



National
Qualifications
SPECIMEN ONLY

SQ11/N5/01

Economics

Date — Not applicable

Duration — 1 hour and 30 minutes

Total marks — 70

SECTION 1 — 30 marks

Attempt ALL questions.

SECTION 2 — 40 marks

Attempt ALL questions.

Before attempting the questions you must check that your answer booklet is for the same subject and level as this question paper.

Read all questions carefully before attempting.

Write legibly and neatly in the answer booklet provided.

On the answer booklet, you must clearly identify the question number you are attempting.

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

You may use a calculator.

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.

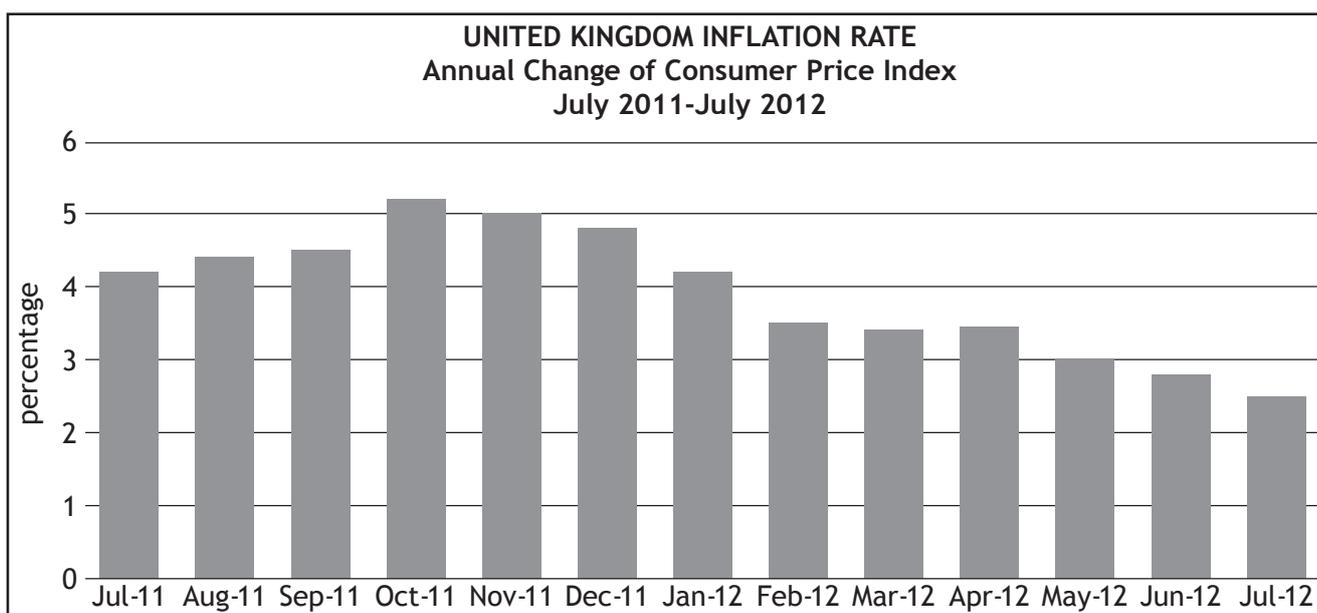


* S Q 1 1 N 5 0 1 *

SECTION 1 — 30 marks
Attempt BOTH questions

1. The UK Government uses direct and indirect taxation as well as government spending to help achieve its aims of a low rate of inflation, a low rate of unemployment and sustained economic growth. It also uses Government spending to attract foreign firms to locate in Britain.

Use the UK inflation diagram below and your knowledge to answer the following questions.



Adapted from: www.tradingeconomics.com, UK Office for National Statistics

- (a) (i) Describe the trend in the rate of inflation between July 2011 and July 2012. 2
- (ii) State whether prices have increased or decreased between June 2012 and July 2012? Give a reason for your answer. 2
- (b) (i) Identify one group of people that might be significantly affected by inflation. 1
- (ii) Explain one way in which inflation might affect this group. 2
- (c) (i) Describe, using an example, what is meant by indirect taxation. 2
- (ii) Explain, using a demand and supply diagram, the effect an increase in the rate of income tax would have on the price of a good. 4
- (d) Other than Government grants, outline 2 reasons a foreign firm might choose to locate in the UK. 2

Total marks 15

2. UK TRADE 2012

The UK has a finite amount of resources to make the goods and services demanded by society, so it must trade with other countries. Most of this trade is with the European Union but UK trade with emerging economies has increased in recent years.

