

**C038/SQP274**

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Economics  
Advanced Higher

NATIONAL  
QUALIFICATIONS

<i>Contents</i>	<i>Page</i>
Course Assessment Specification	2
Specimen Question Paper	7
Specimen Marking Instructions	13

# Course Assessment Specification

## Economics Advanced Higher

The purpose of this document is to provide:

- ◆ Details of the structure of the Question Paper in this Course
- ◆ Guidance to centres on how to use information gathered from the Question Paper in this Course to estimate candidate performance

### Part 1

**This part of the Course Assessment Specification details the structure of the Question Paper in this Course.**

#### Course Assessment

The Course assessment has two components, a Question Paper and a Dissertation:

	<b>Time allocation</b>	<b>Mark allocation</b>
Paper	2 hours 15 minutes	75
Dissertation	Completed during Course	25

#### Question Paper

- ◆ The paper examines the knowledge and understanding and the application of economic concepts covered in the Course content and also assesses analysis, evaluation and problem solving.
- ◆ Questions will cover the interpretation of economic information and require an extended response.
- ◆ The paper will consist of two sections, A and B.
- ◆ Section A will consist of an interpretation item while Section B will be extended response questions.
- ◆ Questions will relate to contemporary economic issues and may focus on particular areas of Course content but will also provide an opportunity to integrate topics across all areas of the Course content. A contemporary economic issue is taken to be the major economic events and issues which have become prominent in the 18 months prior to the examination.

#### Section A – total marks available 25

This section of the paper will assess analysis, evaluation and problem solving.

It will consist of a single interpretation item each with a number of questions totalling 25 marks. Candidates will be expected to attempt all questions for the interpretation item.

The information presented to candidates will relate to a contemporary economic issue. It may take a number of forms, including extracts from newspapers or magazines or articles from relevant economic publications. It may incorporate data in tabular, graphical or diagrammatic form and will broadly cover material taken from the areas of the Course content covered in the *Microeconomics (Advanced Higher)* Unit.

Candidates will be required to analyse the economic issues involved by identifying the key features of these and extracting and processing relevant information to reach valid conclusions. They will also be required to make and justify predictions with respect to the economic issues involved.

### **Section B – total marks 50**

This section of the paper will assess knowledge and understanding and the application of economic concepts.

Candidates will attempt any two questions from a choice of six questions. Each question will be worth 25 marks each and may be drawn from any part of the Course content. However, at least one of these six questions will concentrate on the microeconomics section of the Course content. The other questions will be concerned with contemporary economic issues. These economic events and issues will not be confined to the UK. The questions will require extended answers.

### **Dissertation**

This part of the external assessment has 25 marks available. It will assess the ability of candidates to apply their knowledge of economic theory in a critical way. It also assesses their ability to evaluate evidence from a range of sources and to draw valid conclusions from this evidence.

Candidates are required to select and investigate a topic linked to a contemporary economic issue which includes a number of complex issues. They should present their findings in the form of a dissertation. The topic for the dissertation may be drawn from any part of the Course content.

Candidates will plan an approach to their dissertation, research the topic, analyse the issues, decide on an approach and organise the structure and content of the dissertation. The dissertation should reach a conclusion based on the evaluation of the evidence gathered.

An annotated bibliography should also be submitted giving a list of sources consulted by the candidate. This will be taken into account in the assessment of the Dissertation.

The dissertation, excluding footnotes and bibliography, should be between 3,500 and 4000 words in length. The dissertation will be externally marked. Centres will be informed by the SQA of the date by which dissertations should be received.

## **Relationship between Unit and Course assessment**

With the exception of the *Economics Dissertation (Advanced Higher)*, the Unit assessments sample the knowledge and understanding gained during the learning and teaching progress. Each Unit assessment is self-contained and covers only the content relevant to that Unit. A significant purpose of the Unit assessment is to enable candidates to demonstrate that they have grasped the essential aspects of the economic concepts and principles introduced during a Unit. They do allow candidates to apply their knowledge and understanding but in contexts which are familiar to them. As such, they provide an on-going benchmark against which candidates can measure their progress.

