

C038/SQP271

Economics
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 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 is a Question Paper.

Paper	Time allocation	Mark allocation
1	2 hours 30 minutes	100

- ◆ The paper examines knowledge and understanding covering 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 cover interpretation items while Section B will be extended response questions.
- ◆ Questions in both sections may focus on particular areas of Course content but there will also be questions which provide an opportunity to integrate topics across all areas of the Course content. These integrative questions may cover topics from two or more of the three Units which comprise the Course.

Section A – total marks available 50

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

It will consist of two separate interpretation items each with a number of questions totalling 25 marks. Candidates will be expected to attempt all questions for both interpretation items.

The information presented to candidates 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 normally include macroeconomic and microeconomic material.

Candidates will be required to analyse straightforward economic problems and issues by identifying the key features of them and extracting and processing relevant information to reach valid conclusions. They will also be required to suggest and/or justify appropriate Courses of action to be taken on economic issues.

Section B – total marks available 50

This section of the paper will assess knowledge and understanding.

It will consist of six questions drawn from any part of the Course content. Each question will require extended answers and will be worth 25 marks. Candidates should attempt any two questions.

Relationship between Unit and Course assessment

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.

The Course assessment samples all aspects of the Course content and thus covers material from all three Units. It also test knowledge and understanding but does so in a way which involves integration of topics from more than one Unit. The interpretation items require candidates to apply their knowledge to unfamiliar contexts and to adopt a more analytical, problem solving approach than 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 area of Economics within a familiar context. 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 and analyse economic problems and issues set in unfamiliar and complex contexts
- ◆ interpret economic information relating to unfamiliar and complex contexts

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 mark gained in the Question Paper.

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 – 100, the following gives an indication of the cut-off scores:

Grade	Band	Mark Range
A	1	85 – 100
A	2	70 – 84
B	3	65 – 69
B	4	60 – 64
C	5	55 – 59
C	6	50 – 54
D	7	45 – 49
NA	8	40 – 44
NA	9	0 - 39

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 62/100 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/SQP271]

Economics
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Specimen Question Paper
for use in and after 2006

Time: 2 hours 30 minutes

NATIONAL
QUALIFICATIONS

Instructions to Candidates

Candidates must attempt **both** items in Section A and any **two** questions in Section B.

SECTION A

ITEM A

Read the passage below and then answer the questions which follow.

The Scottish Economy—Boom or Bust?

The traditional view of Scotland is “a two speed economy”, with a fast growing service sector and a sluggish manufacturing sector. However, this view is in need of revision because the manufacturing industry is currently experiencing rising demand for its products. Nevertheless, concerns are emerging about the future because:

- business confidence has weakened;
- capital investment has fallen;
- rising fuel costs, **average wage costs** and transport costs are putting pressure on profit margins;
- low productivity is likely to restrict the growth of **economic activity**;
- small businesses are finding it more difficult to survive because of increased competition from larger firms and rising interest rates;
- a shortage of skilled staff is adding to the upward pressure on inflation.

A report last month said that Scotland’s economy was growing at its fastest rate for seven years, but predicted challenging conditions next year.

Adapted from an article in the *Edinburgh Evening News* October 2004

	<i>Marks</i>
(a) Explain the following terms used in the passage:	
(i) average wage costs;	
(ii) economic activity.	4
(b) Suggest reasons for the increase in demand for manufactured goods.	2
(c) (i) Explain what is meant by capital investment.	2
(ii) Describe the possible consequences for the Scottish economy of a fall in capital investment.	4
(d) Explain why increased competition and rising interest rates are making it more difficult for small businesses to survive.	4
(e) Describe one measure a government could take to protect small businesses from competition from larger firms.	2
(f) Explain how businesses could increase the productivity of their workers.	3
(g) Explain how a shortage of skilled workers could lead to an upward pressure on inflation.	2
(h) Other than increased skills shortages, describe one possible problem for the Scottish economy of “growing at its fastest rate for seven years”.	2
	(25)

ITEM B

Study the table below and then answer the questions which follow.