The majority of UK exports are from the UK tertiary sector of industry. Most of the UK's imports come from the primary and secondary sectors of industry and the price of these imports can be a significant cost for UK firms. The UK's exports and imports are affected by the exchange rate of sterling.

- (a) Describe, using at least one example, what is meant by resources. 3
- (b) Describe one advantage and one disadvantage of global trade. 2
- (c) Explain how a fall in the exchange rate of sterling could affect:
- (i) UK exports;
 - (ii) UK imports. 4
- (d) Give an example of an industry in the tertiary sector. 1
- (e) Describe 2 characteristics of an emerging economy. 2
- (f) (i) Define the following 2 terms:
- fixed costs;
 - variable costs. 2
- (ii) Give one example of a variable cost 1

Total Marks 15

SECTION 2 — 40 marks

Attempt ALL questions

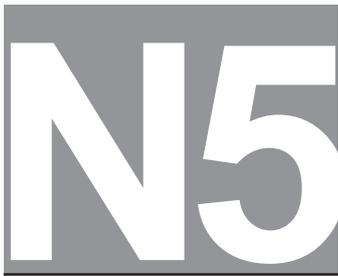
3. Consumers and governments have to make choices in every economy and every choice results in an opportunity cost. Consumer choices affect the demand for goods and services.
- (a) Describe, using an example, what is meant by the term Opportunity Cost. 2
- (b) Explain why consumers and Governments have to make choices. 4
- (c) Describe factors that could cause the demand for a good to increase. 4
- Total marks** 10
4. All countries - developed and developing - use barriers to trade to protect their economies.
- (a) Outline 4 types of aid given to developing economies. 4
- (b) Describe barriers to trade. 2
- (c) Describe the advantages and disadvantages for the UK economy of joining the Eurozone. 4
- Total marks** 10
5. Government *current spending* on unemployment benefits increased in 2012.
- (a) Outline, using an example other than unemployment benefits, what is meant by Government current spending. 2
- (b) Describe possible causes of an increase in the level of unemployment. 4
- (c) (i) Identify 2 Scottish industries. 2
- (ii) Describe in what way one of these industries contributes to the Scottish economy. 2
- Total marks** 10

	MARKS
6. If UK banks increase their interest rates it will affect individuals. It will also affect firms, who will experience an increase in their costs of production.	
(a) Describe the likely effect of increasing interest rates on:	
(i) an individual who has savings with the bank;	
(ii) a home owner who has a mortgage with the bank.	4
(b) Other than a mortgage, identify 2 methods of borrowing available to individuals.	2
(c) Explain, using a demand and supply diagram, the effect that an increase in costs of production will have on the equilibrium price of a good.	4
Total Marks	10

[END OF SPECIMEN QUESTION PAPER]

Acknowledgement of Copyright

Section 1 Question 1 Diagram adapted from www.tradingeconomics.com, UK Office for National Statistics. Reproduced by kind permission of Trading Economics.



National
Qualifications
SPECIMEN ONLY

SQ11/N5/01

Economics

Marking Instructions

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

The information in this publication may be reproduced to support SQA qualifications only on a non-commercial basis. If it is to be used for any other purpose, written permission must be obtained from SQA's Marketing team on marketing@sqa.org.uk.

Where the publication includes materials from sources other than SQA (ie secondary copyright), this material should only be reproduced for the purposes of examination or assessment. If it needs to be reproduced for any other purpose it is the user's responsibility to obtain the necessary copyright clearance.

Part One: General Marking Principles for National 5 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 specific Marking Instructions for each question. The marking schemes are written to assist in determining the “minimal acceptable answer” rather than listing every possible correct and incorrect answer.