Unit assessment for the *Economics Dissertation (Advanced Higher)* concentrates on the process of planning the dissertation and gathering and evaluating information for it. It requires candidates to evaluate the way in which they have completed these vital early stages and how they have responded to suggestions and advice on how to proceed.

The Course assessment is split into two parts. The Question Paper samples all aspects of the Course content and covers material from the two Units, *Microeconomics (Advanced Higher)* and *Macroeconomic Issues and Policies (Advanced Higher)*. It also tests knowledge and understanding but does so in a way which involves integration of topics from both Units. The interpretation item requires candidates to apply their knowledge and understanding to an unfamiliar context and adopt a more analytical, problem solving and integrative approach than the Unit assessments.

The dissertation builds on the Unit assessment in that candidates must carry out their plan and submit their completed piece of work. During the work for the dissertation the candidate will become very familiar with the topic chosen but will be expected to integrate items from all aspects of the Course content where this is appropriate to the topic. In addition, candidates will be required to produce an extended economic argument which is based on suitable supporting evidence, is logically sequenced and leads to a clear conclusion. In this way the dissertation component of the Course assessment provides a more demanding challenge than that required by the Unit assessments.

The different emphasis of the Unit and Course assessments will ensure that there is no unnecessary duplication of assessment. On occasions, it is possible that the same topic may feature in both assessments but candidates will be expected to carry forward the knowledge and understanding of a specific topic from the Unit assessment and apply it in unfamiliar contexts and/or in association with other topics in an integrative way.

## **The “added value” of the Course**

The Unit and the Course assessments complement each other. Candidates may undertake Units on a stand-alone basis. Because of the holistic approach to Unit assessment, those who take this route will be able to demonstrate specific achievement in a particular aspect of Economics. The Units all build on work at Higher level and those who successfully complete them will be able to show that they can apply economic concepts to consider some aspects of contemporary economic issues. Candidates who undertake the Course will have additional demands imposed upon them which will enable them to gain significant benefits over and above those gained completing Unit assessment.

The additional demands will require candidates to:

- ◆ demonstrate the retention of knowledge from all areas of the Course content
- ◆ integrate knowledge and understanding from all areas of the Course content
- ◆ respond to questions relating to unfamiliar and more complex contexts
- ◆ explain, analyse and interpret complex contemporary economic issues from different economic contexts which may be unfamiliar
- ◆ present a lengthy reasoned economic argument relating to a contemporary economic issue

The additional 40 hours for the Course is to allow these additional demands to be met. It also gives those delivering the Course the opportunity to make use of a wide range of teaching and learning strategies to assist candidates in meeting these additional demands.

## Part 2

**This part of the Course Assessment Specification provides guidance on how to use assessment information gathered from the Question Paper to estimate candidate performance.**

The Course award is based on the total of the marks gained in the Question Paper and the Dissertation. The Question Paper accounts for 75 of the 100 marks.

In National Qualifications cut-off scores should be set at approximately 70% for Grade A and 50% for Grade C with Grade B falling midway.

For a total mark range of 0 – 75, the following gives an indication of the cut-off scores:

Grade	Band	Mark Range
A	1	64 – 75
A	2	53 – 63
B	3	49 – 53
B	4	45 – 48
C	5	41 – 44
C	6	38 – 40
D	7	34 – 37
NA	8	30 – 36
NA	9	0 – 29

These cut-off scores may be lowered if the Question Paper turns out to be more demanding or raised if the Question Paper is less demanding than intended.

### Worked example

A candidate scores 47/75 in a centre's own prelim. In estimating performance for this candidate, the centre might apply the following considerations.

- ◆ The centre's view is that the prelim is slightly less demanding than the question paper in the SQA examination.
- ◆ Using the table, a realistic estimate of the candidate's performance in the SQA examination may be **band 5** rather than band 4.

**[C038/SQP274]**

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Economics  
Advanced Higher  
Specimen Question Paper  
for use in and after 2006

Time: 2 hours 15 minutes

NATIONAL  
QUALIFICATIONS

You should answer Section A and **two** questions from Section B.

The marks for each question are shown in the margin.

## SECTION A

Read the following passage, and then answer the questions which follow on *Page three*.

### Taxing Times

If the government is to fulfil all of its expenditure plans it may need to increase the general level of taxation. A number of options might be considered including higher fuel taxes and higher income tax, although a general increase in the level of economic activity might improve the government's budgetary position without the  
5 need to raise taxes.

