



EP12/H/01

Economics

Date — Not applicable

Duration — 2 hours

Total marks — 70

SECTION 1 — 25 marks

Attempt ALL questions.

SECTION 2 — 45 marks

Attempt ALL questions.

You may use a calculator.

Write your answers clearly in the answer booklet provided. In the answer booklet you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.



SECTION 1 — 25 marks

Read the following Source and attempt ALL questions that follow.

Commodity prices and the UK economy

World commodity markets are important, as volatility of prices can make it difficult for firms and governments to plan ahead. Following the devastation of the Russian crop, wheat prices rose by 50%. As a result, the cost of the wheat in a loaf of bread in the UK has risen by 7p. The major bread producers in the UK are likely to pass this on to customers.

Analysts also reported that the prices of metals were set to change further. This is as a result of increased economic growth in China and the manufacturing of more products. Due to production problems, the prices of copper and platinum were likely to be the most affected.

In previous years, **guaranteed minimum prices** for cotton growers in the USA has resulted in overproduction. This overproduction caused the lowering of world cotton prices. The instability of commodity prices can have a knock on effect to the economic performance of countries.

Recent reports suggest that the UK economy has benefitted from the relatively low value of sterling. In the short-run, the fall in the value of the pound boosts exports, which could help to increase the level of growth in the UK economy, but it also puts upward pressure on the rate of inflation. The UK still has a large deficit on its Trade in Goods but continues to have a surplus on its **Trade in Services**.

The Monetary Policy Committee (MPC) will therefore be paying particular attention to what is happening in the export market when making decisions.

The following questions are based on the source provided and on knowledge and understanding you have gained whilst studying the Course.

- | | | |
|--------|---|---|
| 1. (a) | Describe what is meant by “guaranteed minimum prices”. | 2 |
| (b) | (i) Describe what makes the demand for bread “price inelastic”. | 2 |
| | (ii) Explain how the total revenue of bread producers will be affected by the increase in the price of bread. | 2 |
| (c) | Draw one diagram to show how both production problems and China’s economic growth could cause a change in the price of copper. | 4 |
| (d) | (i) Describe what is meant by a “surplus on Trade in Services”. | 2 |
| | (ii) Explain one reason for the UK’s Trade in Services being in surplus. | 2 |
| (e) | Explain why a fall in the value of sterling: | |
| | (i) boosts exports; | 2 |
| | (ii) puts upward pressure on the rate of inflation. | 2 |
| (f) | Describe how the UK Government measures the rate of inflation. | 3 |
| (g) | Explain two ways in which a country can reduce its rate of inflation. | 4 |

SECTION 2 — 45 marks

Attempt ALL questions

2. Economics is the study of scarcity and choice.
- (a) Explain the difference between scarcity and a shortage. 4
 - (b) Describe how the price mechanism allocates scarce resources. 6
 - (c) Explain the ways governments intervene to correct market failure. 5
3. Low unemployment and increasing real national income are important objectives of the UK Government.
- (a) Describe **two** ways of measuring unemployment. 4
 - (b) Describe the causes of unemployment. 6
 - (c) Describe the uses of national income statistics. 5
4. Many economists are of the opinion that free trade is threatened by protectionist policies being used in the world today.
- (a) Describe the main economic benefits of free trade. 3
 - (b) Explain the reasons why some countries decide to impose restrictions on free trade. 4
 - (c) Discuss the economic advantages and disadvantages to the UK of European Union membership. 8

[END OF EXEMPLAR QUESTION PAPER]



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EP12/H/01

Economics

Marking Instructions

These Marking Instructions have been provided to show how SQA would mark this Exemplar Question Paper.

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General marking principles for Higher Economics

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this Paper. These principles must be read in conjunction with the detailed Marking Instructions, which identify the key features required in candidate responses.