Selected UK Economic Indicators

	2000	2001	2002	2003	2004
Inflation (%) RPIX	3.00	1.80	1.70	2.90	2.70
Earnings growth (%)	4.50	4.40	3.60	3.30	4.70
Unemployment (%) (Claimant Count)	4.00	3.00	3.00	3.00	2.80
Unemployment (%) (ILO)*	5.60	4.90	5.20	5.20	4.80
Economic growth (%)	3.90	2.30	1.80	2.20	2.70
Interest rates (end of year %)	6.00	4.00	4.00	3.75	4.50
Current Account Balance (£bn)	-24.10	-23.50	-18.00	-26.70	-20.10
Exchange rate Euro/£	1.64	1.61	1.59	1.45	1.49
Exchange rate \$/£	1.51	1.44	1.50	1.63	1.82

*ILO—International Labour Organisation (Labour Force Survey)

Marks

- (a) Until November 2004, the UK government’s inflation target as measured by the RPIX was 2.5%. 2
- (i) What is the UK government’s new inflation measurement and target? 2
- (ii) Explain how the increase in the rate of inflation between 2002 and 2003 could have been caused by the reduction in the interest rate. 2
- (b) Explain what happened to the average standard of living of those in work between 2000 and 2004. 4
- (c) Explain why the Claimant Count measure of unemployment is always below the ILO measure. 2
- (d) (i) What is meant by “economic growth”? 2
- (ii) Suggest **one** measure a government could take to increase the long run economic growth of an economy and explain how it would work. 3
- (e) Suggest and explain **one** reason for the large deficits in the UK Current Account. 3
- (f) Explain how the change in interest rates from 2003 to 2004 could have caused the change in exchange rates in those years. 3
- (g) In 2004, UK employment in manufacturing fell by over 100,000. Explain how this fall could have been partly caused by the change in the exchange rates of sterling from 2003 to 2004. 4

(25)

SECTION B

Attempt any TWO questions.

Marks

1. Government interference in markets cannot solve the basic economic problem of scarcity.
 - (a) Explain what is meant by scarcity and why it is the basic economic problem. **8**
 - (b) Explain, using a diagram, how the setting of a maximum price can create a shortage in a market. **7**
 - (c) Discuss the advantages and disadvantages of a national minimum wage. **10****(25)**

2. Despite the efforts of the World Trade Organisation (WTO) and the World Bank, real GDP per capita in developing countries is still much lower than that of developed countries.
 - (a) Explain **how** and **why** real GDP per capita is calculated. **8**
 - (b) Explain the economic factors that lead to a relatively low real GDP per capita in developing countries. **10**
 - (c) Describe some of the activities of the WTO and the World Bank. **7****(25)**

3. The market for houses includes the demand for both owner-occupied housing and rented accommodation.
 - (a) Explain how increases in interest rates affect the market for rented accommodation in the short term. (A diagram will be useful when answering this question.) **12**
 - (b) Explain, how an increase in the supply of rented accommodation in London may influence the level of labour shortages in London. **5**
 - (c) Suggest and explain measures, other than changing interest rates, which governments could use to stop the price of owner-occupied houses from rising. **8****(25)**

4. In recent years the UK economy has experienced a satisfactory rate of economic growth and a relatively low rate of inflation.
 - (a) Suggest reasons for the relatively low rate of UK inflation in recent years. **10**
 - (b) Explain how measures to reduce inflation can cause problems for an economy. **7**
 - (c) Describe some of the advantages of a prolonged period of satisfactory economic growth. **8****(25)**

5. One expected result of EU enlargement is a reduction in average production costs throughout the EU.
- (a) Using a diagram, explain the relationship between **short run** average total costs and marginal costs. 8
 - (b) Explain what is meant by **long run** average total costs and explain why long run average total costs usually fall as output increases. 10
 - (c) Other than falling average total costs, explain some advantages and disadvantages for the UK of EU enlargement. 7
- (25)
6. Most economists would agree that free trade can benefit an economy.
- (a) Explain what is meant by free trade and describe some of the benefits it may bring to an economy. 8
 - (b) (i) Suggest reasons **why** some countries may wish to restrict free trade. 7
 - (ii) Other than tariffs, explain some measures countries could use to restrict trade. 6
 - (c) Explain how the EU both promotes and restricts free trade. 4
- (25)

[END OF SPECIMEN QUESTION PAPER]

[C038/SQP271]