- (a) Marks for each candidate response must always be assigned in line with these general marking principles and the specific Marking Instructions for the relevant question.
- (b) Marking should always be positive, ie marks should be awarded for what is correct and not deducted for errors or omissions.
- (c) i) Questions that ask candidates to Describe . . .

Candidates must make a number of relevant, factual points up to the total mark allocation for the question. These should be key points. The points do not need to be in any particular order. 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:

- ◆ One mark should be given for each accurate relevant point of knowledge.
- ◆ A second mark could be given for any point that is developed from the point of knowledge

- ii) Questions that ask candidates to Explain . . .

Candidates must make a number of points that relate cause and effect and/or make the relationships between things clear, for example by showing connections between a process/situation. These should be key reasons and may include theoretical concepts. There is no need to prioritise the reasons. Candidates may provide a number of straightforward reasons or a smaller number of developed reasons, or a combination of these.

Up to the total mark allocation for this question:

- ◆ One mark should be given for each accurate relevant point of reason.
- ◆ A second mark could be given for any other point that is developed from the same reason

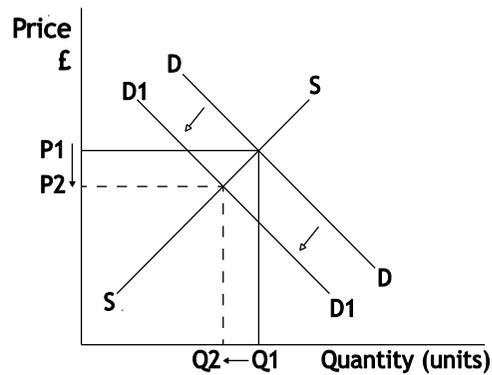
Part Two: Marking Instructions for each question

SECTION 1

Question			Expected response	Max mark	Additional guidance
1	a	i	<ul style="list-style-type: none"> • Rate of inflation increased between July 2011 and October 2011 • Fell between Oct 2011 and July 2012 • Increased from 4.2% in July to 5.2% in October 2011 	2	<p>Award up to 2 marks for describing the trend in the rate of inflation. Otherwise award one mark for each simple description given.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
1	a	ii	<ul style="list-style-type: none"> • Prices have increased • The rate of inflation measures an increase not a decrease in the general level of prices • As long as the rate of inflation is positive then prices have increased • The rate in the graph is always positive so prices are always rising • Prices are rising but by different percentages each month 	2	<p>Award 1 mark for stating that prices have increased. A further mark should be awarded for a valid justification – candidates must give a clear indication that if inflation is present then prices are rising.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
1	b	i	<ul style="list-style-type: none"> • People on fixed incomes • Pensioners • Students • Workers who do not have a strong bargaining position 	1	<p>Award 1 mark for identifying a group who might be affected by inflation.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>

1	b	ii	<ul style="list-style-type: none"> • Prices are rising, but their incomes are not (1) so they are worse off.[development (1)] • They have to spend more money than previously on goods (1) so their standard of living falls [development (1)] • Cost of living is rising so purchasing power is reduced • They can buy less than they could before with their money • Standard of living will fall as prices are rising 	2	<p>Award up to 2 marks for any very good explanation of how one of the groups mentioned in (b)(i) are affected by inflation. (The first two examples demonstrate 2 mark answers)</p> <p>Otherwise award one mark for each simple explanation given.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
1	c	i	<p>Description:</p> <ul style="list-style-type: none"> • Taxes on spending/expenditure • Taxes that are collected by an intermediary and then sent to the revenue authority <p>Example:</p> <ul style="list-style-type: none"> • VAT • Vehicle road tax • Excise duty/any specific example of an excise duty eg tobacco, alcohol, gambling, air passenger 	2	<p>Award 1 mark for describing indirect taxation. Award 1 mark for using a suitable example of indirect taxation.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
1	c	ii	<p>Diagram should show:</p> <ul style="list-style-type: none"> • Original demand and supply with equilibrium price labelled • A new demand curve drawn to the left of the original, with new equilibrium price labelled • An arrow showing the fall in price <p>Explanation could include:</p>	4	<p>Candidates can gain up to 3 marks for a diagram and up to 3 marks for an explanation up to the maximum of 4 marks.</p> <p>The expected responses for the explanation of the diagram are not exhaustive. Award any other correct answers. However, if a candidate shows a fall in price on the diagram and then states that equilibrium price will fall, then only 1 mark should be awarded for both.</p>

