



# **2014 Economics**

## **Intermediate 2**

### **Finalised Marking Instructions**

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## **Part One: General Marking Principles for Economics Intermediate 2**

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.

- (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. If a specific candidate response does not seem to be covered by either the principles or detailed Marking Instructions, and you are uncertain how to assess it, you must seek guidance from your Team Leader/Principal Assessor.
- (b)** Marking should always be positive ie, marks should be awarded for what is correct and not deducted for errors or omissions.

### **GENERAL MARKING ADVICE: Economics Intermediate 2**

The marking schemes are written to assist in determining the “minimal acceptable answer” rather than listing every possible correct and incorrect answer. The following notes are offered to support Markers in making judgements on candidates’ evidence, and apply to marking both end of unit assessments and course assessments.

## Part Two: Marking Instructions for each Question

### Item A

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(a) (i)	Buyers and Sellers of tablet computers <b>(1 mark)</b> coming together to determine a price <b>(1 mark)</b> , and exchange the good <b>(1 mark)</b> .	<b>2</b>	Only 1 mark if no mention of tablet computers.
	(a) (ii)	Free trade simply means that countries can trade with other countries without any restrictions or trade barriers <b>(2 marks)</b> . If only an example of a barrier has been given – no marks awarded.	<b>2</b>	
	(b)	Look for a simple explanation of scarcity eg, although our wants for goods and services are unlimited <b>(1 mark)</b> – reasons also gain a mark – the resources <b>(examples – 1 mark)</b> required to make the goods are limited <b>(1 mark)</b> . There are therefore not enough resources to produce all the goods that people want <b>(1 mark)</b> . Provided the candidates mention unlimited wants and limited resources, they can gain a mark for mentioning that scarcity is universal.	<b>4</b>	
	(c) (i)	Opportunity cost is the sacrifice of the next best alternative as a result of a choice/decision.	<b>1</b>	
	(c) (ii)	Any valid response.	<b>1</b>	
	(d)	The factors include: <ul style="list-style-type: none"> <li>• A reduction in costs.</li> <li>• An increase in, or the granting of, a subsidy.</li> <li>• A reduction in VAT.</li> <li>• An increase in productivity.</li> <li>• A decrease in the price of another good (that the producer is making).</li> <li>• New firms entering the market.</li> </ul>	<b>2</b>	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(e)	<ul style="list-style-type: none"> <li>• A rise in the price of a substitute good.</li> <li>• A rise in incomes.</li> <li>• A rise in the population.</li> <li>• Tastes and fashions.</li> <li>• A fall in the price of complements.</li> </ul>	4	2/2
	(f)	<p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Access to a single market.</li> <li>• Increase trade – greater opportunities for firms to benefit from economies of scale and specialisation.</li> <li>• Greater source of skilled, well educated workers who are prepared to work in low wage occupations.</li> <li>• Free movement of capital and labour throughout.</li> <li>• A reduction in trade barriers – quotas, exchange control, tariffs, subsidies.</li> <li>• Better co-operation and co-ordination with other members.</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Unemployment – jobs may be lost if firms relocate to take advantage of the lower wage costs.</li> <li>• Increased labour from Eastern Europe could dampen wage growth for existing workers.</li> <li>• Possible diseconomies of scale.</li> <li>• UK export markets might start to import from newer nations instead if they produce similar goods and services like the UK.</li> <li>• Many Eastern European countries are able to manufacture goods more cheaply than the UK – entry to the EU would restrict the use to block imports or make them less competitive.</li> </ul> <p><b>2 marks for each</b></p>	4	2/2