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NATIONAL
QUALIFICATIONS

SECTION A – ITEM A

- (a) (i) Total wage costs divided by number of workers or the average pay earned by workers. 4
- (ii) All the activities involved in the production (and consumption) of goods and services. 4
- (b) Rising real incomes; rising demand (especially from China) for Scottish exports; Scottish manufactures becoming more competitive; better promotion of Scottish products abroad etc. Credit any plausible reason. 2
- (c) (i) Long term spending on fixed assets (credit examples). 2
- (ii) Economic growth and productivity would be lower than they otherwise would have been, leading to reduced competitiveness, falling exports, rising imports, trade deficits, rising unemployment, lower standard of living, falling profits, lower aggregate demand etc. Mark according to overall quality. 4
- (d) Increased competition—small businesses cannot benefit from economies of scale, therefore their cost per unit is higher and their prices may not be as competitive as those of larger firms. 4
- Look for references to higher interest rates increasing firms' costs. As small firms are more dependent on bank loans than large firms their costs will rise relative to large firms. (Credit references to small firms having to pay higher interest rates than large firms.)
- (e) Credit references to the roles of the Competition Commission and the Office of Fair Trading; the possibility of tax and regulatory concessions for small firms. 2
- (f) Look for an explanation of how any one of the following could increase output per worker: increased specialisation; increased investment in education; increased investment in training; worker incentives; increased investment in capital equipment; improved management techniques etc. Credit correct definition of labour productivity. 3
- (g) A shortage of skilled workers means that firms have to offer higher wages to attract skilled staff, this puts up production costs and, to maintain profit margins, prices may be increased. This can lead to cost push inflation. 2
- (h) High growth rates increase aggregate demand and if supply cannot meet this increase in demand, this will lead to higher prices and/or increased imports. 2
- (One reason required for full marks.)

SECTION A – ITEM B

- (a) (i) Measurement – Consumer Prices Index (CPI)
Target – 2% 2
- (ii) The reduction in interest rates would have encouraged borrowing and discouraged saving. Both of these would have increased aggregate demand, resulting in demand-pull inflation. (Credit references to increased investment, lower mortgage payments creating increases in real income, etc.) 2
- (b) It increased continuously. Reason: from 2000 to 2004 the percentage increase in earnings was consistently greater than the percentage increase in inflation. (Credit references to different rates of increases in standard of living over the period.) 4
- (c) Claimant count only includes those who are eligible to claim job seekers allowance. The ILO is an estimate of all people who are unemployed whether or not they are entitled to claim job seekers allowance. 2
- (d) (i) An increase in the productive capacity of an economy. (As measured by an increase in real GDP over a period of time.) 2
- (ii) Look for an explanation of one of the following:
- lower interest rates (to boost investment)
 - increased capital allowances (to boost investment)
 - increased expenditure on education and training (to improve the quality of labour)
 - increased spending on research and development (to improve technology)
 - improved management techniques (to improve the quality of enterprise).
- (Credit any other plausible measure) 3
- (e) Reasons include:
- loss of comparative advantage, especially in manufacturing (credit references to increased foreign competition from NICs, India and China)
 - strong pound – making UK exports less competitive and UK imports more competitive
 - sluggish growth in the EU, our main export market
- (Credit any other plausible reasons) 3
- (f) (A variety of valid answers is possible, so credit any logical explanation. However the obvious answer involves the fact the demand for sterling is likely to have increased as it has become more attractive to foreign speculators.)
- Interest rates have increased. This will have increased the flow of hot money (credit reasons) which will, in turn, increase the demand for sterling. The increased demand for sterling will increase its exchange rate. 3

SECTION A – ITEM B (continued)

- (g) The increase in the exchange rate makes our exports more expensive to foreigners who now have to give up more of their currency to buy a given amount of sterling. This will reduce the demand for our exports and could lead to fewer people being employed in our export industries. Imports, however, will become cheaper as a given unit of sterling will now buy more foreign currency. Our demand for imports will therefore increase (probably at the expense of our demand for home produced goods). Therefore unemployment will rise in our import-competing industries.

No need to mark 2:2 but must mention exports and imports for full marks.

4

SECTION B

1. (a) Scarcity arises because our desire for goods and services is unlimited but the resources required to produce them are limited.

Scarcity is, therefore, a relative concept and applies to all economies. No country in the world has enough resources to produce enough goods to completely satisfy all the wants of all its people. Scarcity will always exist and cannot be eliminated.

Scarcity is the basic economic problem because all other economic problems (opportunity cost, choice etc.) arise because of scarcity.

8

- (b) Fully labelled diagram showing maximum price below the equilibrium price and clearly indicating the amount of the shortage at that price (Max 4 marks).

