



National  
Qualifications  
2016

**X722/76/11**

**Economics**

WEDNESDAY, 25 MAY

9:00 AM – 11:00 AM

**Total marks — 70**

**SECTION 1 — 25 marks**

Attempt ALL questions

**SECTION 2 — 45 marks**

Attempt ALL questions

You may use a calculator

Write your answers clearly in the answer booklet provided. In the answer booklet, you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.



\* X 7 2 2 7 6 1 1 \*

## SECTION 1 — 25 marks

Read the following source and attempt ALL questions that follow.

### **EU Austerity must be relaxed, says Carney**

The European Union should ease its approach to austerity in the Eurozone, Mark Carney, the Chairman of the Bank of England has said. The combined austerity measures of public spending cuts and proposed tax increases over an extended period of time have meant that some Eurozone countries have struggled to escape the effects of recession.

In what is widely being interpreted as an attack on the EU's response to the Greek debt crisis, Carney said public spending cuts in depressed Eurozone economies had trapped countries in a cycle of low-growth, weakening investment and high unemployment. Standards of living have worsened for entire populations and income inequality has also expanded for some of the most affected countries.

“Since the financial crisis all major advanced economies have been in a debt trap where low growth deepens the burden of their national debt, prompting the private sector to cut spending further,” said Carney. “Skills and capital wither away. Workers become discouraged and leave the labour force. Prospects decline and the noose tightens. As difficult as it has been, some countries, including the US and the UK, are now escaping this trap. Some in the Eurozone are slower to recover. It is difficult to avoid the conclusion that, if the Eurozone were a country, fiscal policy would be substantially more supportive.”

Meanwhile, investment banking giant Goldman Sachs reckons the UK pound sterling's strength against the euro is set to continue and could reach highs of €1.54 to the pound by 2017 — a level last seen in 2000. British holidaymakers and property buyers could be reaping the benefits of this on the continent over the next few years if this prediction comes true.

Adapted from *The National*, 30 January 2015

## Questions

1. (a) Describe what is meant by the term “austerity”.  
Your response must make reference to information provided in the article. 2
- (b) (i) Describe what is meant by “national debt”. 2  
(ii) Explain why measures to reduce a national debt may conflict with other government objectives. 2
- (c) Draw a diagram to show the effects on the market for labour of “weakening investment” by industry combined with “discouraged” workers. 4
- (d) Explain the effects of the relatively slow recovery in the Eurozone on:  
(i) UK businesses 2  
(ii) the UK economy. 2
- (e) (i) Explain why a strong pound could have British holidaymakers “reaping the benefits of this on the continent”. 2  
(ii) Outline the factors which affect the exchange rate for the pound sterling. 2
- (f) Describe a fiscal policy measure which could be used by governments of Eurozone countries to achieve economic growth. 2
- (g) (i) Explain why “income inequality” is regarded as an example of market failure. 2  
(ii) Describe government interventions which may be used to reduce the effects of a market failure. 3

[Turn over

## SECTION 2 — 45 marks

Attempt ALL questions

2. (a) Explain why consumers, producers and governments are faced with choices. 3
- (b) (i) Describe the factors which affect the price elasticity of demand for a product. 5
- (ii) Explain, using a diagram, why it is important for firms to consider the price elasticity of demand of their products when making pricing decisions. 4
- (c) Describe the difference between economic goods and free goods. 3
3. (a) Describe the economic powers which have been devolved to the Scottish Parliament from the UK government. 4
- (b) Describe the uses of a country's National Income statistics. 5
- (c) (i) Describe the recent trend in the rate of inflation in the UK. 3
- (ii) Explain the possible reasons for the trend described in (i) above. 3
4. (a) Describe the reasons why governments restrict trade. 6
- (b) Describe the components of the current account of the UK Balance of Payments. 4
- (c) Describe the theories of absolute and comparative advantage. 5

**[END OF QUESTION PAPER]**

## ACKNOWLEDGEMENT

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