- (a) Marks for each candidate response must always be assigned in line with these general marking principles and the detailed Marking Instructions for this assessment.
- (b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding; they are not deducted from a maximum on the basis of errors or omissions.
- (c) For each candidate response, the following provides an overview of the marking principles. Refer to detailed Marking Instructions for further guidance on how these principles should be applied.

i) Questions that ask candidates to Describe . . .

Candidates must make a number of relevant, factual points which may be characteristics and/or features or a definition of an economic term, as appropriate to the question asked. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:

- **1 mark** should be given for each relevant, accurate factual point.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

ii) Questions that ask candidates to Explain . . .

Candidates must make a number of relevant points that relate cause and effect and/or make the relationships clear. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate relevant point of explanation.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

iii) Questions that ask candidates to Analyse . . .

Candidates must demonstrate their ability to identify/describe/explain relevant parts and the relationship between the parts and/or the whole. Candidates should be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate point of analysis.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

iv) Questions that ask candidates to Discuss . . .

Candidates must make a number of points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. It is not always necessary to give both sides of the debate in responses.

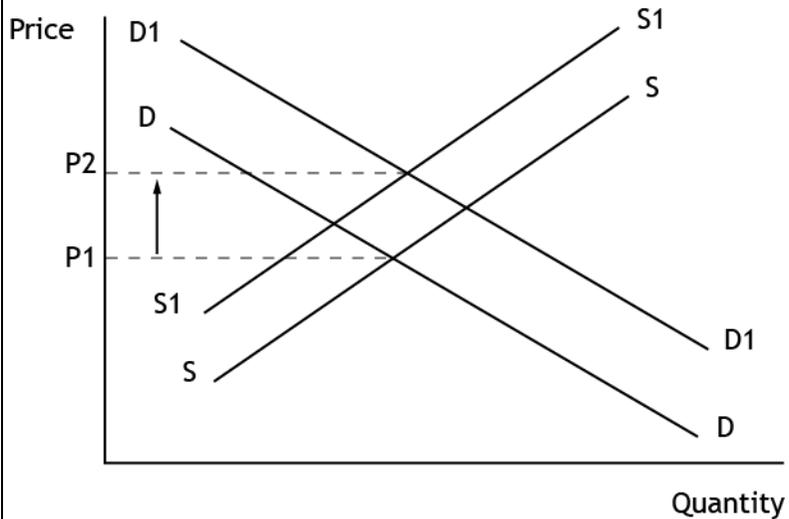
Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate point of knowledge that is clearly relevant.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

Marking Instructions for each question

SECTION 1

Question			Possible response	Max mark	Additional guidance
1	a		<p>Responses could include the following:</p> <ul style="list-style-type: none"> • A guaranteed minimum price is one that will always be paid to the producers and cannot go below that price (1 mark), eg the cotton growers in the USA (1 development mark for appropriate example). • This is a price set by the government (1 mark) and that it is above equilibrium point (1 development mark). • Minimum prices are price floors (1 mark). To be effective, minimum prices are set above market clearing level/equilibrium level (1 development mark). <p>Accept any other suitable response.</p>	2	<p>Award a maximum of 1 mark for a valid description of ‘guaranteed minimum price’.</p> <p>Award 1 mark for a valid development point, which could include an appropriate example.</p> <p>Award 1 mark for an accurate diagram.</p> <p>No marks are awarded for merely stating an example.</p>
1	b	i	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Bread is an essential or necessary item (1 mark). People continue to purchase it in similar amounts when it rises in price. (1 development mark). • Bread uses a relatively small proportion of income (1 mark). A price rise will not have a significantly negative effect on the consumer (1 development mark). Similar amounts of bread will be purchased (1 development mark). <p>Accept any other suitable response.</p>	2	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development of a point.</p>

