



National
Qualifications
2016

2016 Economics

Higher

Finalised Marking Instructions

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General Marking Principles for Higher Economics

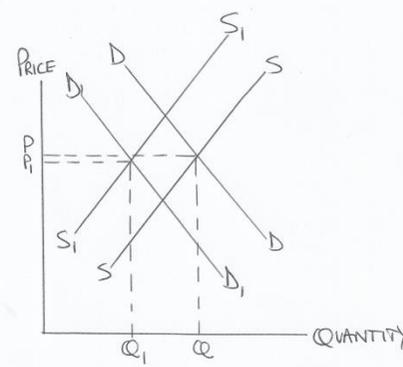
This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this paper. These principles must be read in conjunction with the detailed marking instructions, which identify the key features required in candidate responses.

- (a) Marks for each candidate response must always be assigned in line with these General Marking Principles and the Detailed Marking Instructions for this assessment.
- (b) Marking should always be positive, ie marks should be awarded for what is correct and not deducted for errors or omissions.
- (c) 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.
- (d) For each candidate response, the following provides an overview of the marking principles. Refer to specific Marking Instructions for further guidance on how these principles should be applied.
- (i) Questions that ask candidates to Describe . . .
Candidates must make a number of relevant, factual points which may be characteristics and/or features or a definition of an economic term, as appropriate to the question asked. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.
Up to the total mark allocation for this question:
- 1 mark should be given for each relevant, accurate factual point.
 - 1 mark should be given for any further development of a relevant point, including exemplification when appropriate.
- (ii) Questions that ask candidates to Explain . . .
Candidates must make a number of relevant points that relate cause and effect and/or make the relationships clear. These points may relate to a concept, process or situation.
Candidates may provide a number of straightforward points of explanation or a smaller number of developed points, or a combination of these.
Up to the total mark allocation for this question:
- 1 mark should be given for each accurate relevant point of explanation.
 - 1 mark should be given for any further development of a relevant point, including exemplification when appropriate.
- (iii) Questions that ask candidates to Analyse . . .
Candidates must demonstrate their ability to identify/describe/explain relevant parts and the relationship between the parts and/or the whole.
Candidates should be able to draw out and relate any implications and/or analyse data.
Up to the total mark allocation for this question:
- 1 mark should be given for each accurate point of analysis.
 - 1 mark should be given for any further development of a relevant point, including exemplification when appropriate.
- (iv) Questions that ask candidates to Discuss . . .
Candidates must make a number of points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. It is not always necessary to give both sides of the debate in responses.
Up to the total mark allocation for this question:
- 1 mark should be given for each accurate point of knowledge that is clearly relevant.
 - 1 mark should be given for any further development of a relevant point, including exemplification when appropriate.

Marking Instructions for each question

SECTION 1

Question		Expected Answer(s)	Max Mark	Additional Guidance
1.	(a)	<p>Responses could include the following:</p> <p><u>Description:</u></p> <ul style="list-style-type: none"> The measures taken by a government to shrink a budget deficit/create a budget surplus. (1 mark) <p><u>From the article:</u></p> <ul style="list-style-type: none"> “public spending cuts” (1 mark) “proposed tax increases” (1 mark) “public spending cuts in depressed Eurozone economies” (1 mark) “weakening investment” (1 mark) “Private sector to cut spending further.” (1 mark) <p>Accept any other response.</p>	2	<p>Award max one mark for description.</p> <p>Award max one mark for reference to the article. Accept direct quotes from the article.</p>
	(b)	<p>(i)</p> <p>Responses could include the following:</p> <p>National debt is:</p> <ul style="list-style-type: none"> The total amount owed by an economy/country/government. (1 mark) The accumulation of all a nation’s annual deficits (1 mark) A deficit is when spending exceeds income. (1 mark) <p>Accept any other response.</p>	2	

Question	Expected Answer(s)	Max Mark	Additional Guidance
(ii)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Debt reduction may involve reducing government spending (ID) which may result in less public sector jobs, increasing unemployment. (1 mark) • Debt reduction may involve increasing rates of indirect taxation (ID) which may result in increased income inequality due to its regressive nature. (1 mark) • Debt reduction may involve increasing rates of direct taxation (ID) which may result in industry output/growth reducing. (1 mark) • Reduced government subsidies/funding may increase costs of production (ID) causing cost-push inflation. (1 mark) <p>Accept any other response.</p>	2	Max one mark per conflicting objective
(c)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Fully labelled diagram showing original equilibrium price and quantity (eg pq). (1 mark) • Demand curve shifts to the left. (1 mark) • Supply curve shifts to the left. (1 mark) • New equilibrium price and quantity (eg p1q1). (1 mark) 	4	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(d) (i)	<p>Responses could include the following:</p> <p>UK businesses</p> <ul style="list-style-type: none"> • These nations are the biggest customers for our exports so demand may fall (ID) leading to falling revenue/profits as they struggle to recover. (1 mark) • The lack of profits means businesses may put expansion/diversification plans on hold. (1 development mark) • Businesses may contract making workers redundant (ID) and so AD may fall, affecting sales. (1 mark) • This may lead to a negative multiplier effect which will in turn impact on the success/profitability of businesses. (1 development mark) 	2	Award max one development mark.
	(ii)	<p>The UK Economy</p> <ul style="list-style-type: none"> • European customers may buy less UK exports (ID) which will have a negative impact on the Current Account of the Balance of Payments. (1 mark) • Less FDI from Europe may take place in the UK (ID) which will have a negative impact on the Capital Account of the Balance of Payments. (1 mark) • UK exporting firms may contract (ID) which will worsen UK unemployment figures. (1 mark) <p>Accept any other response.</p>	2	Award max one development mark.