## Item B

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(a) (i)	<p><b>Indirect Taxation;</b></p> <p>An indirect tax is a tax placed on goods and services <b>(1 mark)</b> or a tax on spending <b>(1 mark)</b> development <b>(1 mark)</b> or example <b>(1 mark)</b>. They include: VAT, customs duties (on imports), excise duties, and motor vehicle duties.</p>	<b>2</b>	
	(a) (ii)	<p><b>Real Income.</b></p> <p>Real income is the income of individuals adjusted for inflation <b>(2 marks)</b>.</p>	<b>2</b>	1 mark for an example.
	(b)	<p>Unemployment fell from 5% to 4.2% <b>(1 mark)</b>, more people earning wages <b>(1 mark)</b>.</p> <p>Inflation increased from 2% to 3.5% <b>(1 mark)</b> as a result of increased spending <b>(1 mark)</b>.</p> <p>Economic Growth increased 0.8% to 3% <b>(1 mark)</b>, more goods and services being produced <b>(1 mark)</b>.</p>	<b>2</b>	
	(c) (i)	<p>Claimant Count – the government counts the number of people eligible to claim Job Seekers Allowance (JSA).</p> <p>Labour Force Survey – surveys a sample of 150,000 people each quarter and counts as unemployed those who were unemployed and those who:</p> <ul style="list-style-type: none"> <li>• Were available to start work in the next two weeks, and</li> <li>• Had actively looked for work in the last four weeks, or</li> <li>• Had found a job and were waiting to start.</li> </ul> <p>If candidate has suggested one method of measuring employment – credit according to quality of answer.</p>	<b>2</b>	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c) (ii)	Main benefits are reduction in spending <b>(1 mark)</b> on JSA <b>(1 mark)</b> and an increase in taxation revenue <b>(1 mark)</b> eg income tax <b>(1 mark)</b> because of higher incomes/spending <b>(1 mark)</b> . Also credit reductions in social problems, increased FDI, greater popularity with voters, etc.	<b>4</b>	
	(d) (i)	(Balance of) Trade in goods, ie export of services/imports of goods, eg clothing, electrical equipment. (Balance of ) Trade in services, ie export of services/imports of services, eg financial services, tourism. Interest, profit and dividends + description or example (Net Investment Income). Transfers.	<b>1</b>	
	(d) (ii)	Imposition of trade barriers, ie tariffs, quotas, embargoes. Boost productivity. Devaluation. Reducing AD.	<b>1</b>	
	(d) (iii)	Look for simple explanation of how method identified in (d)(ii) will reduce the value/volume of imports and hence reduce a Current Account deficit. Marks should be awarded for a description of the measure and an explanation of how it would work.  Import controls – tariff – tax increases prices of imports – less competitive, reduces demand. Quota – limit to number of goods allowed to enter the country. Slow down consumer spending – increase interest rates, increase direct taxation, reduce government spending. Boost productivity by increasing government spending on infrastructure, or privatisation, spending on education and training. Devaluation – exports cheaper, imports more expensive.	<b>2</b>	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(e)	<p>Candidates should explain how an indirect tax on a good increases the cost of producing the good (ie the producer receives the market price less the tax) and will induce the producer to produce less of it. This reduction in supply will increase the equilibrium price.  <b>Maximum of 3 marks without a diagram.</b></p> <p>The diagram should (show a demand and supply curve and the equilibrium price, a correctly labelled axis – 1 mark), (a decrease in supply – 1 mark), (and an increase in the equilibrium price – 1 mark), (reduction in quantity – 1 mark).  <b>Maximum of 3 marks without an explanation.</b></p>	4	3/1 1/3 2/2

## ESSAY QUESTIONS

Candidates should attempt ONE essay question

Question		Expected Answer(s)	Max Mark	Additional Guidance
1	(a)	Fixed costs do not change with output <b>(1 mark)</b> and example, ie rent, interest payments on loans, costs of business insurance, etc <b>(1 mark)</b> , variable costs vary (directly) with output <b>(1 mark)</b> and example, ie wages, raw materials, etc <b>(1 mark)</b> .	4	
1	(b)	1 mark for the labels and 1 mark for each correctly drawn curve.	4	
1	(c)	<p>The cost advantages <b>(1 mark)</b> firms can experience when they increase their size (increase all their factors) <b>(1 mark)</b> or reductions in ATC <b>(1 mark)</b> which large firms can achieve <b>(1 mark)</b> or any similar definition – <b>maximum 2 marks</b>.</p> <p>Look for an explanation of at least 2 economies of scale (internal or external) eg bulk buying, increasing dimension, lower interest rates, etc. Credit candidates who relate economies of scale to lower average cost. (Discount) for bulk buying <b>(2 marks)</b>.</p> <p><b>Accept 2 well explained economies for full marks. Max 3 if only one example.</b></p>	4	