Governments in the UK have shifted **the incidence of taxation** away from direct to indirect taxes in recent years. The pattern of taxation is similar to that in the USA and Japan, but the tax burden is lower than that in many European countries. The government has apparently cut taxes, but because of "**fiscal drag**" the tax  
10 take has risen in recent years from 35% to 38% of GDP. Higher income tax is possible although it might prove to be very unpopular. A number of new or stealth taxes have also been introduced to avoid the need to raise levels of direct taxation and some indirect taxes.

The UK economy has been operating above its **trend level of growth** in recent  
15 years and this should improve the government's revenue position and reduce the level of expenditure on welfare benefits. It is even possible that the higher levels of planned expenditure may not lead to higher taxation at all.

Petrol costs about 80p a litre in the UK, of which almost 75% comprises excise duty and value added tax (VAT). The price of petrol in most other European  
20 countries is similar although market prices are much lower in the USA. The fact that petrol has a very low **price elasticity of demand** is advantageous to the government. In 2004 the government collected £24 billion in fuel duties from motorists and other road users. There are other powerful economic arguments to support further increases in the levels of fuel taxation.

25 In 2005 many commentators suggested that there was "a black hole" in the government's finances that would need to be closed to avoid financial difficulties and a failure to meet the government's self-imposed yardsticks, "**the golden rule**" and "**the sustainable investment rule**". Excessive borrowing imposes burdens on future generations, although a level of borrowing of about £25 billion per  
30 annum would have little effect on the national debt. However, **as Keynes recognised in the 1930s, determination to avoid a budget deficit might transform a potential recession into a deep depression.**

To tax or not to tax is the age-old question!

1. Explain the meaning of the following terms as they are used in the passage.
    - (a) “The incidence of taxation” (line 6)
    - (b) “Fiscal drag” (line 9) 2
  
  2.
    - (a) What is meant by “trend level of growth” in the UK economy? 2
    - (b) How might a higher than trend level of growth improve the government’s finances? 2
  
  3.
    - (a) Why is the price elasticity of demand for petrol low? 2
    - (b) Discuss **2** other powerful economic arguments in favour of higher fuel taxation. 4
  
  4.
    - (a) Explain what is meant by “the golden rule” and “the sustainable investment rule”. 4
    - (b) Why have these **2** rules been chosen to monitor the performance of the UK’s finances? 4
  
  5. Why might an annual borrowing level of about £25 billion have little effect on the UK’s national debt? 2
  
  6. Explain how determination to avoid a budget deficit might transform a potential recession into a deep recession. 3
- (25)**

## SECTION B

**Attempt TWO of the six questions set.**

**Each question carries 25 marks.**

*Marks*

1. Since 1990 employment in UK manufacturing industry has fallen by almost 2 million, but the level of employment in the UK rose by over 3 million to a record level of over 30 million in 2004.
  - (a) Why did employment in the UK rise by over 3 million despite the decline in manufacturing employment? 7
  - (b) Explain the reasons for the fall in UK manufacturing unemployment since 1990. 8
  - (c) Discuss the consequences for the UK economy of the fall in manufacturing employment in the UK. 10
  
2. Productivity in the UK is 11% lower than the average figure for the other members of the Group of 7 (G7) countries, but the UK economy performed much better than the other G7 countries in the decade up to 2004.
  - (a) Why is UK productivity lower than in other G7 countries? 8
  - (b) How is it possible for the UK to perform so strongly despite its low rate of productivity? 8
  - (c) What measures should be taken to improve the UK's relatively poor productivity levels? 9
  
3. Rates of inflation in the UK have been much lower since monetary policy became the main method of managing the UK economy
  - (a) Explain how monetary policy is used in the UK to control the rate of inflation. 10
  - (b) To what extent is the effectiveness of monetary policy responsible for lower inflation rates in the UK? 6
  - (c) What other economic policies are available to control inflation the UK economy? 3
  - (d) Discuss the limitations of these other forms of economic policy in the UK that has meant that they are only used on most occasions to supplement monetary policy. 6