When a maximum price is set below the equilibrium price, the demand for the good will be greater than the supply of it. This excess demand will cause a shortage to arise. (Credit reasons for imposing maximum price.)

7

- (c) Advantages include:

- guaranteed minimum standard of living (credit multiplier effect) for those in employment;
- reduced poverty;
- may encourage more unemployed people to actively seek employment;
- could increase labour productivity;
- compels employers to pay a decent wage;
- reduced government spending on income support.

Disadvantages include:

- increased wage costs;
- cost-push inflation;
- reduced competitiveness of UK firms;
- if minimum wage is set at too high a level, workers could be priced out of employment;
- does nothing to help the unemployed.

(Any combination of 5 advantages and disadvantages, with explanation, for full marks.)

10

SECTION B (continued)

2. (a) How – the value of the output of all goods and services, produced in a country in a year, per head of population. The figures are measured at constant (not current) prices. (Maximum 5 marks.)

If candidates simply mention the 3 methods of calculating national income—maximum 3 marks.

Why:

- to measure changes in standards of living;
- to make comparison between countries;
- to make comparisons within a country over a period of time;
- to help government plan future economic policy;
- to identify countries in need of aid;
- to determine the level of contributions to international economic organisations.

(Maximum 5 marks)

8

- (b) Economic factors include:

- lack of capital investment;
- lack of education and training;
- poor infrastructure;
- high levels of debt repayments;
- corrupt governments;
- narrow export base;
- demand for their exports is often highly price inelastic;
- weak international bargaining power leading to lower prices for their exports;
- unfair trading practices eg dumping by developed countries.

Credit social factors eg poor health provision, if they are related to low productivity.

10

- (c) World Trade Organisation (replaced GATT in 1995)

- promotes free trade;
- encourages the reduction in trade restrictions and has succeeded in reducing the level of tariffs and abolishing most quotas;
- conducts regular negotiations (rounds) among members to agree on tariff reductions;
- most favoured nation clause;
- settles trade disputes between governments;
- allows member countries to take legal action against unfair trading by other member eg EU action against US steel tariff.

World Bank (IBRD)

- its aims are “to fight poverty and improve the living standards of people in the developing world”;
- provides loans, policy advice, technical assistance and knowledge sharing services to low and middle income countries to reduce poverty;
- funds education and HIV/AIDS programs;
- supports debt relief and attempts to reduce international corruption.

7

SECTION B (continued)

3. (a) Note: Full marks can be accessed without the aid of a diagram.

Explanation. A rise in interest rates causes an increase in the cost of (variable interest) mortgage repayments, thus increasing the cost of buying a house. Fewer people will therefore be able to afford to buy a house, reducing the demand for owner occupied accommodation. Some consumers will switch to rented accommodation which will shift the demand curve for rented accommodation to the right. As the supply of rented accommodation cannot increase in the short term, there will be a significant increase in the price.

Credit references to fewer first time buyers, and increased repossessions.

The diagram should show a perfectly (or highly) inelastic supply curve and a shift to the right of the demand curve causing an increase in equilibrium price (Maximum 4 marks). If supply curve is not perfectly (or highly) inelastic — Maximum 3 marks.

12

- (b) Look for an understanding of how an increase in the supply of rented accommodation will increase the supply of labour in London and therefore reduce labour shortages.

The increase in the availability of rented accommodation in London (because of the increase in supply) will persuade more (unemployed) people to move to London. In addition, the increase in the supply of rented accommodation will reduce the cost of rents (or, at least, slow down their increase), which will make more people willing to move to London because it is more affordable. The result will therefore be an increase in the geographical mobility of labour. As the supply of labour in London increases, labour shortages in London will be reduced.

Mark according to overall quality.

5

- (c) A wide range of answers is possible but look for 3 measures which would result in either an increase in the supply of, or a reduction in the demand for, houses eg:

Increase the supply of rented accommodation eg by building more rented accommodation (eg council houses, housing associations) or by reducing the tax on rent income. This reduces the need for people to buy their own house and will therefore reduce demand.

Increase the amount of land available to the construction industry (eg increase in brownfield sites, a reduction in the green belt), thus increasing the supply of houses and therefore reducing their price.

Make the buying of a new house more expensive by increasing stamp duty. This should reduce the demand for new houses and slow down price increases.

Also credit references to fiscal measures aimed at reducing the overall level of demand eg increasing income tax, thereby reducing people's disposable income, and reducing the demand for houses.

