

0820/31/01

NATIONAL
QUALIFICATIONS
2013

FRIDAY, 26 APRIL
1.00 PM – 2.45 PM

ECONOMICS
STANDARD GRADE
Credit Level

- 1 Read each question carefully.
- 2 Attempt **all** the questions.
- 3 All answers are to be written in the answer book provided.



1. Study the passage below and answer the questions which follow.

In 2011, Scotland was experiencing a recession. Despite being highly qualified in ICT, Darren could not get a job in Scotland. Nichola and Darren moved to Switzerland, where Nichola, a fully qualified Business Education teacher, gained a part-time job as a dog groomer. Nichola's former employer in Scotland, a public sector school, struggled to find a replacement.

- (a) Identify and describe the types of mobility of labour indicated in the passage.
- (b) (i) Explain the term "public sector".
(ii) Suggest **3** reasons why Nichola's former employer had difficulty finding a replacement for her.
- (c) (i) Explain the term "recession".
(ii) Suggest actions the UK Government might take to move the economy out of recession and explain how they might be expected to work.
- (d) Describe **2** economic costs to the Scottish economy of Nichola and Darren's decision to move.

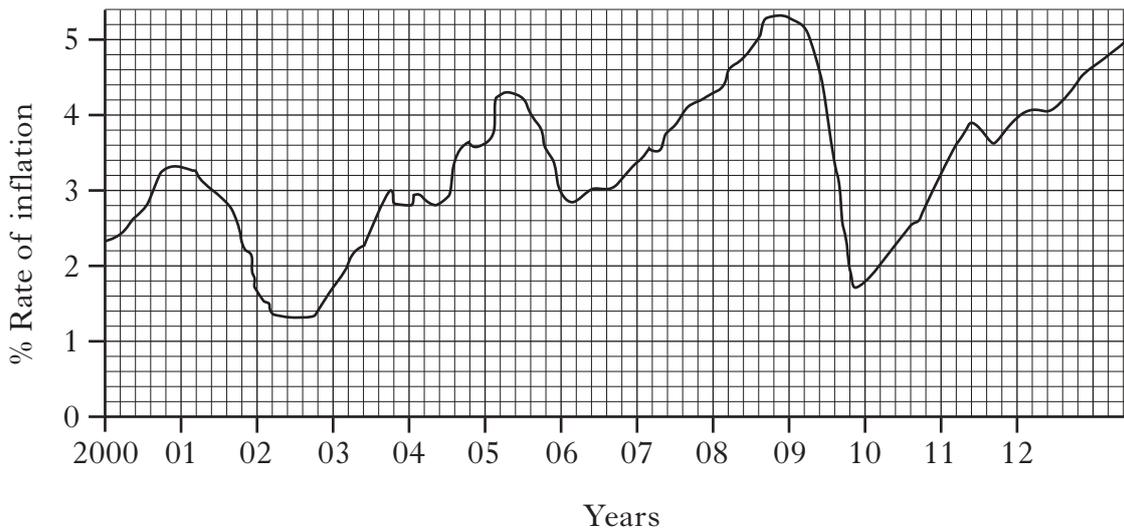
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2. Study the information below and answer the questions which follow.

A statement today by a spokesperson for the Bank of England revealed that despite the recent increase in the Consumer Price Index (CPI), they thought that inflation had hit its peak and was due to fall. They defended the Bank's handling of the economy but hinted that they were disappointed in the current inflation rate. "Demand pull inflation is still a problem, but it is no reason to panic. However, it is important that we try to raise our Gross Domestic Product (GDP)".

Rate of inflation 2000–2012



- (a) Define the terms:
 - (i) Consumer Price Index;
 - (ii) Demand pull inflation;
 - (iii) Gross Domestic Product.
- (b) Describe the trend in inflation shown in the diagram.
- (c) An analyst said that prices had fallen in 2009.
 - (i) Do you agree with this statement?
 - (ii) Explain your answer.
- (d) Suggest and explain 2 measures the Government could use to reduce demand pull inflation.

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[Turn over

3. Study the passage below and answer the questions which follow.

“The balance between direct and indirect taxation has never been so unfair!”, the Chancellor said today. “I propose that we change the balance by increasing indirect taxation and reducing direct taxation in order to give a much welcome boost to the economy.”