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(e)	(i) Responses could include the following: <ul style="list-style-type: none"> Imports such as foreign holidays are cheaper (ID) so British holidaymakers will be more able to travel abroad. (1 mark) UK tourists will be able to buy more Euros for their pound (ID) which will make their holiday seem better value for money. (1 mark) This means that they can buy more luxurious goods and services/book more expensive/longer holidays abroad. (1 development mark) Numerical example (to include figures before and after strengthening of the pound). (1 mark) Accept any other response.	2	
		(ii) Responses could include the following: <ul style="list-style-type: none"> Change in foreign direct investment (1 mark) Change in demand/supply for UK exports/imports/pounds (1 mark) Change in interest rates in the UK (1 mark) Change in number of foreign holidaymakers visiting the UK/UK holidaymakers travelling abroad. (1 mark) Change in the rate of inflation. (1 mark) Accept any other response.	2	Do not award development marks.

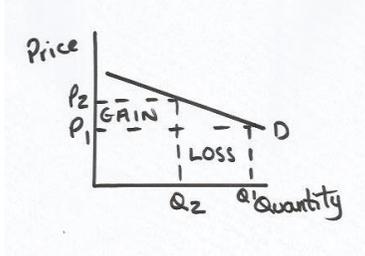
Question		Expected Answer(s)	Max Mark	Additional Guidance
	(f)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Reduction in tax (1 mark) increases disposable incomes so consumers may spend more. (1 development mark) <p>OR</p> <ul style="list-style-type: none"> Increases in government spending (1 mark) will increase public sector jobs/public/private sector contracts/incentives to work etc. (1 development mark) <p>Accept any other response.</p>	2	
	(g)	<p>(i) Responses could include the following:</p> <ul style="list-style-type: none"> Income inequality is an inefficient allocation of resources (ID) which results in gaps in income and wealth between different groups/everyone does not have equal access to resources (ID) and therefore this is not efficient (1 mark) Some/wealthier people have access to more resources than others therefore they have more choice. (1 development mark) Equilibrium prices may put certain goods such as education higher than some can afford (ID) so the uneducated may have less opportunities. (1 mark) <p>Accept any other response.</p>	2	

Question	Expected Answer(s)	Max Mark	Additional Guidance
	<p>(ii) Responses could include the following:</p> <ul style="list-style-type: none"> • Taxes are used: <ul style="list-style-type: none"> ○ to redistribute wealth/reduce poverty. (1 mark) ○ to reduce pollution. (1 mark) This increases costs of production, encouraging reduction in supply. (1 development mark) ○ to reduce consumption of demerit goods. (1 mark) • The government may provide: <ul style="list-style-type: none"> ○ public goods ie goods which would not be provided in a free market (1 mark) eg street lighting. (1 development mark) ○ public goods carry a free rider problem/ public goods are non-rivalled in use. (1 development mark) ○ transfer payments/benefits to ensure minimum living standards are maintained. (1 mark) • The government may provide: <ul style="list-style-type: none"> ○ merit goods ie goods which provide social benefits. (1 mark) eg education/merit goods. (1 development mark) Merit goods are rivalrous. (1 development mark) • The government may prevent monopolies created by mergers/takeovers. (1 mark) Legislation and the CMA can be used. (1 development mark) <p>Accept any other response.</p>	3	<p>Accept interventions to be either the economic term (public goods) or the practical example (street lighting).</p> <p>Max 2 marks per intervention.</p>