- Less would be demanded at every price
- So demand curve would shift to the left
- Equilibrium price would fall
- An increase in rate of income tax means people have less disposable income



1 d

Answers may include:

- Regional grants may be available
- Efficient infrastructure eg good roads and transport
- A well-educated and skilled labour force
- Relatively cheap land
- Quality universities and research facilities
- English speaking – important for US firms
- Allows non-EU firms to avoid EU tariffs

2

Award 1 mark for each valid reason why a foreign firm might choose to locate in the UK. Two reasons should be given to gain full marks.

The expected responses given are not exhaustive. Award any other correct answers.

2	a	<p>Examples:</p> <ul style="list-style-type: none"> • Land (all our natural resources) eg forests, oil • Labour (all our human resources) eg dentist, bricklayer, office worker • Capital (all man-made resources) eg machinery, roads, delivery vans • Enterprise (organises, other factors) eg Tom Farmer etc <p>Description:</p> <ul style="list-style-type: none"> • Resources are the land, labour and capital (examples – 1 mark) needed to produce goods/services (description – 1 mark) • Resources are factors of production • Resources are the items needed to make goods and services 	<p>3</p> <p>Award 1 mark for each valid description and 1 mark for each example. For full marks, candidates must have at least one description and one example.</p> <p>The first exemplar response demonstrates a 2 mark answer – 1 mark for description and 1 mark for examples.</p> <p>Candidates can give land, labour, capital or enterprise as an example or they may give a specific example.</p> <p>The expected responses given are not exhaustive.</p> <p>Award any other correct answers.</p>
2	b	<p>Advantages:</p> <ul style="list-style-type: none"> • Greater choice/variety as not all countries produce the same goods • Lower prices because some countries can produce goods cheaper than others can • Augments home supplies – shortages can be met by imports • Increases world competition so prices may fall <ul style="list-style-type: none"> • Companies can benefit from greater economies of scale because they are producing for larger markets 	<p>2</p> <p>Award 1 mark for a description of an advantage of global trade and 1 mark for a description of a disadvantage of global trade.</p> <p>The expected responses given are not exhaustive.</p> <p>Award any other correct answers.</p>

		<p>Disadvantages:</p> <ul style="list-style-type: none"> • May lead to inferior quality products as a result of price competitiveness • A country may become too reliant on imports from other countries so if there are supply problems in these countries the UK would be affected too • Some sectors in certain countries might find it difficult to compete, creating unemployment 		
2	c	<p>Demand for exports will increase:</p> <ul style="list-style-type: none"> • So foreigners can buy more sterling with their currency (credit any numerical example) • As exports become cheaper for foreigners • As exports become more competitive abroad • So quantity sold increases <p>Demand for imports decreases:</p> <ul style="list-style-type: none"> • As UK firms/consumers get less foreign currency for each £ • As price of imports increases • So less imports bought by UK consumers 	4	<p>Award 1 mark for each valid explanation of how a large decrease in the value of sterling would affect UK exports and UK imports. For full marks, candidates should have at least one explanation of how UK exports would be affected and one explanation of how UK imports would be affected</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
2	d	<ul style="list-style-type: none"> • Insurance • Banking • Retail 	1	<p>Award 1 mark for a valid identification of an industry in the tertiary sector</p> <p>The responses given are not exhaustive. Award any other correct answers.</p>
2	e	<ul style="list-style-type: none"> • Movement from production in the primary sector to secondary sector (production of manufactured goods) • Increased spending on education and training • Export led growth/high volume of exports 	2	<p>Award 1 mark for each valid description of a characteristic of an emerging economy</p> <p>The expected responses given are not exhaustive.</p>

			<ul style="list-style-type: none"> • Investment in infrastructure • Rapid economic growth/high growth rate 		Award any other correct answers.
2	f	i	<ul style="list-style-type: none"> • Fixed costs are costs that remain the same regardless of output • Variable costs increase as output increases 	3	<p>Award 1 mark for the definition of fixed costs and 1 mark for the definition of variable costs.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
	f	ii	<ul style="list-style-type: none"> • Production wages • Raw materials 		<p>Award 1 mark for an example of a variable cost.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>