(a) Describe **2** features of:

- (i) direct taxation;
- (ii) indirect taxation.

(b) Explain why the proposed changes might affect pensioners and workers differently.

(c) Suggest and explain possible effects of the proposed changes on each of the following:

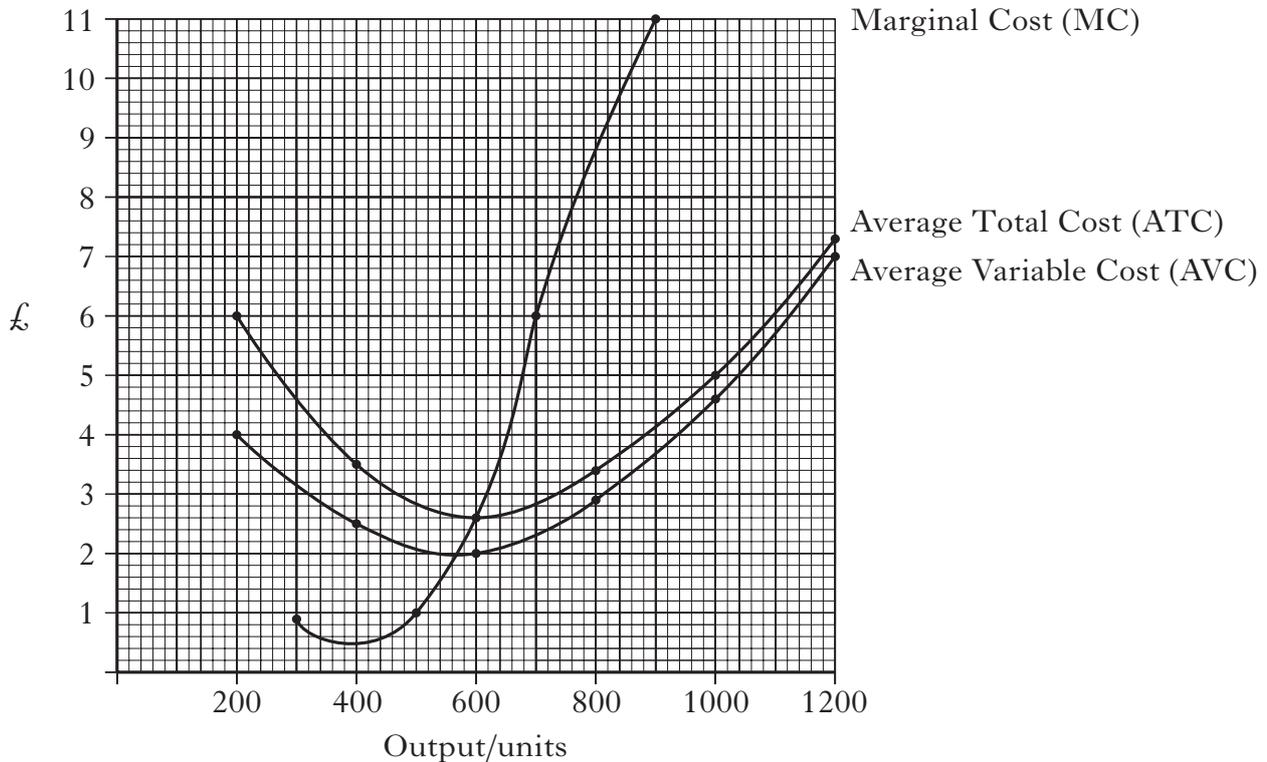
- (i) Employment in the UK;
- (ii) The Balance of Payments.

(d) Suggest and explain **one** opportunity cost to the country of a cut in VAT.

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4. Study the graph below and answer the questions which follow.

Output Decisions of a Firm in the Short Run.



- (a) Define the terms:
 - (i) marginal cost;
 - (ii) average total cost.
- (b) Explain why the difference between the ATC and the AVC decreases as output rises.
- (c) (i) Identify the optimum output.
(ii) Explain your answer to (c) (i).
- (d) At a price of £5, the firm breaks even.
 - (i) Explain the term “break even”;
 - (ii) Explain why the firm would continue to trade at this point in the short run.
- (e) The firm sets its selling price at £8. Calculate the total profit earned at an output level of 1000.