SECTION 2

Question		Expected Answer(s)	Max Mark	Additional Guidance
2.	(a)	<p>Responses could include the following:</p> <ul style="list-style-type: none">• Consumers have limited income (ID) therefore make choices to <u>maximise their utility</u>. (1 mark)• Producers have limited resources (ID) therefore make choices to <u>maximise profit</u>. (1 mark)• Governments have limited revenue (ID) therefore make choices to <u>maximise welfare</u>. (1 mark) <p>Accept any other suitable response.</p>	3	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(b) (i)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • If the good has a number of close substitutes demand for it will be <u>more elastic</u>. (1 mark) This is because consumers will be more likely to switch to another good when price goes up. (1 development mark) eg branded toothpaste etc. (1 development mark) • If the good is a necessity demand will be <u>less elastic</u>. (1 mark) eg bread or milk. (1 development mark) • If a small proportion of income is spent on the product demand will be <u>relatively inelastic</u> (1 mark) This is because changes in price are less likely to be noticed. (1 development mark) eg crisps. (1 development mark) • If the good is purchased frequently demand for it will be <u>more inelastic</u>. (1 mark) • If consumers have brand loyalty for a good the demand for it will be <u>more inelastic</u>. (1 mark) • If the good is habit forming demand will be <u>relatively inelastic</u> (1 mark). This is because some products are addictive, so people will buy them no matter the price. (1 development mark) eg cigarettes. (1 development mark) • the longer the time period since the price change the <u>greater the elasticity of demand</u> for a product. (1 mark). This is because consumers have more time to find alternatives. (1 development mark) <p>Accept any other suitable response.</p>	5	<p>Max 2 marks for examples.</p> <p>Max 2 marks per factor.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
	<p>(ii) Responses could include the following:</p> <p><u>Diagram:</u></p> <ul style="list-style-type: none"> Fully labelled diagram. (1 mark) Clearly inelastic or elastic demand curve shown. (1 mark) Clear indication of gain and loss. (1 mark) <p>Explanation based on price increase of an elastic good:</p> <ul style="list-style-type: none"> This is because the gain in revenue due to the price increase (ID) is less than the loss in revenue due to the fall in quantity demanded. (1 mark) This is because the fall in quantity demanded due to the price increase (ID) is proportionately greater than the increase in price. (1 mark) This means that the firm's total revenue will fall. (1 development mark). 	4	<p>Max 3 marks for fully labelled diagram.</p> <p>Award marks whether curve drawn is elastic/inelastic and price increase/decrease as appropriate and consistent.</p> <p>Accept arrows of differing length as indication of gain/loss.</p>  <p>Max 2 for explanation with no diagram.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(c)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Economic goods are goods that carry a price whereas free goods do not command a price. (1 mark) • Free goods use up no scarce resources to produce whereas economic goods do use up scarce resources. (1 mark) • Free goods are abundant in supply whereas economic goods are finite/limited. (1 mark) • Free goods have no opportunity cost in production whereas economic goods do incur an opportunity cost during production. (1 mark) • An example of free goods is air, whereas an example of an economic good is a television. (1 mark) <p>Accept any other suitable response.</p>	3	Award marks even if differences are not presented consecutively.

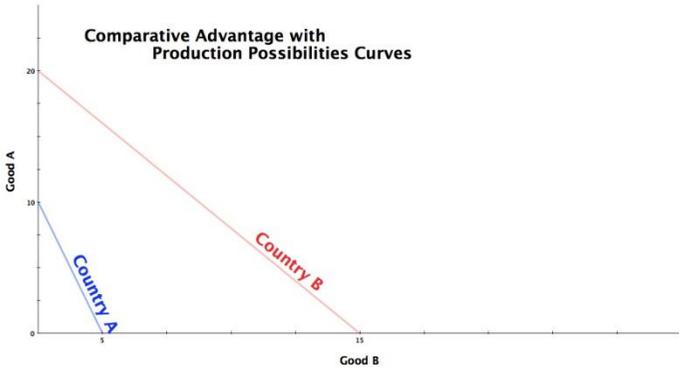
Question		Expected Answer(s)	Max Mark	Additional Guidance
3.	(a)	<p>Responses could include the following:</p> <p>The Scottish Government can:</p> <ul style="list-style-type: none"> • Vary income tax (1 mark) by plus or minus 3 pence in the pound. (1 development mark) • Collect Land and Buildings Transaction Tax replacing stamp duty. (1 mark) • Control Scottish Landfill Tax to protect the environment. (1 mark) • Control Air Passenger Duty for passengers flying out of UK. (1 mark) • Determine the price of alcohol (1 mark) by setting minimum prices per unit of alcohol/not allowing happy hour/bulk buying. (1 development mark) • Make <u>budgetary</u> decisions on health. (1 mark) eg free prescriptions. (1 development mark) • Make <u>budgetary</u> decisions on education (1 mark) eg no higher education fees. (1 development mark) • Revenue Scotland is responsible for the collection of the new taxes. (1 development mark) • Borrow £2.2 billion capital for the Scottish Parliament. (1 mark) <p>Accept any other suitable response.</p>	4	<p>Max 3 marks per power.</p> <p>Descriptions must be of an <u>economic</u> power to be awarded a mark.</p> <p>Do not award development marks for describing <u>benefits</u> of the power.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<p>Responses could include the following:</p> <p>National Income statistics can be used to:</p> <ul style="list-style-type: none"> • Compare figures against other countries. (1 mark) • Compare figures against previous years. (1 mark) • Calculate the country's rate of economic growth. (1 mark) • Evaluate/compare living standards in a country (1 mark) by dividing the NI by head of population. (1 development mark) • Compare performance in different sectors of the economy. (1 mark) • Evaluate success/failure of economic policies. (1 mark) • Identify areas where government assistance may be required. (1 mark) • Calculate the amount of contributions required, for example to EU. (1 mark) <p>Accept any other suitable response.</p>	5	

