

C038/SQP272

Economics
Intermediate 2

NATIONAL
QUALIFICATIONS

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Course Assessment Specification

Economics Intermediate 2

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	1 hours 45 minutes	60

- ◆ This paper examines knowledge and understanding covering the Course content and also assesses evaluation and problem solving.
- ◆ Questions will cover the interpretation of economic information and some will 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 40

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

It will consist of two brief interpretation items. Each will have a number of questions totalling 20 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. The stimulus material supplied will not contain all the answers within it.

Candidates will be required to consider basic 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 appropriate Courses of action to be taken on economic issues.

Section B – total marks available 20

This section of the paper will assess knowledge and understanding.

It will consist of five questions drawn from any part of the Course content. Each question will require extended answers and will be worth 20 marks. Each question will normally contain three sub-sections. Candidates should attempt any one question.

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 economics introduced during a Unit. They do involve some application of knowledge and understanding but in contexts which are familiar to candidates. 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 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 less familiar and more complex contexts
- ◆ explain economic issues set in less familiar and more complex contexts
- ◆ make use of economic information relating to less familiar and more 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 – 60, the following gives an indication of the cut-off scores:

Grade	Band	Mark Range
A	1	52 – 60
A	2	42 – 51
B	3	39 – 41
B	4	36 – 38
C	5	33 – 35
C	6	30 – 32
D	7	27 – 29
NA	8	24 – 26
NA	9	0 – 23

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 37/60 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.

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Economics
Intermediate 2
Specimen Question Paper
for use in and after 2006

Time: 1 hour 45 minutes

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60 marks are allocated to this paper.

Section A (40 marks) Candidates should attempt **both** items.

Section B (20 marks) Candidates should attempt **one** question.

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

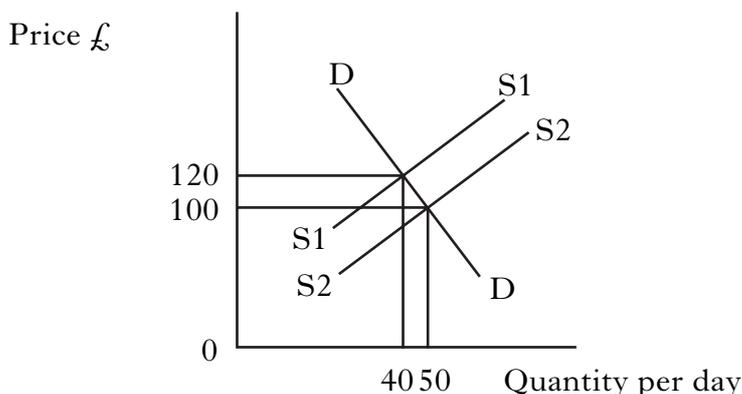
SECTION A

Candidates should attempt BOTH items

ITEM A

The growth of the iPod market is one reason for the number of people in employment in the UK being at an all time high.

The diagram below illustrates the UK market for iPods.



Marks

- | | |
|--|---|
| (a) Explain what is meant by the “market for iPods”. | 2 |
| (b) Explain why: | |
| (i) the quantity demanded of a good usually increases as its price decreases; | 2 |
| (ii) the quantity supplied of a good usually increases as its price increases. | 2 |
| (c) One of the reasons for the increase in the supply of iPods has been an increase in productivity. | |
| (i) What is meant by “productivity”? | 1 |
| (ii) Suggest one way in which productivity can be increased. | 1 |
| (iii) Other than increasing productivity, explain how a firm could increase its level of profit. | 2 |
| (d) Other than increased productivity, suggest two reasons for the shift in the supply of iPods from S1S1 to S2S2. | 2 |
| (e) Calculate the change in total revenue when supply shifts from S1S1 to S2S2. | 2 |
| (f) Explain 2 benefits to the UK government of an increase in the level of employment. | 4 |
| (g) How would an increase in the demand for labour affect: | |
| (i) a worker in employment; | |
| (ii) an unemployed worker? | 2 |

(20)

ITEM B

The following information refers to the UK Balance of Payments.

