

X038/13/01

NATIONAL
QUALIFICATIONS
2012

THURSDAY, 10 MAY
9.00 AM - 11.15 AM

ECONOMICS
ADVANCED HIGHER

You should answer Section A and **two** questions from Section B.

The marks for each question are shown in the margin.



SECTION A

Read the following passage, and then answer the questions which follow on *Page three*.

George Osborne urged to scrap 50p tax rate

The new 50p tax rate introduced in 2011 on incomes above £150,000 has been criticised for punishing entrepreneurship. Some leading economists believe that it should be scrapped to boost growth, amid fresh concerns that the UK is slipping towards a **double-dip recession**. They believe that it gives the UK one of the highest
5 personal tax regimes in the industrial world. This could make the UK less competitive internationally and a less attractive destination for both foreign investment and talented workers. This is particularly damaging when the UK needs to create new businesses in new industries.

In a speech to the City, the Chancellor, George Osborne, insisted that the government
10 would not waver from its tough fiscal approach. He said early action to tackle the budget deficit had put Britain “ahead of the curve” and in control of its economic future. He made it clear that the government had no intention of scrapping the tax in the short-term, although it would be reviewed in 2013, if it is not raising significant revenue. Critics argue that the tax will not raise the revenues expected because tax avoidance,
15 tax evasion and entrepreneurs leaving the UK will lead to a disappointing tax return. According to the Institute of Fiscal Studies (IFS), the highest rate which can be introduced without a reduction in tax revenue is about 40%.

The fairness and efficiency of the tax are also much debated. Those in favour of the tax argue that it is right that those on highest incomes should pay this top rate of tax
20 particularly when those on low and middle incomes are struggling. They have to cope with the effects of the VAT rise, rising petrol prices and the **squeeze on real incomes**. On the other hand, it is pointed out that this tax will only fall on 1% of tax payers who will be paying 24% of all income tax collected. However, if they do not pay their taxes, then it is poorer people who may suffer.

Adapted from an article in “The Guardian” 7th September, 2011

	<i>Marks</i>
1. Explain what is meant by the following terms as used in the passage.	
(a) Double-dip recession (line 4).	2
(b) Squeeze on real incomes (line 21).	2
2. Explain how the 50p rate of tax may harm the UK economy's rate of economic growth.	3
3. Justify the UK Government's belief that its tough fiscal approach is necessary in the current economic climate.	4
4. (a) Other than rising fuel duty, explain 2 reasons why petrol prices have risen.	4
(b) Use a diagram to show the effect of an increase in fuel duty on the market for petrol.	2
5. Discuss whether the 50p tax rate fulfils the principles of good taxation.	4
6. If the UK Government were to scrap the 50p tax rate, suggest and justify an alternative option for raising tax revenue.	4
	(25)

[Turn over for Section B

SECTION B

Attempt TWO of the six questions set.

Each question carries 25 marks.

1. (a) Compare the characteristics of perfect competition and monopolistic competition. 6
- (b) Using diagrams to support your answers:
 - (i) explain why a firm in perfect competition may make abnormal profits in the short run;
 - (ii) explain why a firm in monopolistic competition can make only normal profits in the long run. 10
- (c) Explain why a few large firms can dominate some markets whilst small firms thrive in other markets. 9
- (25)**

2. Despite CPI inflation hitting a peak of 5.2% in 2011, the Monetary Policy Committee (MPC) introduced a second round of quantitative easing.
 - (a) (i) Explain the term quantitative easing. 2
 - (ii) Explain how quantitative easing is expected to influence the level of economic activity. 8
 - (b) Explain the reasons for the MPC deciding to undertake a second round of quantitative easing. 8
 - (c) Discuss why some economists believe that quantitative easing may be ineffective or even harmful. 7
 - (25)**

3. Youth unemployment in the UK passed the one million mark in 2011.
 - (a) Explain why the rate of youth unemployment in the UK is higher than the national average. 7
 - (b) Describe the economic costs of youth unemployment to the individual and to the UK economy. 8
 - (c) Discuss policies which the UK government might introduce to address the issue of youth unemployment. 10
 - (25)**

4. In 2011, sovereign debt crises continued to put a strain on the Eurozone.
- (a) Explain why these sovereign debt crises continue to impose strains on the Eurozone. 7
 - (b) Explain why a country might consider abandoning the Euro and the consequences for its economy. 9
 - (c) Discuss measures which could be taken to ensure the survival of the Eurozone. 9
- (25)
5. Rates of economic growth vary widely across the globe.
- (a) Explain why economists fear that the UK economy will experience low or negative rates of economic growth in the coming years. 8
 - (b) Discuss reasons for the BRIC countries maintaining higher rates of economic growth than the UK. 9
 - (c) Explain why rates of economic growth remain so low in some developing countries. 8
- (25)
6. There is much debate about the future of pensions in the UK and some economists consider a pensions crisis to be imminent.
- (a) Explain why some economists consider a pensions crisis to be imminent in the UK. 9
 - (b) Describe the proposals that have been made by the UK Government to reduce the cost of public sector pensions. 7
 - (c) Apart from the issue of pensions, discuss the consequences for the UK economy of an ageing population. 9
- (25)

[END OF QUESTION PAPER]

ACKNOWLEDGEMENT

Section A—Article is adapted from “George Osborne urged to scrap the 50p tax” taken from *The Guardian*, 7 September 2011. © Guardian News and Media Ltd 2011.

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