Question		Expected Answer(s)	Max Mark	Additional Guidance
(c)	(i)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Currently inflation is very low. (1 mark) • Rate is currently falling. (1 mark) • The CPI has been relatively stable in recent years. (1 mark) • Recently inflation has been at its joint lowest level since records began in 1989. (1 mark) • Deflation occurred in 2015. (1 mark) • Since 2015 inflation has been rising slowly. (1 mark) • The current inflation rate is below target (1 mark) The target rate of the MPC is 2% inflation (CPI). (1 development mark) <p>Accept any other suitable response.</p>	3	<p>Max one mark for correct specific CPI figures.</p>
	(ii)	<p>Responses could include:</p> <ul style="list-style-type: none"> • Falling oil/petrol/energy/gas prices (ID) reduces costs of production for firms (1 mark) this may be passed on the consumers reducing cost push inflation. (1 development mark) • Low inflation in Europe (ID) causing low inflationary expectations (1 mark) • Supermarket price wars (ID) keeping consumer prices down (1 mark) • Weak wage growth (ID) keeping demand pull/cost push inflation down. (1 mark) <p>Accept any other suitable response.</p>	3	<p>Do not award marks for speculation on events which have not happened eg rising income tax.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
4.	(a)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • To protect an infant industry in a competitive market (1 mark). Restricting trade stops foreign competition and this allows the infant industry to find its feet and to grow. (1 development mark) This is because overseas competitors may have economies of scale as yet unavailable to the infant industry. (1 development mark) • To improve the Balance of Payments by reducing imports. (1 mark) This would reduce demand for imports and therefore help reduce a deficit. (1 development mark) • To retaliate because one of its trading partners has already acted to restrict trade (1 mark). The retaliation could lead to both countries making a new trading agreement for the future. (1 development mark) • A trading partner may be acting against human rights (1 mark). This is because restricting trade could put pressure on the trading partner to respect human rights. (1 development mark) • To protect key/strategic industries (1 mark) for example defence construction. (1 development mark) • To prevent ‘dumping’. (1 mark) • To protect employment. (1 mark) • To reduce the quantity of products which do not meet H&S/Environmental standards. (1 mark) <p>Accept any other suitable answer.</p>	6	Max 2 marks per reason.

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(b)	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Trade in goods ie exports and imports of goods. (1 mark) In the UK this is currently in deficit. (1 development mark) • Trade in services ie exports and imports of services. (1 mark) In the UK this is currently in surplus. (1 development mark) • Investment income ie interest/profits/dividends. (1 mark) • Transfers ie when money moves without any product in exchange. (1 mark) for example aid payments towards international institutions eg EU, IMF etc. (1 mark) <p>Accept any other suitable answer.</p>	4	Max one development mark.

Question	Expected Answer(s)	Max Mark	Additional Guidance
(c)	<p>Responses could include the following:</p> <p>Absolute advantage</p> <ul style="list-style-type: none"> Refers to a situation where countries are more efficient at producing some good/services than other countries. (1 mark) This could be a result of low cost labour/high skilled labour/factor endowment/ climate. (1 development mark) For example, China has a large low cost labour force giving it an absolute advantage in textile production. (1 development mark) Any country with an absolute advantage should specialise and trade. (1 development mark) This will lead to increased world output and improved living standards. (1 development mark) <p>Comparative advantage</p> <ul style="list-style-type: none"> Shows that even if a country is less efficient at producing all goods and services it should still trade. (1 mark) Such countries should examine the opportunity costs of production to identify the goods/services they are 'least worse' at producing. (1 mark) Such countries should trade in the good/service which incurs the lowest opportunity cost. (1 mark) <p>Accept any suitable answer.</p>	5	<p>Max 3 marks per theory.</p> <p>Max one mark for a diagram:</p>  <p>Max 2 marks for numerical example</p> <ul style="list-style-type: none"> Illustrating abs/comp adv = 1 mark Illustrating opp cost = 1 mark

[END OF MARKING INSTRUCTIONS]