



2015 Economics

Higher

Finalised Marking Instructions

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Part One: General Marking Principles for: Economics Higher

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 Higher

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

SECTION A

Item A

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----------|--|----------|-----------------------------------|
| | (a) (i) | <p>emerging economy;</p> <p>An economy experiencing rapid economic growth (1) and rapid industrialisation (1). Eg Commonly known as BRICs (1). An economy becoming more significant in the world economy (1).</p> | 2 | No marks for China as an example. |
| | (a) (ii) | <p>economic growth;</p> <ul style="list-style-type: none"> • An increase in the productive potential in an economy (2). • An increase in GDP (1). • An increase in National Income measured by a rise in GDP (2). • PPC diagram (1). With explanation (2). | 2 | |
| | (a) (iii) | <p>productivity.</p> <p>Efficiency (1) a measure of output per given input (1) usually measured as output per worker (1) total output/number of workers (1).</p> | 2 | |
| | (b) | <ul style="list-style-type: none"> • Less demand for world exports as Chinese producers require less inputs. • Higher prices for Chinese exports as supply falls in world markets. • Lower commodity prices as Chinese demands fall. • Higher unemployment. • Lower economic growth. <p>1 mark for point and 1 mark for development.</p> | 4 | |
| | (c) | <ul style="list-style-type: none"> • Cheap Labour. • Good Infrastructure. • Cheap land. • Government support. • Accept any other credible answer. | 3 | |

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|----------|--|-------------|---------------------|
| | (d) | <ul style="list-style-type: none"> • The current account may worsen (1). • Chinese exports will become more expensive in foreign markets (1) and demand may fall (1). • Imports from abroad will become cheaper in China (1) and therefore more will be bought (1). <p>The Chinese currency will now purchase more of a foreign currency so this makes import prices lower in China. Foreign currencies buy less Yuan and therefore import prices rise for them.</p> | 4 | |
| | (e) | <ul style="list-style-type: none"> • One mark for original demand and supply equilibrium. • One mark for increase in demand. • One mark for fall in supply. • One mark for correct new equilibrium. | 4 | |
| | (f) (i) | Price Elasticity of Supply measures the responsiveness of supply to a change in price (1) . Credit formula (1) . Credit reference to elastic or inelastic PES which exemplifies the term. | 2 | |
| | (f) (ii) | The faster they can respond and increase supply the higher will be their revenue (1) because they will be able to increase supply more than proportionately in response to a change in price (1) . | 2 | |
| | | | (25) | |

SECTION A

Item B

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|--|----------|--|
| | (a) | <ul style="list-style-type: none"> From 2008 output declined rapidly (or by 6%) until 2009 (or reference to negative economic growth). This is termed a recession (or a slump). Credit reference to 2 or more quarters of negative growth as the definition of a recession. Since 2009, economic growth has resumed. Credit reference to slow or weak growth. By 2013 output was still below that of 2008. | 3 | |
| | (b) | <ul style="list-style-type: none"> Monthly survey across the UK. Measures inflation using a basket of several hundred goods and services most bought by consumers. Items are weighted according to the amount typically spent. Credit example: eg petrol will carry a higher weighting than leg waxing. An index starts at 100 in the base year. Changes in the index expressed as an annual inflation rate or percentage (1) (re-calculated every month) (1). 600/650 goods in the basket. Sampled at various locations across the UK. Formula – award 1 mark. | 4 | No marks for mentioning weighting without explanation. |
| | (c) | <ul style="list-style-type: none"> The market for energy consists of buyers and sellers of gas etc. This market is dominated by a few large companies. Credit reference to “price leadership” or acting as a cartel. Credit other relevant points. | 2 | |

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|----------|---|----------|---|
| | (d) | <ul style="list-style-type: none"> • Provides loans to national governments (esp. developing countries). • Encourages moves to market economies away from government ownership. • Promotes international monetary stability and cooperation. • Holds regular meetings to discuss world monetary problems. • Encourages stable exchange rates. • Provides advice on balance of payments problems. • Provides bail out to countries experiencing debt crises. • Credit relevant examples. | 2 | |
| | (e) (i) | <ul style="list-style-type: none"> • Decrease taxes, leading to higher disposable incomes, higher levels of spending, higher levels of production. • Increase government spending. Job creation, higher incomes, higher spending, higher levels of production. • Credit positive multiplier effect. • Explanation of how either of these can increase economic growth. • Could get full marks for one fully explained fiscal measure. | 4 | No marks for multiplier effect with no explanation. |
| | (e) (ii) | <ul style="list-style-type: none"> • Reduce interest rates. • Credit quantitative easing. • Explanation of how lower interest rates stimulate the economy. • Discourages saving, cheaper credit, lower mortgage costs etc. | 4 | |
| | (f) (i) | <ul style="list-style-type: none"> • Real wages have fallen (1). • This is because inflation (2.7%) is higher than wage increases (0.7%) (1). • Real wages fell by 2% (1). | 2 | |