UK Current Account (£ billion)

Year	Balance of Trade in Goods and Services	Interest, Profits Dividends (IPD)	Transfers	Balance on Current Account
2003	-33.0	7.0	-1.0	A
2004	-34.0	B	-1.0	-20.0

The following information refers to the UK Budget.

In 2004, the budget deficit (ie the amount by which government spending exceeded government revenue) rose by £15 billion to £35 billion.

Marks

- (a) Calculate:
- (i) the Balance on Current Account for 2003 (**A**);
 - (ii) the value of IPD for 2004 (**B**). 2
- (b) In 2003 and 2004, the Balance of Trade in Services was in surplus. Explain why the Balance of Trade in Goods and Services was in deficit in those years. 2
- (c) Explain how the UK Current Account deficit would be affected by:
- (i) an increase in UK citizens holidaying abroad;
 - (ii) an increase in the level of profits received by UK firms from their factories overseas. 4
- (d) Suggest 2 reasons why countries trade. 2
- (e) Explain how an increase in the exchange rate of sterling would affect:
- (i) the number of foreign visitors wishing to take a holiday in the UK;
 - (ii) the volume of UK exports. 4
- (f) Name 2 sources of government revenue. 2
- (g) Explain how the increase in the budget deficit is likely to affect:
- (i) the volume of UK imports;
 - (ii) the rate of UK inflation. 4
- (20)**

SECTION B—Essay Questions

Candidates should attempt ONE essay question.

Marks

1. National Income figures are used by governments to plan future economic policy.
 - (a) Explain, using a circular flow of income diagram, what is meant by the equilibrium level of National Income. **10**
 - (b)
 - (i) Describe 2 problems of measuring National Income.
 - (ii) Describe one use of National Income statistics, other than planning economic policy. **6**
 - (c) State 4 economic aims of governments. **4****(20)**

2. “Membership of the EU might help developing countries overcome some of their problems.”
 - (a) Describe some benefits to the UK of EU membership. **5**
 - (b) Explain some of the problems facing developing countries. **8**
 - (c) Describe ways in which rich countries could help solve the problems of developing countries. **7****(20)**

3. Economics involves the study of a variety of costs such as opportunity cost, fixed cost, variable cost and average total cost.
 - (a) Define opportunity cost and explain how it arises. **6**
 - (b) Explain, using a diagram and examples, the difference between total fixed cost and total variable cost. **6**
 - (c) Define the long run and describe 3 factors that can cause a firm’s long run average total cost to fall. **8****(20)**

4. Since 1997, the rate of UK inflation and the level of UK unemployment have remained relatively low.
 - (a) Define inflation and describe 3 factors that could cause an increase in the rate of inflation. **8**
 - (b) Explain how the rate of inflation can be reduced by a change in the UK rate of interest. **5**
 - (c)
 - (i) Describe one way of measuring unemployment.
 - (ii) Describe 3 causes of unemployment. **7****(20)**

5. In its annual budget, the Government outlines its revenue and expenditure plans for the forthcoming year.
- (a) Name 3 areas of government expenditure and explain why the government spends money on each of these areas. **9**
- (b) Explain, using examples, the difference between direct and indirect taxation. **6**
- (c) Explain how the budget can be used to reduce the level of unemployment in the UK. **5**
- (20)**

[END OF SPECIMEN QUESTION PAPER]