Question			Possible response	Max mark	Additional guidance
1	b	ii	<p>Responses could include the following:</p> <ul style="list-style-type: none"> If the price of bread rises, the percentage change in price is greater than the percentage fall in quantity demanded (1 mark), so total revenue will rise (1 mark). Bread is a price inelastic product – the fall in the quantity demanded will be proportionately less than the rise in the price (1 mark), therefore the total revenue of bread producers will rise (1 mark). <p>Accept any other suitable response.</p>	2	<p>Award a maximum of 1 mark for a valid explanation.</p> <p>Award 1 mark for a valid development of a point.</p> <p>A maximum of 1 mark can be awarded for a clear diagram showing the increase in total revenue, with no given explanation.</p>
1	c		<p>Diagram should show:</p> 	4	<p>Maximum of 3 marks if one of the curves is incorrect.</p> <p>Maximum of 3 marks if the diagram is not correctly labelled.</p> <p>Correctly drawn and labelled original demand and supply curves, original price and labelled axes (1 mark).</p> <p>For supply curve clearly labelled as being shifted left (production problems) (1 mark).</p> <p>For demand curve clearly labelled as being shifted right (increased demand due to China's growth) (1 mark).</p>

Question			Possible response	Max mark	Additional guidance
					For clearly indicating the new equilibrium price higher than the original (1 mark).
1	d	i	<p>Responses could include the following:</p> <ul style="list-style-type: none"> When a country earns more on exporting services than it spends on importing services (1 mark). When the value of exported services is greater than the value of imports of services (1 mark). A Trade in Services is exporting and importing for example financial services, ie banking, insurance (1 development mark). <p>Accept any other suitable response.</p>	2	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a development point which could include an appropriate example of 'trade in services'.</p> <p>No marks for responding 'exports are greater than imports' – there must be a reference to the monetary value.</p> <p>No marks are awarded for merely stating an example.</p>
1	d	ii	<p>Responses could include the following:</p> <ul style="list-style-type: none"> The UK has a (comparative) advantage in services and this leads to the UK having a surplus of expertise (1mark), eg the quality of UK financial services is better than those found in other parts of the world (1 development mark). <p>Accept any other suitable response.</p>	2	<p>Award a maximum of 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development of a point, which could include an appropriate example.</p> <p>No marks are awarded for merely stating an example.</p>
1	e	i	<p>Responses could include the following:</p> <ul style="list-style-type: none"> This means that the price of our exports become more competitive (1 mark). 	2	<p>Award a maximum of 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development of a point.</p>

Question			Possible response	Max mark	Additional guidance
			<ul style="list-style-type: none"> A fall in the value of sterling – this means that overseas buyers now get more sterling for their currency (1 mark), which may lead them to demand more of the UK’s exports (1 mark). <p>Accept any other suitable response.</p>		Responses must make the relationship clear between the fall in the value of sterling and an increase in exports.
1	e	ii	<p>Responses could include the following:</p> <ul style="list-style-type: none"> This leads to an increase in the prices of our imports (1mark): <ul style="list-style-type: none"> This can then lead to increased costs for producers (1 development mark). These increased costs may be covered by increasing prices to consumers (1 development mark). The fall in the value of sterling causes higher import prices (1 mark). <ul style="list-style-type: none"> This may lead directly to increased prices of imported goods and services in the shops (1 development mark). This can then lead to cost-push inflation (1 development mark – linking reason to type of inflation). More expensive import prices leads to the demand for domestic goods increasing (1 mark) and this could then lead to demand-pull inflation (1 development mark). <p>Accept any other suitable response.</p>	2	<p>Award a maximum of 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development of a point.</p> <p>Award 1 mark that clearly links the reason to the specific type of inflation.</p> <p>Responses must make the relationship clear between the fall in the value in sterling and an increase in the rate of inflation.</p> <p>No marks for merely re-stating the terms in the question.</p>
1	f		<p>Responses could include the following:</p> <ul style="list-style-type: none"> Inflation is measured monthly (1 mark), using an index of the price of a basket of goods and services (1 mark), which is collected at various locations around the UK (1 mark). 	3	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for any development</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> The items are chosen to reflect the spending of the average household (1 mark). The items are weighted to reflect their significance as a proportion of total household spending (1 mark). The index starts at a 'base year', from which changes in the price levels are compared (1 mark). <p>Accept any other suitable response.</p>		<p>point which may include comparisons of Retail Price Index (RPI) and Consumer Price Index (CPI).</p> <p>No marks for merely identifying RPI and/or CPI.</p>
1	g	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Interest rates can be increased, making consumers/businesses pay more for loans (1 mark). Increased interest rates also gives consumers/businesses more incentive to save, therefore spending goes down (1 mark), which in turn relieves demand inflationary pressure (1 development mark). Decreased government spending, leading to decreased aggregate demand (1 mark), which takes the pressure off demand-pull inflation (1 development mark). Increased taxation, leading to less disposable income and spending (1 mark), which takes the pressure off demand-pull inflation (1 development mark). Trade union power could be decreased, leading to lower wages (1 mark), which could lead to firms' costs being reduced (1 mark), thereby relieving cost-push inflation (1 development mark). <p>Accept any other suitable response.</p>	4	<p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development of a point.</p> <p>A maximum of 3 marks can be awarded for explanation of any way in which a country can reduce its rate of inflation.</p> <p>No marks for merely saying a measure leads to reduced inflation. Candidates have to make clear the relationship between the type of inflation and the way in which it can be reduced.</p>