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|----------|--|----------|---|
| | (f) (ii) | <ul style="list-style-type: none"> • Consumers will be able to spend less. • Retail sales may fall. • This has implications for jobs both in retail and in production and transport. • Economic growth may be lower (slower recovery). • Lower economic growth will affect government finances (credit explanation). • Increased need for benefits. • Increase in poverty and deprivation. • Reduces standard of living. • Reduced purchases of “big ticket” items – cars, holidays, restaurant meals, winter coats etc. | 2 | |
| | (g) | <ul style="list-style-type: none"> • As an oil exporter, higher energy prices may make production from marginal oilfields profitable and hence have positive effect on important part of Scottish economy. • Higher costs for business – lighting, heating, power – which depending on market conditions may be passed on as higher prices or absorbed as lower profit margins. • Consumers spend more on energy and have less to spend on other goods, leading to falling sales and possible bankruptcies. • Job losses as firms attempt to cut costs and increase productivity to offset energy costs. • Higher profits for these utility companies may bring higher dividends with a positive impact on savers/investors/shareholders/pension funds. This could increase demand. | 2 | Only one fully explained effect to gain full marks. |
| | | | (25) | |

Section B

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|------|---|----------|--|
| 1. | (a) | | <ul style="list-style-type: none"> Scarcity occurs because human wants are unlimited (1) and resources are limited in supply (1) It is human nature to never be satisfied (1). Scarcity is a relative concept which exists in all countries whether rich or poor (1). Credit comparison to a shortage (1). <p>Credit all relevant points and development.</p> | 6 | No marks for listing resources. Max 4 for a description of scarcity. |
| 1. | (b) | | <ul style="list-style-type: none"> A production possibility curve shows the maximum potential output of two types of goods if an economy fully utilises its resources (1). Opportunity cost is the sacrifice of the next best alternative as a result of a choice (1). An explanation that in order to produce more of one good will mean that less of the other good is produced (1). The output given up is the opportunity cost (1). <p>Up to 3 marks for a diagram which clearly shows the concept of opportunity cost.</p> <p>1 mark for a correct ppc diagram with no opportunity cost.</p> | 5 | |
| 1. | (c) | (i) | A market failure occurs when the market (or price mechanism) fails to lead to the optimal allocation of resources (or best for society) (2) . | 2 | |
| 1. | (c) | (ii) | <ul style="list-style-type: none"> Merit Goods. Public Goods. Demerit Goods. Monopoly. Inequality. Unemployment. <p>Credit definitions and examples. No marks for ID.</p> | 6 | |

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|-------|---|------------------------------------|---------------------|
| 1. | (c) | (iii) | <ul style="list-style-type: none"> • Government provision of public and/or merit goods. • Taxation/ Bans/Education-Demerit goods. • Competition Law. • Measures to reduce Inequality-Credit any relevant points. • Unemployment-Measures to reduce labour immobility. <p>Credit relevant point and development/example.</p> | <p>6</p> <p>(25)</p> | |

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|--|----------|---------------------|
| 2. | (a) | <p>Advantages:</p> <ul style="list-style-type: none"> • More employment, improved Balance of Payments, higher rates of economic growth, access to cheaper supplies, access to products unavailable in the UK, lower priced imports lead to higher standards of living and lower inflationary pressures. • More competition for domestic producers. <p>Disadvantages:</p> <ul style="list-style-type: none"> • Higher unemployment, UK firms cannot compete and go out of business, dependence on foreign suppliers, balance of payments deficit on trade in goods. <p>For full marks at least one advantage and one disadvantage must be covered otherwise maximum of 6 marks.</p> | 8 | |
| 2. | (b) | <ul style="list-style-type: none"> • Demand - UK exports, the interest rate and inward investment, speculative inflows of hot money, foreign tourists visiting the UK. • Supply - UK imports, outward investment, speculative outflows and UK tourists visiting abroad. • Credit more general points such as investor confidence, the interest rate, inflation rate and other relevant determinants of the exchange rate. <p>For full marks, demand and supply must be covered.</p> <p>Maximum 4 if only demand or supply mentioned.</p> | 6 | |