Question		Expected Answer(s)	Max Mark	Additional Guidance
1	(d)	<p>Benefits may include:</p> <ul style="list-style-type: none"> <li>• Provides employment.</li> <li>• Provides training.</li> <li>• Brings technology/capital.</li> <li>• Higher living standards.</li> <li>• Better working conditions.</li> <li>• Exporting industries.</li> </ul> <p>Costs may include</p> <ul style="list-style-type: none"> <li>• May lead to the demise of local industry as a result of competition.</li> <li>• Environmental damage, ie pollution, congestion, etc.</li> <li>• May lead to inflationary pressure as a result of increased spending on goods and services.</li> <li>• Exploitation of workers/resources.</li> </ul> <p><b>2 marks per explanation.</b> <b>Marks are only split 4:4</b></p>	<b>8</b>	<p>2 x 2 benefits 2 x 2 costs</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
2	(a)	<p>The factors influencing demand may include:</p> <ul style="list-style-type: none"> <li>• Foreign demand for our exports.</li> <li>• The level of foreign direct investment in the UK.</li> <li>• The amount of tourists visiting the UK.</li> <li>• Hot money inflows.</li> <li>• Speculators wishing to take advantage of a future rise in the value of the £.</li> <li>• Government wishing to add £s to their reserves to increase the value of the £.</li> </ul> <p>The factors influencing supply may include:</p> <ul style="list-style-type: none"> <li>• Our demand for imports.</li> <li>• The level of UK overseas investment.</li> <li>• The amount of UK tourists abroad.</li> <li>• Hot money outflows.</li> <li>• Speculation from UK companies and the government wishing to hold surplus funds in foreign currencies, replace reserves of £s with other assets or lower the value of the £.</li> </ul>	4	

Question		Expected Answer(s)	Max Mark	Additional Guidance
2	(b)	A decrease in the exchange rate would make UK exports more competitive/cheaper abroad <b>(1 mark)</b> and the demand for them will rise <b>(1 mark)</b> .	2	
2	(c)	<p>The diagram should show:</p> <p>Firms (Prod) Households (Cons) – <b>1 mark</b></p> <p>Income Spending – <b>1 mark</b></p> <p>Injections – <b>1 mark</b> Example of injection – <b>1 mark</b></p> <p>Leakages – <b>1 mark</b> Example of leakage – <b>1 mark</b> <b>Total 6 marks</b></p> <p>Money from exports flows into the UK (ie it is an injection) <b>(1 mark)</b>, it will increase the level of NY <b>(1 mark)</b>.</p> <p>Credit candidates who explain that NY equilibrium occurs when the level of injections equals the level of withdrawals <b>(1 mark)</b>.</p> <p><b>Max 6 marks for diagram.</b> <b>Marks can be split 6:2, 3:3, 2:6</b></p>	8	
		<p>The diagram illustrates the circular flow of income and products between Producers and Consumers. It includes the following components:</p> <ul style="list-style-type: none"> <li><b>Producers</b> and <b>Consumers</b> are the main entities.</li> <li><b>Income</b> flows from Consumers to Producers.</li> <li><b>Consumer Spending</b> flows from Consumers to Producers.</li> <li><b>Injections</b> (investment, exports, government spending) flow into the circular flow.</li> <li><b>Leakages</b> (savings, imports, taxation) flow out of the circular flow.</li> </ul>		

Question			Expected Answer(s)	Max Mark	Additional Guidance
2	(d)		<ul style="list-style-type: none"> <li>• Measure economic growth and standards of living.</li> <li>• Compare growth levels in different years.</li> <li>• Compare growth levels with other countries.</li> <li>• Help the government plan future economic strategy.</li> <li>• Calculate contributions to international organisations.</li> <li>• To identify which countries need aid.</li> </ul>	6	One mark for point and one mark for development.

Question		Expected Answer(s)	Max Mark	Additional Guidance
3	(a)	<p>Look for a simple explanation of how the CPI/RPI is constructed.</p> <ul style="list-style-type: none"> <li>The CPI measures changes in the cost of living of an average household. It is a weighted price index measuring monthly changes in the prices of a basket of more than 600 different items. The spending patterns on which the index is weighted are revised annually, using information from the Family Expenditure Survey.</li> </ul> <p>Credit reference to:</p> <ul style="list-style-type: none"> <li>Basket of goods.</li> <li>FES.</li> <li>Prices from retailers around the country.</li> <li>Index numbers.</li> <li>Weights.</li> <li>Base year.</li> </ul>	4	
3	(b)	<p>Look for straightforward descriptions of any 2 of the following:</p> <ul style="list-style-type: none"> <li>Demand pull.</li> <li>Cost-push.</li> <li>Monetary inflation.</li> <li>Imported inflation.</li> <li>Expectation of inflation.</li> </ul>	4	2 x 2

Question			Expected Answer(s)	Max Mark	Additional Guidance
3	(c)	(i)	Savings will increase because it is more rewarding – credit explanation. Also credit candidates who explain that savings might increase because higher interest rates increase real income. Individuals with mortgages/borrowing may have to pay more and have less disposable income/lower standards of living.	6	2 x 2 x 2  1 effect well explained or 2 effects explained for each of individuals, firms or governments.
3	(c)	(ii)	Borrowing will decrease because it is dearer now to take loans – credit explanation. It will also discourage businesses to borrow – reduce investment – as it will also be dearer to do so. It should also discourage people to take out mortgages and/or move house. - individuals spending less results in lower demand/profits		
3	(c)	(iii)	The rate of inflation is likely to fall given the reduction in spending for both consumers and firms (less pressure on demand pull inflation). An increase in interest rates in the UK will increase the exchange rate and therefore lower the price of imported goods thus reducing cost push inflation.		