4. Although monopolies (called trusts in the USA) are illegal in the USA, they are sometimes permitted in the UK, despite the fact that monopoly is usually considered to lead to a less efficient allocation of economic resources.
- (a) Explain with the help of diagrams why monopoly can lead to the less efficient allocation of scarce resources. **10**
- (b) Under what conditions might monopoly be considered to be beneficial to the UK economy? **6**
- (c) Discuss the effectiveness of the measures that are in place to control monopoly in the UK. **9**
5. The UK and the USA both have significant balance of payments deficits, but both seem to be under little pressure from the international economic community to reduce these deficits.
- (a) Explain why and how it is possible to have a balance of payments deficit without it leading to serious economic problems. **8**
- (b) Under what circumstances might the persistent deficits in the UK and the USA cause difficulties for them and the international community? **8**
- (c) Discuss the role of exchange rates in reducing trade imbalances. **9**
6. According to one view, unless the UK joins the single currency it will remain a semi-detached member of the European Union (EU). Another view is that the UK should be in Europe but not run by Europe.
- (a) Under what conditions has the UK indicated that it might join the single currency of the EU? **7**
- (b) Discuss the advantages and disadvantages of the single currency for the EU member states, firms and citizens. **12**
- (c) Examine critically the case for thinking that the UK could continue to play an effective role in the EU without joining the single currency. **6**

[END OF SPECIMEN QUESTION PAPER]



**[C038/SQP274]**

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Economics  
Advanced Higher  
Specimen Marking Instructions  
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NATIONAL  
QUALIFICATIONS

#### DETAILED MARKING GUIDELINES

The appended marking instructions are guidelines only; candidates will adopt different ways of tackling particular questions. Teachers and lecturers should supplement or amend the guidelines as appropriate in the light of future developments.

In the essay questions in particular it is not necessary for candidates to include all the points listed. Candidates are expected to demonstrate a thorough appreciation of the topic and a sound understanding of the economic issues under discussion. Marks should not be allocated on rigid point-scoring basis, but on the overall quality of the answer.

Candidates who use appropriate examples and show evidence of up to date knowledge of the question being answered should be rewarded accordingly.

## SECTION A

1. **Incidence of taxation** Who bears the burden of a tax? Shared in most cases by the producer/supplier and the consumer. Incidence depends on price elasticity of demand.

**Fiscal drag** Increases in income, caused by higher real wages or inflation, automatically increase the proportion paid in income tax unless thresholds are increased to take account of inflation and increases in real income. Government revenue will rise without the need to increase tax rates as the proportion of income taken in taxes rises.

2. (a) **Trend level of growth** The underlying increase in the productive capacity of the economy caused by advances in technology and better education and training of the labour force. Estimates for the trend level of growth for the UK vary between 2.25% and 2.75% per annum

(b) **Higher than trend level of growth** Higher growth will increase government revenue from direct and indirect taxes and may reduce the level of unemployment cutting the level of benefits paid in job seekers allowance

3. (a) There are few available substitutes for petrol.

Petrol is considered to be a necessity by many drivers whose consumption will be little affected by tax increases.

The marginal cost of motoring is relatively low in comparison with fixed costs.

- (b) Arguments include

Oil is a scarce resource with a limited lifespan and should be conserved.

Pollution caused by increased car ownership and mileage. (Do motorists bear all the costs of motoring including social costs/externalities?)

High taxation may encourage the development of more fuel-efficient engines.

A good reliable source of tax revenue for the government.

4. (a) **The Golden Rule** states that borrowing should only be undertaken for the purposes of capital investment and not to fund current expenditure. The calculation of the rule is based over the economic cycle and not on a year-to-year basis.

**The Sustainable Investment Rule** is that public sector net debt should be held at level of below 40% of GDP.

- (b) The Golden Rule will yield benefits for future generations (reproductive debt) and will discourage irresponsible spending on deadweight debt.

The Sustainable Investment Rule should prevent a large public sector having adverse effects on the private sector ("crowding out") and some would argue because the public sector is less efficient than the private sector.

The two rules are intended to lead to a greater level of stability in the economy and to encourage a more prudent approach to the management of the public finances.