SECTION 2

Question		Possible response	Max mark	Additional guidance
2	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • The problem of limited economic resources to meet unlimited wants for goods and services, leads to scarcity (1 mark). • A physical imbalance between what is supplied to a market and what is actually demanded, leads to a shortage (1 mark). • They are different because scarcity can never be solved, whereas a shortage can be (1 mark). A shortage is temporary in markets, whereas scarcity is universal (1 mark). <p>Accept any other suitable response.</p>	4	<p>Award a maximum of 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development of a point.</p>
2	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • The price mechanism uses the forces of demand and supply to determine the price of a good/service (1 mark). • If demand for a good/service increases, there will be a shortage and this will cause the price to rise (1 mark). The price acts as a signal to the producer, who is motivated by profit (1 development mark). • If the price rises, the good/service will become more profitable to supply than other goods (1 mark). This will encourage existing and new suppliers to increase their supply (1 development mark). • More resources are required to increase the supply of the good/service (1 mark). Resources are therefore re-allocated to the production of the more profitable goods/services and away from other (less profitable) goods/services (1 mark). <p>Accept any other suitable response.</p>	6	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development of a point.</p> <p>To gain full marks, candidates must mention how the price mechanism leads to the allocation of resources. Up to a maximum of 4 marks can be awarded if a candidate does not link the price mechanism to resource allocation.</p> <p>Candidates are likely to describe the price mechanism from the demand side. However, credit should also be given to candidates whose description is from the supply side, or through a fall in demand reducing price.</p>