8

SECTION B (continued)**4. (a) Reasons include:**

- advances in technology have led to lower production costs;
- falling world commodity prices (until recently!)—reduced cost-push pressure;
- weaker Trade Unions (reduced membership, employment acts, the move to plant bargaining)—reduced wage push inflation;
- increased global competition and more price conscious consumers have reduced producers power to increase prices;
- the strong £ has reduced the price of imported finished goods, raw materials and components;
- the MPC—independent and pro-active rather than re-active;
- lower inflationary expectations—due to the prolonged period of low inflation and the increased credibility of an independent central band—have reduced the need to rush out and buy.

Four, well explained reasons for full marks.

10

- (b) Look for a detailed explanation of how anti-inflation measures (higher interest rates, budget surpluses etc) reduce the level of aggregate monetary demand in the economy. Candidates should then explain how a lower AMD results in slower economic growth and increased unemployment.

7

(c) The advantages include:

- an increase in the average standard of living because of increased real income, more leisure time, greater variety of goods etc
- increases the government's revenues from income tax, VAT, corporation tax etc. This reduces the need for increased tax levels and gives the government more money to spend on education, health etc
- makes it easier for the government to reduce income inequalities if all incomes are rising ie they do not have to take from the rich to give to the poor;
- increases the job opportunities for the unemployed;
- increases job security and promotion prospects for those in work.

Three, well described advantages for full marks.

8

SECTION B (continued)

5. (a) Fully labelled diagram showing U-shaped SRAC curve and J-shaped marginal cost curve which intersects the SRAC at its lowest point (3 marks).

Credit explanation of the short run eg that period of time when the producer cannot increase output by using more of every factor ie at least one factor is fixed.

Marginal costs fall at first (because of increasing marginal returns to the variable factor) and then rise (because of diminishing marginal returns to the variable factor). The initial fall in marginal costs will pull down average total costs. Average total costs will continue to fall as long as marginal costs are lower than them ie as long as the marginal cost curve is below the average total cost curve. Average total costs cannot rise until marginal costs are greater than them. Therefore the marginal cost curve must cut the average total cost curve at its lowest point (optimum output).

Credit candidates who explain the shape of the average total cost curve.

8

- (b) Long run average total costs are the costs of producing one good when the producer is able to alter the amount of every factor ie no factor is fixed all are variable. (Maximum 2 marks)

In the long run average total costs fall as output increases because of economies of scale. These economies include: Financial Economies eg cheaper loans; Managerial Economies eg employing experts; Technological Economies eg specialised machinery; bulk buying; economies of increased dimensions.

For full marks, candidates must describe at least 3 economies of scale and explain why they lead to falling average total costs.

10

- (c) Advantages include:

- the extra 105 million people and 34% more land should increase economic growth and create new jobs;
- the larger market will create greater opportunities for firms (and consumers) to benefit from economies of scale;
- consumers will have a greater variety of goods and access to cheaper goods;
- the lower wage cost in the new member states will provide opportunities for firms to cut costs by re-locating their operations.

Disadvantages include:

- jobs may be lost when firms relocate;
- loss of regional funds to the UK in favour of new entrants;
- CAP will have to be drastically reformed.

2 advantages and 2 disadvantages for full marks.

7

SECTION B (continued)

6. (a) Free trade is trade between countries without any form of restrictions ie no tariffs, quotas etc.

A wide variety of answers is possible, but the main benefit is that it encourages a more efficient use of the world's resources as trade tends to become based on comparative advantage—credit highly candidates who concentrate on this idea.

Also credit candidates who mention the other benefits such as—greater economies of scale, increased range and variety of goods, cheaper imports, increased competition, greater global harmony etc.

8

- (b) (i) To protect infant industries and essential industries, to offset the lower production costs abroad, to prevent dumping, to reduce unemployment, to improve the balance of trade etc. Three reasons, well developed for full marks.

7

- (ii) Look for a straightforward description of at least 3 types of trade restriction eg quotas, exchange controls, embargoes, high standards of safety and quality, subsidies to home producers etc.

For full marks, look for an explanation of how the measure would actually restrict trade.

6

- (c) The EU promotes free trade because there are no trade restrictions between members.

It restricts trade by imposing a common external tariff on non-members.

4

[END OF SPECIMEN MARKING INSTRUCTIONS]