

X038/11/01

NATIONAL THURSDAY, 10 MAY
QUALIFICATIONS 9.00 AM – 10.45 AM
2012

ECONOMICS
INTERMEDIATE 2

60 marks are allocated to this paper.

Part 1 (40 marks) Candidates should attempt **both** items.

Part 2 (20 marks) Candidates should attempt **one** question.

All answers are to be written in the answer book provided.



PART 1

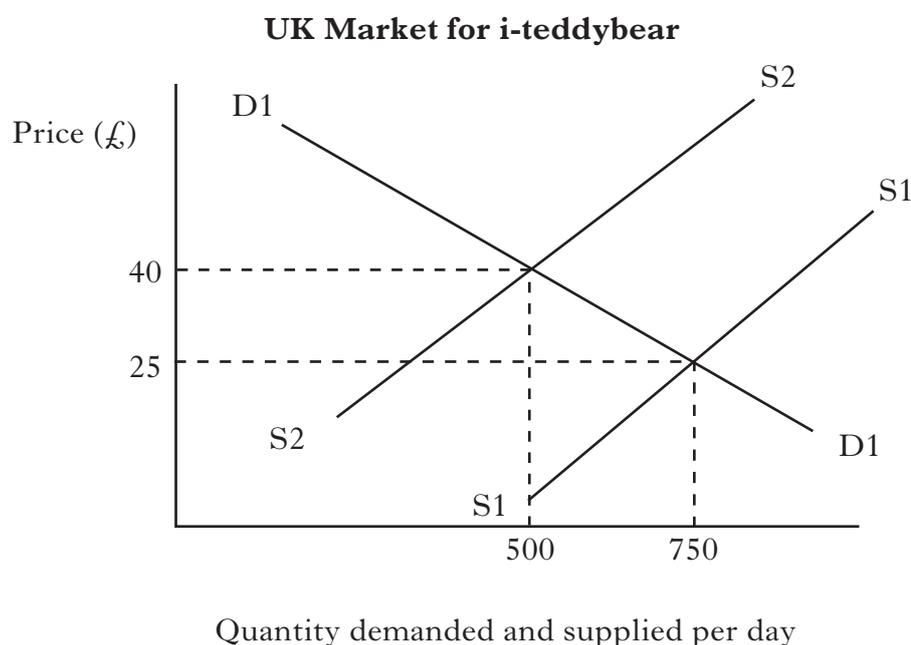
Candidates should attempt BOTH items.

ITEM A

Read the following and answer the questions below and on *Page three*.

Recent media advertising by Bear Music has made the i-teddybear an increasingly popular educational toy for children. The firm is keen to increase profit margins by improving **productivity** in the **long run** and selling the i-teddybear to member states of the European Union.

The diagram below relates to the UK market for i-teddybear.



- (a) Explain what is meant by the following terms:
- (i) “productivity”; 2
 - (ii) “long run”. 2
- (b) State the equilibrium price and quantity in the above diagram when demand is D1 and Supply is S1. 1
- (c) (i) Explain **one** reason why supply curves usually slope upwards from left to right. 2
- (ii) Suggest **2** reasons for the shift in the supply curve for i-teddybears from S1 to S2. 2
- (iii) Calculate the change in total revenue for i-teddybear following the shift in supply from S1 to S2. 2

ITEM A (continued)

- (d) (i) Explain **one** way in which the division of labour can lead to a more efficient use of resources. 2
- (ii) Explain **one** way the Government could improve the geographical mobility of workers. 2
- (iii) Explain why substitution of labour might be difficult in a particular industry. 2
- (e) Explain how a fall in the exchange rate of Sterling against the Euro is likely to affect the profit made by Bear Music. 3
- (20)**

[Turn over

ITEM B

Read the following and answer the questions below.

Faced with a **recession**, the UK Government decided that changes to spending and taxation were the most effective measures for dealing with these problems. However, any changes might affect the extent to which the tax system becomes more regressive or progressive.

Successful government policies should lead to lower unemployment and an increase in national income. This would have an impact on the rate of inflation and the volume of imports.

- (a) Explain what is meant by the term “**recession**”. 2
- (b) Explain the likely effect of an increase in the level of national income on the:
- (i) rate of inflation; 2
 - (ii) volume of imports. 2
- (c) Describe **one** method the UK Government uses to measure the level of unemployment. 2
- (d) Explain **2** economic problems for the UK economy of an increase in the level of unemployment. 4
- (e) Explain how the UK Government can reduce unemployment by using:
- (i) taxation; 2
 - (ii) Government spending. 2
- (f) Explain, using examples, the difference between regressive and progressive taxation. 4
- (20)**

PART 2—Essay Questions

Candidates should attempt ONE essay question.

1. A market economy attempts to allocate scarce resources to solve the basic economic problem of scarcity. However, governments can intervene in the economy through the provision of subsidies for agricultural products.
 - (a) Explain what is meant by the basic economic problem of scarcity. 4
 - (b) Explain how the price mechanism allocates resources in a market economy. 6
 - (c) Explain the effect of a subsidy on the equilibrium price and quantity of agricultural products. Your answer **must** include a diagram. 6
 - (d) Suggest **4** factors that might affect the demand for agricultural products. 4

(20)

2. Newly industrialised countries (NICs) have benefited from international trade and the removal of trade barriers.
 - (a) Explain **3** benefits of international trade to the UK. 6
 - (b) Explain **3** reasons why some countries might wish to introduce trade barriers. 6
 - (c)
 - (i) Describe **2** characteristics of a newly industrialised country. 2
 - (ii) Explain **3** advantages to a newly industrialised country of a UK firm locating there. 6

(20)

3. Tesda Company wants to reduce its long run average costs of production by expanding its scale of production. However, Tesda Company has had to increase the price of its cakes as a result of increasing costs.
 - (a) Suggest and explain **3** economies of scale a firm might achieve as it expands its scale of production in the long run. 6
 - (b) Draw a diagram to show the relationship between total fixed costs, total variable costs and total costs in the short run. 4
 - (c) Describe how inflation is measured in the UK. 4
 - (d) Explain the effects of inflation on individuals **and** the economy. 6

(20)

[Turn over for Questions 4 and 5 on Page six

4. The European Union (EU) helps reduce poverty in developing countries by giving aid. Developing countries can also increase growth by achieving a surplus on their trade in goods in their balance of payments.
- (a) Explain **2** advantages and **2** disadvantages to the UK of being a member of the European Union. 8
- (b) Describe **3** forms of aid given to less developed countries. 6
- (c) (i) Explain what is meant by “a surplus on trade in goods”. 2
- (ii) Other than trade in goods, describe **2** items in the current account of the balance of payments. 4
- (20)**
5. Changes in interest rates and exchange rates affect the level of national income.
- (a) (i) Describe **one** factor that influences the demand for sterling. 2
- (ii) Describe **one** factor that influences the supply of sterling. 2
- (b) Explain whether Japanese tourists visiting Scotland benefit from a decrease or an increase in the exchange rate of yen against sterling. 4
- (c) Explain how a decrease in the rate of interest is likely to affect the level of saving **and** borrowing. 4
- (d) Explain how an increase in UK investment will affect the equilibrium level of national income. A diagram **must** be included in your explanation. 8
- (20)**

[END OF QUESTION PAPER]

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