

X038/13/01

NATIONAL
QUALIFICATIONS
2015

TUESDAY, 28 APRIL
1.00 PM – 3.15 PM

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*.

Are falling oil prices good or bad news for the world economy?

In December 2014, oil prices fell to a four year low of close to \$60 a barrel. This signifies a fall of almost 50% since June 2014. Normally, falling oil prices would boost **global economic growth**. However, this time matters are less clear cut. If the cause of falling oil prices is weaker global demand, then this is a symptom of a slowing global economy, which is worrying. This is supported by the International Monetary Fund's (IMF) cut in the global economic growth forecasts for 2014 and 2015. However, if plentiful supply is driving oil prices down, this is better news because cheaper oil should eventually boost spending. In reality, economists believe that it is a combination of demand and supply factors driving down oil prices. Given that oil has a low price elasticity of demand and supply, any change in demand and/or supply leads to volatile prices.

Falling oil prices creates winners and losers. Some oil exporting countries are bracing themselves for significant revenue shortfalls, while some oil importing countries could benefit economically as consumers experience a rise in real income. Falling oil prices also impact on a country's balance of payments. With the spectre of **deflation** in the Eurozone, falling oil prices have added to deflationary pressures. Oil companies may also reduce investment in oil exploration and extraction which has economic consequences.

If the low prices of oil continue, some economists argue that energy firms may have less incentive to invest in alternative sources of energy. Despite this, EU countries reached a landmark deal in October 2014 to cut greenhouse gas emissions by 40% by 2030 compared with 1990 levels. The EU calls its climate deal ambitious but on its own it is unlikely to have a significant impact on correcting the market failure causing climate change. Tackling climate change needs a transformation of the global energy economy over decades and experts say that a 40% cut by 2030 leaves too big a task for the next generation. It is widely accepted within the EU that economic policies are needed to reduce CO₂ emissions by more than 80% of 1990 levels by 2050.

*Adapted from The Economist 18 October 2014 – Cheaper oil both symptom and balm
BBC News 13 October 2014 – Oil prices see further declines
BBC News 17 October 2014 – Falling oil prices: Who are the winners and losers?
BBC News 24 October 2014 – EU leaders agree CO₂ emissions cut
BBC News 16 December 2014 – Brent oil price falls below \$59 a barrel*

	<i>Marks</i>
1. Describe what is meant by the following terms as used in the passage.	
(a) Global economic growth (line 3).	2
(b) Deflation (line 15).	1
2. (a) (i) Describe 2 factors which affect the demand for oil.	2
(ii) Describe 2 factors which affect the supply of oil.	2
(b) Using information from the passage, draw a diagram to show why oil prices are volatile.	3
3. Explain the effects of falling oil prices on an oil importing country's balance of payments.	3
4. Describe the economic consequences of reducing investment in oil extraction and exploration.	3
5. Explain why climate change is considered an example of market failure.	3
6. Suggest and justify 2 economic policy measures which should be adopted to reduce CO ₂ emissions.	6
	(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 monopoly and monopolistic competition. 6
- (b) Using diagrams to support your answers:
- (i) explain why a monopoly firm can make abnormal profits in the short run and long run; 10
- (ii) explain why a firm in monopolistic competition can make only normal profits in the long run. 10
- (c) Explain, using examples, why small firms thrive in some markets while other markets are dominated by large firms. 9
- (25)
2. In 2014, members of the Monetary Policy Committee (MPC) were split as to whether interest rates should be raised sooner rather than later even though inflation fell.
- (a) Explain why UK inflation fell in 2014. 6
- (b) (i) Explain the arguments which have been made to justify raising interest rates. 10
- (ii) Explain the arguments which have been made to justify keeping interest rates unchanged. 10
- (c) Discuss the view that Quantitative Easing (QE) may be ineffective or even harmful. 9
- (25)
3. Some economists believe that the Eurozone is facing years of economic stagnation and deflation.
- (a) Explain why the Eurozone is facing such low rates of economic growth compared with other major economies. 8
- (b) Describe the economic measures which the European Central Bank (ECB) and Eurozone governments have taken and might take to stimulate economic growth. 9
- (c) Discuss the view that deflation is a worse problem than inflation. 8
- (25)

4. In 2014, the budget deficit and migration continued to make headlines in the UK.
- (a) Explain why the budget deficit in the UK is falling more slowly than previously forecast by the Office for Budget Responsibility (OBR). 7
- (b) Describe the negative and positive economic consequences of the UK running a persistently high budget deficit. 9
- (c) Discuss whether migration is good or bad for the UK economy. 9
- (25)**
5. In 2014, worldwide rates of economic growth varied considerably.
- (a) Explain, using examples, why the rate of economic growth in some emerging economies has slowed. 9
- (b) Explain, using examples, why some developing economies continue to experience low rates of economic growth. 7
- (c) Evaluate the effectiveness of measures taken by developed economies to help developing economies achieve higher rates of economic growth. 9
- (25)**
6. Economists disagree on the impact of, and solutions to, income inequality in the UK.
- (a) Explain why income inequality has been rising in the UK in recent years. 5
- (b) (i) Discuss the effectiveness of a proposed “mansion tax” as a method of redistributing income in the UK. 5
- (ii) Discuss **other** measures which a UK government could take to reduce income inequality. 9
- (c) Discuss whether income inequality always has a negative impact on the UK economy. 6
- (25)**

[END OF QUESTION PAPER]

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