Question		Possible response	Max mark	Additional guidance
2	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • If indirect taxes are increased, then this would discourage consumption of de-merit goods (1 mark), because they are now more expensive for consumers (1 mark), eg government taxes on cigarettes discourages consumption (1 mark). • Subsidies are increased to encourage production of merit goods (1 mark), because this makes them cheaper to produce (1 mark). • Central or local government could produce more merit or public goods, in order for them to be provided to society (1 mark), eg provide more street lighting (1 mark). • Laws and regulations could be put in place in order to correct negative externalities (1 mark), eg limits on CO₂ emissions (1 mark). • Competition policy can be introduced to prevent monopolies exploiting consumers (1 mark), eg Competition and Markets Authority (CMA) investigating the energy market (1 mark). • Taxes can be used to re-distribute income, by making income tax more progressive (1 mark) to reduce income inequalities (1 mark). <p>Accept any other suitable response.</p>	5	<p>Award a maximum of 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development of a point.</p> <p>To gain full marks, at least two ways must be explained.</p> <p>Award a maximum of 4 marks for any one way of intervening.</p>
3	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • The Labour Force Survey is a sample survey of people living in private households, students' halls of residence and NHS accommodation (1 mark). Around 150,000 people are surveyed (1 mark). The survey is conducted every quarter (1 mark) and asks respondents about their personal circumstances and their activity in the labour market (1 mark). The results of the sample are collated and then inferences are drawn to represent the whole population (1 mark). 	4	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development point.</p> <p>Award up to a maximum of 3 marks for any one measurement.</p> <p>No marks for merely identifying the survey and claimant count, ie there must be description.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> The claimant count is based on the administrative records of people claiming unemployment benefits (1 mark). Those claiming benefits must declare that they are out of work, capable of work, available for work, and actively seeking work during the week in which their claim is made (1 mark). The claimant count is not considered as accurate a measure as the Labour Force Survey (1 mark). <p>Accept any other suitable response.</p>		
3	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Cyclical unemployment Cyclical unemployment (demand-deficient unemployment) is associated with a recession and a lack of aggregate demand (1 mark). As the demand for goods and services goes down, so does the demand for workers to produce the goods and services (1 mark). Real-wage (classical) unemployment This occurs when wages are sticky above market clearing level/equilibrium (1 mark). This causes a surplus of workers, ie unemployment (1 mark). More people are willing to be part of the labour market at this wage, but employers are less willing to take on workers at this wage level because it costs more (1 mark). Wages can be above equilibrium due to trade union power, minimum wage legislation, benefits being too high or benefits being too easy to qualify for (1 mark for each). 	6	<p>Award 1 mark for each valid description of a cause.</p> <p>Award 1 mark for a valid development point.</p> <p>Award a maximum of 1 mark for an example of each cause of unemployment.</p> <p>To gain full marks, at least two causes of unemployment must be described. Award up to a maximum of 5 marks per cause.</p> <p>No marks are awarded for merely stating an example.</p> <p>No marks for merely identifying the cause of unemployment, ie there must be description of it.</p>

Question	Possible response	Max mark	Additional guidance
	<ul style="list-style-type: none"> • Frictional unemployment This is when there are barriers stopping those who are looking for jobs to find and fill the vacant jobs available (1 mark). It is an equilibrium type of unemployment (1 mark). It can be caused by a lack of knowledge about job opportunities (1mark). It might also be caused by a lack of occupational mobility in terms of lack of required education, experience or skills (1 mark). Another reason for frictional unemployment might be geographical immobility. This is where an unemployed worker may have trouble being able to move to the location of job vacancies (1 mark), due to the cost of moving, social ties such as children’s schooling or elderly parents to care for (1 mark for each). • Structural unemployment Structural unemployment is associated with the changing structure of an industry or the economy (1 mark). For instance, the economy may be deindustrialising and moving from manufacturing to service industries (1 mark). • Technological unemployment An industry which becomes more mechanised may need fewer workers (1 mark). 		