SECTION 2

Question		Expected response	Max mark	Additional guidance
3	a	<ul style="list-style-type: none"> • Cost of next best alternative given up when choosing a good • Cost of next best alternative foregone <p>If you choose a Mars bar rather than a Twix, the opportunity cost of the Mars bar is the Twix</p>	2	<p>Award 1 mark for a description of opportunity cost and 1 mark for the example.</p> <p>The expected responses given are not exhaustive.</p> <p>Award any other correct answers.</p>
3	b	<p>Consumers:</p> <ul style="list-style-type: none"> • Consumers have a limited income to buy all they would like • Therefore they have to decide what to buy/how to spend their income on what would give them the greatest satisfaction <p>Government:</p> <ul style="list-style-type: none"> • Governments have limited income/revenue to do all they would wish to • Therefore they have to choose how to spend/use their income/revenue on what would benefit society the most 	4	<p>Award 1 mark for each valid explanation. Candidates must give at least one valid point for each of consumers and government to gain full marks.</p> <p>The expected responses given are not exhaustive.</p> <p>Award any other correct answers.</p>
3	c	<ul style="list-style-type: none"> • Good advertising campaign could mean that people will be aware of the good and more will buy it • Price of a substitute increases which could mean that people will stop buying the substitute and switch to this good • Price of a complement decreases which could mean that people will buy the good that goes with the complement 	4	<p>Award 1 mark for each valid description and 1 mark for any development of the factors that could cause the demand for a good to increase.</p> <p>Candidates must explain at least two factors for full marks.</p> <p>The expected responses given are not exhaustive.</p> <p>Award any other correct answers.</p>

		<ul style="list-style-type: none">• An increase in consumers' income (rate of income tax falls, interest rate falls) which could mean that more people can afford to buy this good• Changing tastes/fashions Which could mean if a good is in fashion then more people will buy it		
--	--	---	--	--

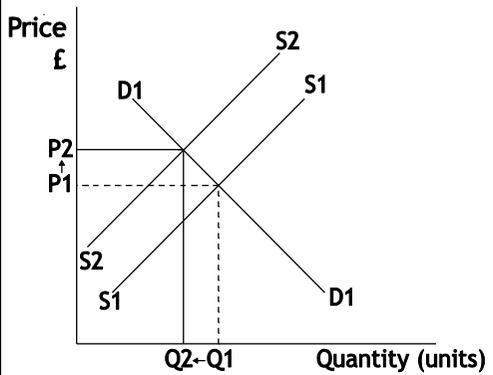
4	a	<ul style="list-style-type: none"> • Food aid given by developed countries/charities • Food given to countries (usually when a natural disaster occurs) • Money given as a grant • Loans given from developed countries • Money given which does not need to be paid back • Developed countries may lend money to developing countries, for which they charge interest • Help given in the form of technical aid/expertise • Experts from developed countries may go to help workers in developing countries learn how to operate machinery, equipment etc • Teachers and experts give education/training to people in developing countries • People from developed countries help educate and train people in developing countries • Developed countries/charities give medical aid • Essential medicines and vaccinations are given to developing countries to help cure basic diseases eg malaria • Developed countries give debt relief on money that developing countries owe them • Rich countries write off the debts that developing countries owe them so they can keep more of their money 	4	<p>Award 1 mark for each simple description of a type of aid.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
4	b	<ul style="list-style-type: none"> • Tariff – a tax placed on imported goods • Quota – a limit on the amount of a certain good allowed to enter the country • High safety/quality standards which prevent some goods 	2	<p>Award 1 mark for each description of a barrier to trade. Award no marks for identification only. Candidates need not name the barrier to trade to gain a mark.</p>