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|------|---|----------|----------------------------------|
| 3. | (a) | (i) | <p>Correctly labelled diagram. MC (1), AC (1), Optimum Output (1). Marginal costs must cut average cost curves at the lowest point. As the additional cost of one more unit exceeds the previous average cost, then it must begin to pull the average cost curve upwards as average cost is re-calculated.</p> <p>May refer to the reason for initially falling costs and then rising costs.</p> <p>Maximum of 3 marks for explanation.</p> | 5 | |
| 3. | (a) | (ii) | <ul style="list-style-type: none"> • Correctly labelled diagram showing the decline of afc (1). <p>2 marks for explanation.</p> <ul style="list-style-type: none"> • Fixed costs do not change with output (1) or are constant (1). As fixed costs are divided by an increasing output they fall (1) (rapidly at first), although AFC can never quite reach the x-axis (1). | 3 | |
| 3. | (b) | | <p>A rise in long run average costs (1) eg problems of coordination, lots of layers of management. (Up to 2 marks available for one explanation).</p> <p>Full explanations of one of communication, motivation, industrial relation problems leading to higher unit costs.</p> <p>Credit external diseconomies of scale. Credit diagram 1 mark.</p> | 3 | Only one example to be credited. |

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|-----|--|----------|----------------------------|
| 3. | (c) | | <ul style="list-style-type: none"> Increases in cost to producers that are passed on to consumers as price rises. Wage cost push through unions negotiating increases in wages that exceed any productivity gain. Import cost push through the increase in the price of imported commodities eg iron ore. Rising energy prices. High levels of demand lead to shortages of goods as supply until supply can respond. An overheating economy will lead to increases in consumer demand (and increases in the demand for labour and other factors of production to meet this). In markets, high demand shifts the demand curve to the right and equilibrium prices rise. There is no need to have “sales” to shift goods and opportunity is taken to restore/increase profit margins. Lack of competition in markets allowing rising prices and profits. Printing money, quantitative easing. Too much money chasing too few goods. <p>Credit an understanding of inflationary spiral with all causes present and interacting.</p> | 6 | No marks available for ID. |
| 3. | (d) | (i) | <ul style="list-style-type: none"> Lower standard of living unless wages keep up. Able to purchase fewer luxury products and may trade-down. Those on fixed incomes are hit hardest. Loss of UK competitiveness could lead to job loss. Possible involvement in industrial action to maintain real wage level. | 4 | |

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|--|----------|----------------------------|
| 4. | (a) | <p>Claimant count: monthly addition of those claiming JSA. Not everyone who would like a job will claim benefit so this figure is lower (2).</p> <p>Labour Force Survey: quarterly survey of large number of households asking questions that find out who is currently both available for work, looking for work and actively looked for work in the last 4 weeks (1) and be ready to start a job within 2 weeks (1). An internationally recognised, standardised, method of producing unemployment figures that are comparable internationally. Gives a higher figure than the claimant count (3).</p> | 5 | No marks available for ID. |
| 4. | (b) | <ul style="list-style-type: none"> • Lower tax revenues as the unemployed may pay less income tax. • Higher spending on Job Seekers' Allowance (and other social security payments). • Budget deficit (and not used for infrastructure investment). • This adds to the national debt, and hence to interest payments on this debt. • Increased potential for social unrest (riots) which impacts on economy. • Negative multiplier causing unemployment to spiral further. • Loss of consumer confidence (fear of job loss) holds down consumption (esp bigger ticket items). • Lost output for the economy and lower (or negative) economic growth. • Investment reduced because consumers are buying less output (less profitable). <p>Credit for max of two marks, all references to social problems such as crime/poor health etc unless related to economic implications.</p> | 8 | |

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|-----|--|----------|---------------------|
| 4. | (c) | | <p>Policies intended to increase aggregate supply:</p> <ul style="list-style-type: none"> • Reform (reduction) of social security system to encourage effort eg lower unemployment benefits and make them harder to get. • Encouraging/incentivising work. This may involve better/cheaper childcare, or harsher tests for some benefits. • Lowering income tax to make work worthwhile. • Improving education and training so as to improve skills/productivity of workforce and make them more flexible/employable. • Encouraging self-employment/new businesses through business advice/start-up grants. • Increasing international competitiveness by weakening trade union ability to increase wages. • Reforming markets (deregulation, privatisation) to increase competition and competitiveness. • Reduce minimum wage. <p>Maximum 2 marks each point</p> | 4 | |
| 4. | (d) | (i) | <p>Charges for services (1). Borrowing, by issuing government bonds (1). Fines (1). Privatisation (1).</p> | 2 | |