Question			Possible response	Max mark	Additional guidance
			<ul style="list-style-type: none"> • Regional unemployment This is often caused by a particular industry located in a particular area, facing long-term decline in demand for its products (1 mark), because they are obsolete (1 mark) or cannot compete with foreign products (1 mark). • Seasonal unemployment Some industries can only produce at certain times of the year (1 mark). Examples of such industries are agriculture, tourism and building, where employment fluctuates with the seasons (1mark). <p>Accept any other suitable response.</p>		
3	c		<p>Responses could include the following:</p> <ul style="list-style-type: none"> • To compare one country's national income with other country's (1 mark). • To compare national income with previous years', within the one country (1 mark). • To calculate the rate of economic growth of a country (1 mark). • To calculate money and national income per head of population for comparative purposes (1 mark). • To compare living standards between countries (1 mark). • To assess how certain areas of the economy are performing, eg tertiary sector (1 mark). • To identify policy successes/failures (1 mark). • To indicate what macro policies may be needed (1 mark). • To highlight particular industries/areas where government assistance may be required (1 mark). 	5	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development point.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> To calculate the UK's contribution to the European Union (1 mark). To calculate income-to-debt ratio (1 mark). <p>Accept any other suitable response.</p>		
4	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Free trade offers consumers variety in the types of goods and services from different countries (1 mark). Free trade allows goods to enter the country without any tariffs (1 mark) and so the goods are cheaper than they would be without free trade (1 development mark). Both of the above factors help to increase the standard of living of the population (1 mark). Free trade provides competition for domestic firms, who have to ensure that they are efficient (1 mark). This means that better use is made of resources (1 mark). Firms must also produce goods of at least the same quality as foreign produced goods (1 mark). This is advantageous for domestic consumers, as they should benefit from better quality and cheaper goods/services (1 mark). Free trade allows countries to benefit from specialisation (1 mark). <p>Accept any other suitable response.</p>	3	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development point.</p>
4	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Countries may impose trade restrictions to protect their own domestic industries from foreign competition (1 mark), which would safeguard domestic output and employment (1 development mark). 	4	<p>Award a maximum of 1 mark for each valid explanation of a reason.</p> <p>Award 1 mark for a valid development of a point.</p> <p>Award a maximum of 1 mark for an example of each reason.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> • Countries may impose trade restrictions, as this may correct a significant deficit on the Balance on Current Account (1 mark). Restricting imports should reduce the value of imports in relation to the value of exports, thereby restoring balance (1 development mark). • Countries may impose trade restrictions because they may wish to protect infant industries from foreign competition (1 mark). This would give the new industries time to become established (1 development mark). • Countries may impose trade restrictions because they may wish to protect strategic industries such as agriculture (1 mark). They need these industries in their own countries, especially in times of war or 'disasters' (1 development mark). • Countries may impose trade restrictions because they wish to preserve health and safety within their country (1 mark). They may also be imposed because a country wishes to preserve particular species or the environment (1 development mark). <p>Accept any other suitable response.</p>		<p>At least two explained reasons must be given for full marks. Up to 3 marks can be given for one developed explanation.</p> <p>No marks are awarded for merely stating an example.</p>
4	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Advantages: The set-up of the European Union allows for unrestricted movement of goods and services/labour among countries (1 mark). This offers people more choice of goods and services or where they live and work (1 development mark). 	8	<p>Award 1 mark for each discussion point.</p> <p>A maximum of 7 marks will be awarded if only the advantages or only the disadvantages are discussed.</p>

Question	Possible response	Max mark	Additional guidance
	<p>As the European Union market is substantial, this means that firms can achieve economies of scale (1 mark), through more efficient use of resources (1 development mark).</p> <p>Consumers have greater choice, due to the large number of countries who are members of the European Union (1 mark). For instance, there is a wide choice of cars, eg German cars, French cars, Czech cars (1 development mark through exemplification).</p> <p>As there is a harmonisation of standards, this leads to trust of products between one country and another (1 mark), leading to more trade (1 development mark).</p> <p>The large number of countries in the European Union means that there is a bigger market for exporters (1 mark), leading to more employment opportunities (1 development mark).</p> <ul style="list-style-type: none"> Disadvantages: <p>The large number of firms within the European Union results in more competition for UK firms (1 mark). This means that some may lose out and be forced out of the market (1 development mark).</p> <p>Some of the other member states of the European Union are lower wage economies than the UK; this means that multinationals set up in the UK may be attracted to move to these other member states, cutting their costs but retaining the benefits of the union (1 mark) and this could lead to unemployment in the UK (1 development mark).</p> 		

Question	Possible response	Max mark	Additional guidance
	<p>The freedom of movement of people could lead to the migration of other nationalities to the UK, thereby putting a strain on other resources (1 mark) such as housing, education, and healthcare (1 development mark through exemplification).</p> <p>As a member of the European Union, the UK contributes to EU budget, resulting in an opportunity cost (1 mark) in terms of spending on other things such as health, education, and the environment (1 development mark through exemplification).</p> <p>Accept any other suitable response.</p>		

[END OF EXEMPLAR MARKING INSTRUCTIONS]