		<p>being imported</p> <ul style="list-style-type: none"> • Embargo – a complete ban on certain goods (or goods from a particular country) 		<p>The expected responses given are not exhaustive. Award any other correct answers.</p>
4	c	<p>Advantages</p> <ul style="list-style-type: none"> • Reduce the risk of trading (exchange rate does not fluctuate) • No transaction costs so increased investment • Price transparency - easier to compare prices • Could lead to low inflation and increased competitiveness <p>Disadvantages</p> <ul style="list-style-type: none"> • Monetary Policy Committee no longer able to set interest rates • Interest rate set by European Central Bank might not suit every country • Cost of changing over to the euro very high 	4	<p>Award 1 mark for each advantage or disadvantage that is described. Candidates must have at least one advantage and one disadvantage for full marks.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>

5	a	<p>Outline</p> <ul style="list-style-type: none"> • Spending by the government on short term items • Spending on day to day items <p>Examples</p> <ul style="list-style-type: none"> • Wages of teachers (or any other public sector worker) • Bandages for hospitals • Cleaning materials for council buildings • Stationery for council offices 	2	<p>Award 1 mark for outline and 1 mark for a correct example of current government spending. No mark for unemployment benefit, job seekers allowance or any benefit relating to unemployment.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
5	b	<p>Descriptions</p> <ul style="list-style-type: none"> • Cyclical – the trade cycle • Demand deficient – lack of demand in the economy at certain times eg recession • Structural – changing structure of the economy • Workers do not have the correct skills to do different jobs • Seasonal – workers are unemployed at certain times of the year • Frictional – workers between jobs • Technological – workers replaced by machinery 	4	<p>Award 1 mark for each description of a cause of unemployment and 1 mark for any valid development. Candidates must have at least two causes well described for full marks. Candidates can gain full marks if they have four different causes.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
5	c	<p>i</p> <ul style="list-style-type: none"> • Whisky • Financial services • Banking • Insurance • Tourism • Oil/chemicals 	2	<p>Award 1 mark for each identification of a Scottish industry - up to a maximum of 2 marks. Candidates should not be credited for identifying a particular firm.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>

5	c	ii	<ul style="list-style-type: none"> • Increased output of goods (1 mark) leading to increased economic growth/increased profits for firms (1 mark) • Other industries benefit from increased demand for their products (1 mark) so profits increase (1 mark) • Higher output (1 mark) leads to greater employment opportunities (1 mark) • Standards of living increase (1 mark) because more wealth is created (1 mark)/more people have jobs (1 mark) • Increased exports abroad (1 mark) brings more wealth into Scotland from selling these exports (1 mark) 	2	<p>Award 1 mark for each description of how the main industry has contributed to the Scottish economy and 1 mark for any valid development.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
---	---	----	--	---	--

6	a	i	<ul style="list-style-type: none"> • Person received greater return on their savings • The amount that people save is likely to increase 	4	<p>Award 1 mark for each description of how an increase in interest rates affects savers. Candidates must demonstrate that they understand that a saver will receive more money in interest. Candidates must have at least two descriptions for full marks.</p>
6	a	ii	<ul style="list-style-type: none"> • Homeowner has to pay more interest on their mortgage • Homeowners will have less income to spend • Homeowners can buy less goods and services with the income they have left • Standards of living fall 		<p>Candidates must have at least two descriptions for full marks.</p> <p>Award 1 mark for each description of how an increase in interest rates affects people with mortgages.</p> <p>Candidates must demonstrate that they understand that a borrower will pay more interest.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
6	b		<ul style="list-style-type: none"> • Credit card • Hire purchase • Bank loan • Overdraft 	2	<p>Award 1 mark for each valid identification.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>

6	c	 <p>Diagram with increase in costs should show:</p> <ul style="list-style-type: none"> • Original demand and supply with equilibrium price labelled • A new supply curve drawn to the left of the original, with new equilibrium price labelled • An arrow showing the rise in price <p>Explanation for this diagram could include:</p> <ul style="list-style-type: none"> • Less would be supplied at every price • So supply curve would shift to the left • Equilibrium price would rise 	4	<p>Candidates can gain up to 3 marks for a diagram and 3 marks for explanation, with up to a maximum of 4 marks. However, for example, if a candidate shows a fall in price on the diagram and then states that equilibrium price will fall, then only 1 mark should be awarded for both.</p>
---	---	--	---	---

[END OF SPECIMEN MARKING INSTRUCTIONS]