5. The annual cost of servicing the national debt is about £25 billion (repaying maturing debt and paying interest on outstanding debt). Only annual increases above this figure will increase the long-term national debt.
6. Government expenditure is a component of Aggregate Monetary Demand (AMD). Cuts in public expenditure or increases in taxation will reduce aggregate demand. The reduction in AMD will also be subject to the multiplier effect.

## SECTION B

1. (a) Increase in UK employment caused by
  - Growth in the size of the working population
  - Rise in living standards creating extra demand
  - Increased female participation in the work force
  - Growing numbers of part-time workers
  - The growth in public sector employment particularly in health, education and administration
  - Increase in the numbers of the self-employed
  - Growth of the finance sector and other private sector service industries
  - Greater flexibility in the supply side of the economy enabling a wider range of young and old access to membership of the working population
- (b) Decline mainly caused by cheaper foreign competition
  - Development of other economies able to use cheaper labour
  - More open trade leading to globalisation and international specialisation
  - Loss of comparative advantage in manufacturing as UK workers concentrate on higher level value added skills
  - Artificially low prices in some countries, especially China because of the currency peg to the US dollar
  - Advances in technology
  - Closure of staple industries
  - Inadequate capital investment
- (c) Loss of jobs
  - Multiplier impact both regionally and nationally
  - Need to train and retrain workers in the affected industries
  - Government finance to improve the prospects of those areas most dependent on manufacturing
  - Higher imports and lower exports leading to worsening trade figures
  - Loss of manufacturing base
  - Greater dependence on other countries undermining strategic independence
  - Less industrial pollution, effectively exported to other countries

2. (a) Definition of productivity; greater output from a given input of economic resources  
In all areas the UK might be relatively weak in comparison to other G7 countries  
Level of education and training  
Level of capital investment per worker  
Inefficient organisation of economic resources linked to poor business and management practices  
Historically poor industrial relations  
Obsession with longer hours often related to diminishing returns  
Large public sector employment level
- (b) The productivity gap has closed during the last 10 years, but it still persists  
Number of hours worked is much higher  
Success of measures to improve supply side efficiency  
Higher cost of production, especially on wages, makes productivity savings more important in other countries  
Effect of changing exchange rates  
UK's success is related to improvements in macroeconomic policy rather than to advances in productivity
- (c) A wide ranging question open to different approaches  
Case for reducing length of working week  
Reduce employment levels in some parts of the economy, especially in the public sector, to cut down on "overfull" employment  
Investment in new plant and machinery  
Better management practices  
Government incentives and initiatives to improve general educational standards and specialised training schemes  
Greater commitment to training work force—levels of training very limited compared to other countries  
Use of worker incentives related to productivity, examples should be given  
Cutting bureaucracy. Government could reduce its demands on firms by simplifying its business practice requirements and thereby the burden on small firms from taxation and other government measures

3. (a) The mechanism of monetary policy in the UK should be full explained.

The inflation target set by the Chancellor of the Exchequer. Targets and ranges should be quoted.

The role of the Monetary Policy Committee of the Bank of England in setting interest rates. Knowledge of recent and current interest rates is expected.

How the monetary transmission mechanism controls the level of disposable income in the economy.

Comments on the use of inflation targets rather than monetary aggregates (M1, M2, M3, M4 etc) should be highly rewarded.

(b) Comparisons over time expected.

The success of the policy here and in other countries linked to the specific nature of the policy and the use of identifiable and attainable instruments to control inflation.

The benefits of having an operationally independent Central Bank.

The international environment in terms of low interest rates, world inflation and the terms of trade.

Changing attitudes to inflation and lower expectations from workers.

The foreign exchange value of the pound.

Recent performance may owe much to good fortune.

(c) Fiscal policy, exchange rate policy and supply side policy; a brief explanation of each should be given.

(d) Fiscal policy can be slow to make an impact and may not be sufficiently targeted to be effective. Only used to supplement monetary policy when interest rates are too low to be effective (the liquidity trap). Good candidates may refer to the experience of the USA and Japan.

Exchange rate policy barely used any more and no recent use of any type of exchange rate target.

Supply side policies should receive some credit although they affect microeconomic rather than macroeconomic policy.

4. (a) Question is about monopoly rather than oligopoly, but candidates who choose to write about oligopoly should receive some credit.

Monopoly is technically inefficient—average total costs may not be at their lowest level.

