployed, less chance of being re-employed; loss of job satisfaction; worker alienation.

One mark for the advantage/disadvantage and one mark for the description.

8

[END OF MARKING INSTRUCTIONS]