Question		Expected Answer(s)	Max Mark	Additional Guidance
3	(d)	<p>Increasing capital expenditure on projects such as motorway building, schools and hospitals would increase AD. Firms winning such contracts would be likely to invest in new capital equipment so there would be an increase in demand for such items. Those employed directly in the building of such projects would receive income which they would spend and so create demand for other goods and services. Include spending on benefits/revenue spending.</p> <p>Reducing income tax or profits on taxes the disposable income of consumers and firms would be increased which in turn would lead to a rise in demand for consumer and capital goods.</p> <p>Mark according to quality. There are other valid answers which should be credited. Eg general answers such as increased spending resulting in increased aggregate demand so firms increase output. Accept answers which combine income and spending and relate answers to a budget deficit – mark according to quality/depth of answer.</p>	6	<p>3 : 3 4 : 2 2 : 4</p>

Question			Expected Answer(s)	Max Mark	Additional Guidance
4	(a)		<p>The reasons include:</p> <ul style="list-style-type: none"> <li>To encourage production by increasing supply.</li> <li>To reduce the price of essential products.</li> <li>To switch demand from imports to home produced goods.</li> <li>To protect employment in declining industries.</li> </ul>	4	2 x 2
4	(b)		<p>Capital – long term spending/spending on fixed assets <b>(1 mark)</b>. Credit examples, ie new highways, airports, schools, hospitals, defence equipment <b>(1 mark)</b>.</p> <p>Current – regular spending/day to day spending <b>(1 mark)</b>. Credit examples, ie salaries for teachers and health care workers, drugs used in National Health Service <b>(1 mark)</b>.</p>	4	
4	(c)	(i)	Items may include education, health care, defence, Welfare payments.	1	
4	(c)	(ii)	Look for an economic explanation, eg spending on education can lead to a more productive workforce which can lead to increased economic growth.	3	
4	(d)		<p>People made jobless because of capital – labour substitution which reduces the demand for labour in an industry; seasonal unemployment affecting certain industries eg catering; falling demand; increasing costs of production; slowdown in our major export markets.</p> <p><b>Credit: seasonal, cyclical, structural, real wage, technological, regional explanations.</b></p>	8	4 x 2

Question			Expected Answer(s)	Max Mark	Additional Guidance
5	(a)		<ul style="list-style-type: none"> <li>• Agricultural dependence.</li> <li>• Low rates of economic growth.</li> <li>• High rates of unemployment.</li> <li>• Government budget deficits.</li> <li>• High birth rates.</li> <li>• High death rates.</li> <li>• Low level of literacy.</li> <li>• Low life expectancy.</li> <li>• Low levels of exports.</li> <li>• Subsistence living.</li> </ul>	4	
5	(b)		<p>Look for a simple description of 3 of the following: food aid, grants/loans, technical aid, help with education/training, medical aid, military aid, debt relief, free/fair trade, etc.</p> <p><b>1 mark for the form of aid and 1 mark for the description or development.</b></p>	6	3 x 2
5	(c)	(i)	<p>Output per unit of resource or input (1 mark) per time period (1 mark) <b>(2 marks)</b></p> <p>Accept output per worker (1 mark) per time period (1 mark) <b>(2 marks)</b>.</p> <p>It is a measure of efficiency <b>(1 mark)</b>.</p>	2	
5	(c)	(ii)	<p>Look for any reasonable way of increasing output per unit.</p> <p>Measures include bonuses, profit related pay, increased division of labour, new machinery, increased training, piece rates.</p> <p>Do not credit measures which will simply increase output, eg overtime or employ more workers.</p>	4	2 : 2
5	(c)	(iii)	<p>An increase in profit margins.</p> <p>A reduction in average costs of production.</p> <p>Higher output leading to higher sales.</p> <p>Improved international competitiveness.</p>	4	

[END OF MARKING INSTRUCTIONS]