Monopoly is allocatively inefficient—price is above marginal cost and the price level will be higher and the output lower than in more competitive markets.

Candidates should explain both sources of inefficiency clearly and include TWO illustrative diagrams.

- (b) Monopoly benefits might include

Economies of scale

Competition international markets

Greater stability in times of recession and depression

Easier research and development in some industries

Suitability under natural monopoly conditions

Appropriate examples expected

- (c) Measures are likely to include the Competition Act, the Competition Commission and the regulators of previously nationalised industries. Good candidates will refer to the role of the Chairman of the Office of Fair Trading and the desire to make his role as operationally independent as the Bank of England in monetary policy.

Measures to gauge their effectiveness

Has competition increased?

Are restrictive practices less common?

Are the penalties for anti competitive policy severe enough?

Are prices lower?

Is monopoly profit less widespread?

Has efficiency and responsiveness to consumer demand increased?

Some examples expected

5. (a) The balance of payments must by definition balance.

Candidates expected to explain that the current deficit is not a problem provided the country has sufficient reserves and remains a creditor nation—comparisons with individuals whose annual expenditure exceeds their annual income but have plenty of savings may be helpful.

The international standing of the USA and the UK when neither has ever defaulted on debt makes other countries willing to lend to them.

Other countries have major holdings of US dollars (and some have pounds!) increasing their willingness to fund these deficits.

The dependence of the world economy on the USA economy (25% of world GDP) makes other countries willing to lend money to finance the US deficit.

China's currency is linked to the US dollar and although China is a major creditor will not wish "to rock the boat".

(b) Eventually the reserves and the credibility of both countries will suffer if the current deficits persist for too long.

The development of China may increase its independence and reduce its willingness to underwrite the US deficit.

The weakness of either currency may make international investors less willing to denominate their savings in these currencies.

Political events and wars may undermine international confidence.

A weakened USA (and UK) will weaken the world demand on which the creditors depend.

Countries like China may break their currency link with the US dollar.

The role of oil in the economy as USA and UK reserves are depleted.

(c) Exchange rates are influenced by balance of payments deficits, comparative inflation rates, comparative interest rates, government intervention and speculation.

A currency may not fall in value because of a current account deficit (it has not always the case with the USA or the UK).

If the currency falls in value this will make its goods more competitive in international markets.

The strength of one currency is sometimes the consequence of the weakness of another currency (for example dollar versus euro).

An improvement in the balance of payments depends on the relative price elasticity of demand for a country's imports and exports (the Marshall-Lerner condition).

The current account often declines initially following a currency's depreciation because of the "J curve" effect.

6. (a) UK will join “when the time is right”.

Five “Tests” were laid down in 1997 by the Chancellor of the Exchequer for UK membership; cyclical convergence, sufficient flexibility to deal with economic change, a favourable impact on inward investment, a positive effect on the financial services industry and would membership be good for growth and jobs. Determination of these tests is very difficult to assess but in 2003 only one, the financial services test, had been passed (according to the government).

Membership depends on the successful outcome of a referendum.

The rate of the pound to the euro would have to be determined before membership was implemented.

- (b) Advantages/benefits include the elimination of transactions costs, the reduction in exchange rate uncertainty, greater price transparency, stable monetary policy, the end of devaluation as an instrument of policy, specialisation and the economies of scale are given freer rein to operate effectively and the recovery of the political power of Europe.

Disadvantages/costs include the loss of monetary independence, the loss of the devaluation instrument of policy, the practical costs of installing the new currency regime, whether countries be locked together permanently if their economies grow at different rates, consequences for weaker areas caused by the free mobility of economic resources, the loss of sovereignty and the faltering start made by the euro after 1999.

- (c) Some countries are successful as associate members of the EU—Norway and Switzerland.

The UK economy has performed very well in recent years without joining the euro.

UK monetary policy appears superior to the EU equivalent.

Loss of fiscal policy control is also possible.

If the UK does not join it will have less influence on major issues including voting rights, integration of new member states, the EU budget and reform of the CAP.

The UK may have an opt out clause, but if Denmark and Sweden join the UK’s isolation will be increased.

Norway and Switzerland were never full EU members.

[END OF SPECIMEN MARKING INSTRUCTIONS]