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5. Study the passage below and answer the questions which follow.

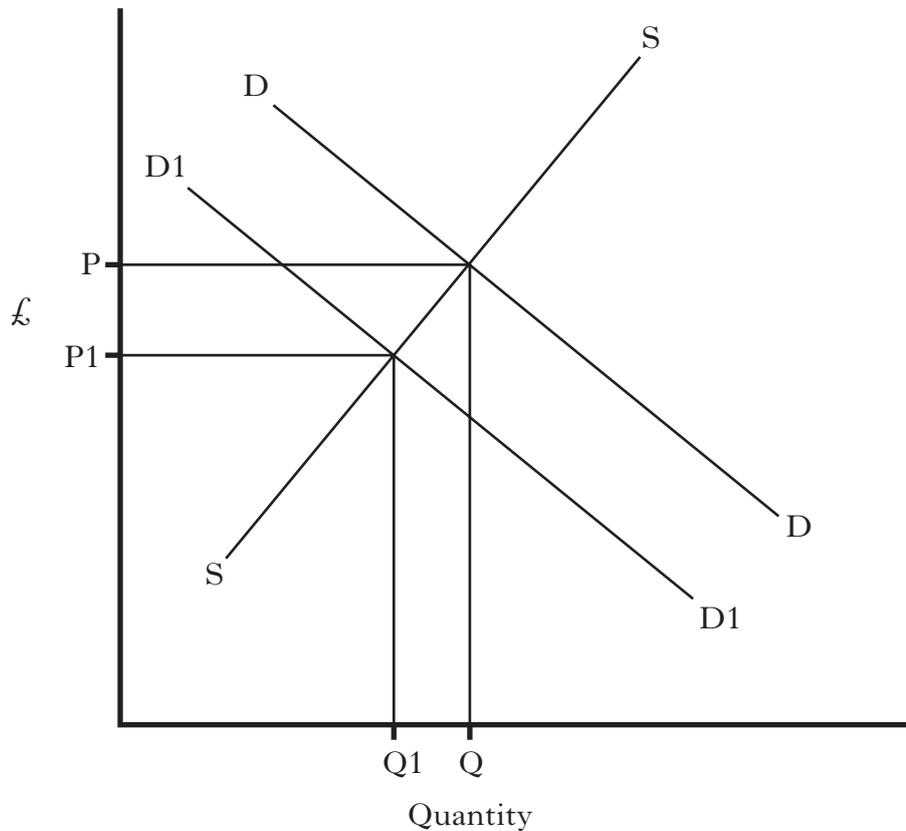
Whitley plc, a major brewing group, claimed to have withstood the downturn in the economy and declared an increase of 20% in pre-taxation profits. Like for like sales in its major hotel chain, First Inns, rose by 4.8% while its recently acquired chain of clothes manufacturers also showed a rise of 7.9%. Whitley’s spokesman boasted that the group, rather than laying off their extra summer staff, would be taking on full-time employees in the autumn. He said, “Although the recession is causing unemployment, we will be looking to expand our range of products over the next few years”.

- (a) (i) Name the type of integration that Whitley plc has recently undertaken. 1
- (ii) Explain **one** benefit to Whitley plc of this type of integration. 2
- (b) Whitley plc is looking for finance to expand further. Suggest **2** sources of finance that Whitley plc might use. 2
- (c) Identify the types of unemployment suggested in the passage. 2
- (d) Describe **one** economic and **one** social cost of unemployment to the economy. 2

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6. Study the diagram below and answer the questions which follow.

Demand and supply of Krinkle Gamestations



- (a) Explain, with reference to the diagram what is meant by:
 - (i) The term “equilibrium price”;
 - (ii) A contraction in demand.
- (b) Suggest **2** reasons for the change in demand from DD to D1D1.
- (c) Explain the difference between effective demand and derived demand.
- (d) Explain why the supply curve slopes upwards from left to right.

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[END OF QUESTION PAPER]

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