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|------|--|------------------------------------|--|
| 4. | (d) | (ii) | <p>Credit definitions of direct and indirect taxes and explanations of progressive and regressive in relation to them.</p> <p>May widen the gap between rich and poor (maximum 1).</p> <p>More regressive tax system because those on high incomes will no longer pay high marginal rates of income tax. The tax revenue will be obtained in a less progressive way using consumption taxes. This will disadvantage the poorest, especially the unemployed and lowest income earners who currently pay no income tax so get no reduction.</p> <p>Increasing personal tax allowances can alleviate this effect on lower income groups. Indirect taxes are avoidable if you do not consume the taxed product. However they may be harder to avoid/evade in other ways.</p> <p>Impact of lower income tax.</p> <p>May encourage wealthy foreign nationals to the UK (or discourage wealthy UK citizens from leaving UK), possibly increasing investment and tax revenue.</p> <p>Impact of increased VAT.</p> | <p>6</p> <p>(25)</p> | <p>Credit relevant points.</p> <p>No marks to be awarded for examples.</p> <p>No marks for naming taxes.</p> |
| 5. | (a) | (i) | <p>6 marks for the correct diagram – to include:</p> <p>Households and firms (1) Consumer Spending (1) and Factor Incomes (1) Injections. Government Spending/exports/investment (1). Withdrawals/Leakages Taxation/Imports/saving (1). Arrows must point in right direction (1).</p> | 6 | |
| 5. | (a) | (ii) | <p>5 marks for full explanation of how an increase in government spending causes a positive multiplier effect (1).</p> <p>Credit definition/description of the multiplier process/formula/numerical example/limitations of multiplier.</p> | 5 | |

| Question | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|---|----------|---------------------|
| 5. | (b) | <ul style="list-style-type: none"> • Low GDP per capita. • Dependence on primary production. • Low level of investment in capital and technology. • Lack of infrastructure. • Poor human capital. <p>Credit any other relevant economic point Credit development points. For full marks (6 x 1) or (3 x 2).</p> | 6 | |
| 5. | (c) | <p>Advantages:</p> <ul style="list-style-type: none"> • Financial Aid/soft loans can be invested in infrastructure, capital and education which improve productivity. • Investment in education and healthcare will improve productivity. • Technology transfer can bring new production processes. <p>Credit point and development/example.</p> <p>Disadvantages:</p> <ul style="list-style-type: none"> • Corruption/dependency/inappropriate technologies/prestige products/problems for domestic producers caused by cheap subsidised products or second hand clothes from abroad. <p>Credit point and development/example.</p> <p>Maximum 6 if only advantages or disadvantages covered.</p> <p>Maximum 2 marks per point.</p> | 8 | |

(25)

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|------|--|----------|-----------------------------|
| 6 | (a) | (i) | <p>Normal goods have a positive income elasticity (1). This reflects the fact that as incomes rise so does the demand for normal goods (1), because consumers are able and willing to purchase more. Credit example (1). (Luxury goods: greater than one).</p> <p>Inferior goods have negative income elasticity (1), because as incomes rise, consumers demand less (1) and switch to better quality products which they can now afford. Credit example (1).</p> | 4 | |
| 6. | (a) | (ii) | <ul style="list-style-type: none"> • It helps investors when making investment decisions in a growing economy with rising standards of living, because they may decide to invest in the production of luxuries (2). • It helps producers to make strategic decisions on what products to produce and how much. • In recession, they may predict the impact of falling real incomes on the sales of different products. Credit examples eg Aldi doing well during a recession. • Luxury goods producers where demand is income elastic will face a more than proportionate fall in sales during a recession. • Producers of inferior goods benefit during a recession. <p>Credit any relevant points/examples.</p> | 4 | Do not reward FLIP answers. |
| 6. | (b) | (i) | <p>Budget deficit is when taxation is less than government spending in a financial year (or over another period of time) and the government must either borrow or print money. The national debt will increase.</p> <p>Trade in goods deficit is when the value of imports of tangibles (goods eg cars) exceeds the value of exports.</p> | 4 | Can award 2/2, 3/1 or 1/3. |

| Question | | | Expected Answer(s) | Max Mark | Additional Guidance |
|----------|-----|------|---|----------|----------------------------------|
| 6. | (b) | (ii) | <ul style="list-style-type: none"> • Loss of comparative advantage in manufacturing. • Cheaper labour costs overseas. • Effects of globalisation eg reduced transport costs (containerisation). • Value of sterling may be too high for us to be price competitive. • Increasing specialisation of UK in services. • May be some issues with quality, design and reliability. • Structural decline of older manufacturing industries. <p>One mark for relevant point and one mark for development.</p> | 5 | |
| 6 | (c) | | <p>Economic Advantages</p> <ul style="list-style-type: none"> • Less uncertainty and no exchange rate risk when trading with other Eurozone members. • No transaction costs when trading with other euro members. • Price transparency. • Encourages inward investment. • Facilities mobility of labour, capital etc. <p>Economic Disadvantages</p> <ul style="list-style-type: none"> • ‘One size fits all’ interest rate. • Loss of control over monetary policy. • Fiscal monitoring and rules. • Entering at the correct exchange rate. • Asymmetric shocks lead to divergent rather than convergent outcomes and policy needs. <p>Credit any other relevant points. Maximum 6 marks if only advantages/disadvantages covered.</p> | 8 | Cannot award 8/0, 0/8, 7/1, 1/7. |
| | | | | (25) | |

[END OF MARKING INSTRUCTIONS]