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SECTION A – ITEM A

- (a) The market for iPods consists of the producers/sellers of iPods and the consumers/buyers of iPods. Credit references to the demand for and supply of iPods. 2
- (b) (i) Look for a simple explanation of the income effect, the substitution effect or diminishing marginal utility eg as the price falls, more people can afford to buy the good and existing consumers (whose real income has now increased) may well buy more (credit references to the market becoming wider). When the price of a good falls some consumers might now buy this good instead of a (dearer) substitute. When the price of a good falls it becomes a better buy (consumers are getting more value/utility for their money) so some consumers might buy more. 2
- (ii) As price rises, producers will make more profit on the good and so will be willing and able to produce more of it (and less of another good). Credit references to profit maximisation and the ability to cover extra (marginal) costs. 2
- (c) (i) Output per input. Also credit output per worker. 1
- (ii) Credit any plausible suggestion eg increased mechanisation, specialisation or training; bonus payments, piece rates, share offers, profit related pay and any other worker incentive. Do not credit suggestions which would simply lead to an increase in production eg “shorter hours” is a correct answer (it could lead to increased productivity) but “longer hours” is an incorrect answer. 1
- (iii) Look for a simple explanation of how a firm could either increase its revenue (demand) or reduce its costs eg a “successful” advertising campaign, increasing the quality of the good, finding a cheaper supplier, bulk buying, lower wages (off-shoring?). Credit references to changing the price, if related to price elasticity of demand. One explanation is all that is required for full marks. 2
- (d) Possible overlap with answer to (c) (iii).
Credit any fall in costs eg lower wage costs, lower raw material costs, lower interest rates, lower rents. Also credit references to advances in technology and falls in the price of other goods the firm is making. 2
- (e) Revenue changes from £4,800 to £5,000, or, revenue changes (increases) by £200. Both answers gain full marks. 2
- (f) Look for an explanation of how the government would obtain more revenue (from income tax, VAT, corporation tax, national insurance, etc) and would also have to spend less on welfare benefits (Job Seekers Allowance, income support etc). 4
- (g) (i) An employed worker would have greater job security, possibly higher wages, more promotion prospects, increased bargaining power etc. Any one affect for full marks. 1
- (ii) An unemployed worker would have a better chance of getting a job. 1

SECTION A – ITEM B

- (a) (i) –£27 billion 1
(ii) £15 billion 1
- (b) Look for an understanding of the fact that the Balance of Trade in Goods and Services was in deficit because the deficit on Balance of Trade in Goods was greater than the surplus on the Balance on Trade in Services. 2
- (c) (i) Look for an understanding of the fact that more people going abroad would result in more money leaving the UK (ie an increase in imports) which would therefore increase a Current Account deficit. 2
(ii) This would result in more money entering the UK (ie an increase in IPD exports) which would therefore reduce a Current Account deficit. 2
- (d) To gain the benefits of international specialisation (comparative advantage), to obtain goods/services it can't produce itself; to obtain goods/services cheaper than it could produce itself (absolute advantage); to obtain a larger choice of goods/services, to augment home supplies etc. 2
Reasons only have to be mentioned, not explained.
- (e) (i) This would reduce the number of foreigners wishing to take a holiday in the UK as their holiday would now be more expensive (as they are now obtaining fewer £s for their currency). 2
(ii) The volume of UK exports would fall as they would now be more expensive to foreigners (who now have to give up more of their currency to buy a given amount of sterling). 2
- (f) Credit any 2 types of taxation – income tax, VAT, corporation tax, capital gains tax, national insurance, licences, duties etc, as well as government borrowing. 2
- (g) For both (i) and (ii) look for an understanding of how a budget deficit (credit definition) would increase the level of total demand in the economy. 2
(i) The increase in AMD would increase the demand for most goods—including imports—therefore the volume of UK imports is likely to increase.
(ii) The rate of inflation is likely to increase because of the increase in the level of AMD. Credit references to demand-pull inflation.
- Because of the overlap in the answers, can mark the answer 3:1, 2:2 or 1:3. 4

SECTION B – Essay Questions

1. (a) Diagram showing income flowing from firms to households and expenditure from households to firms. Three injections plus three leakages. (Maximum 5 marks – 10 × half mark).
 Equilibrium level is when injections equal leakages.
 If injections are greater than leakages then equilibrium level of NY will rise (credit explanation)
 If leakages are greater than injections then equilibrium level of NY will fall (credit explanation)
 (Credit definitions of injections and leakages) **10**
- (b) (i) Look for a description of: double counting, the shadow economy goods consumed by producers etc.
 (ii) Look for a description of: measuring economic growth, comparing growth rate of countries or over time, allocating aid etc. **6**
- (c) Low inflation, low unemployment, steady growth, balanced payments, greater income inequality, environmental improvement. **4**
2. (a) Benefits include: free trade among members (credit expansion), increased variety of goods, economies of scale, larger market, increased competition, lower prices, political harmony. **5**
- (b) Problems include: lack of capital investment, lack of education and training, poor infrastructure, high unemployment, debt burden, corrupt governments, narrow export base, unfair trading practices eg dumping by developed countries. Also credit social factors eg poor health provision, poor sanitation etc. **8**
- (c) Overseas aid—credit the various forms; debt relief—credit examples (Jubilee 2000, “make poverty history” etc); trade—tariff reductions (eg reducing EU common external tariff)—to enable developing countries to increase exports and growth. No need for candidates to mention all 3 different forms of help—can gain full marks by eg simply describing 3 ways rich countries could help. **7**

SECTION B – Essay Questions (continued)

3. (a) Opportunity cost is the sacrifice of the next best alternative choice (credit examples). It arises every time a choice is made (and is therefore the direct result of scarcity). Credit explanations of scarcity. **6**
- (b) The diagram should show a horizontal line for total fixed costs and a rising variable cost curve starting at the origin. (2 marks)
Fixed costs do not vary with output, variable costs vary directly with output (credit examples of fixed and variable costs). **6**
- (c) The long run is that period of time long enough for a producer to increase output by increasing all the factors of production (all factors are now variable, none is fixed.) (2 marks)
Look for a simple description of any three economies of scale. These economies include: financial economies—cheaper loans; managerial economies—employing experts; technical economies—specialised machinery; bulk buying—bigger discounts; economies of increased dimensions—double decker buses. **8**
4. (a) Inflation is a sustained rise in the general level of prices over a period of time. (2 marks)
Look for a straightforward explanation of demand-pull, cost-push and monetary inflation.
Also accept an explanation of three factors which could cause any type of inflation eg increased wages, increased raw material costs, increased interest rates, could all lead to cost push inflation. **8**
- (b) An increase in the rate of interest (1 mark) will encourage saving (credit reasons) and discourage borrowing (credit reasons). Both of which reduce demand (spending) and therefore reduce demand pull inflation.
Credit highly candidates who refer to the reduced real income (and therefore demand) of mortgage holders.
Also credit candidates who state that a fall in interest rates would reduce cost push pressures as it reduces firms borrowing costs. **5**
- (c) (i) Look for a simple explanation of either the claimant count or the ILO measure (Labour Force Survey). (Maximum 2 marks)
- (ii) Look for a straightforward explanation of 3 of the various causes: cyclical, seasonal, structural, frictional, technical, classical etc (no need for candidates to mention the actual name—but credit them if they do). (Three marks per cause; maximum 6 marks.) **7**

SECTION B – Essay Questions (continued)

5. (a) One mark for each main area of government spending eg social security, health, education and defence etc (maximum 3 marks).

Two marks for each explanation of why government spends money eg Health—provision of a merit good, increases the health of the nation so a healthier and more productive workforce. Some degree of overlap in the answers is acceptable.

9

- (b) Direct taxes are levied on income and wealth (credit examples). They are regarded as “direct” because they are taken directly from firms and individuals. Also credit candidates who state they are “direct” because they are sent directly to the revenue authority—also credit mention of the inland revenue.

Indirect taxes are mainly levied on spending (credit examples). They are regarded as “indirect” because they are levied indirectly (eg a shopkeeper pays VAT but passes the burden on to the consumer). Also credit candidates who state that they are “indirect” because the tax is not sent directly to the revenue authority but goes through an intermediary (eg the shopkeeper). Credit candidates who mention Customs and Excise.

6

- (c) A Budget deficit (1 mark)—credit references to reductions in taxes and/or increases in government spending—will increase the total level of demand in the economy (credit reasons). To meet this increase, producers will increase output. One way for them to do this is to employ more workers (credit references to the fact that the demand for labour is a derived demand). As the demand for labour rises, the level of unemployment will fall.

5

[END OF SPECIMEN MARKING INSTRUCTIONS]