



National
Qualifications
SPECIMEN ONLY

SQ12/H/01

Economics

Date — Not applicable

Duration — 2 hours

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.



* S Q 1 2 H 0 1 *

SECTION 1 — 25 marks

Read the following Sources and attempt ALL questions that follow.

Source A

TAX REVISION AND RISING BORROWING HIT DEBT PLAN

According to the Office for National Statistics, UK government debt plans were dealt a blow when figures showed government borrowing increased in June. Local government spending in June rose by 15% more than was received in taxation from businesses and households. This drove the overall borrowing figure higher.

The Office of Budget Responsibility (OBR) gave a warning that the government would have to think carefully about its spending choices because its finances are currently overstretched. The UK's ageing population and strained healthcare system means extra spending cuts or tax rises are needed to reduce pressure on the government's budget.

However, the government has taken measures to reduce the budget deficit in the future. A Treasury spokesperson said that, while nothing can be taken for granted, the economy is moving from recession to recovery.

(Source: adapted from *www.theguardian.com* July, 2013)

Source B

UK RECOVERY TO GATHER PACE IN 2014

Ernst and Young's Item Club predicts that the UK's recovery will gather pace from 2014 as exports and business investment are expected to increase.

Current UK economic growth remains reliant on consumer spending and the housing recovery. The Club believes that 'with consumer confidence returning and the government's initiatives to stimulate the housing market, consumers are switching their attention back from saving to spending'.

The Club also predicts that UK exports to China may increase as a result of China rebalancing its economy towards greater domestic spending and a rise in the value of its currency. Additionally, it predicts the economic recovery in the US could also further boost UK exports.

(Source: adapted from *www.bbc.co.uk/news/business*)

The following questions are based on the Sources provided and on knowledge and understanding you have gained whilst studying the course.

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| 1. (a) Describe what is meant by a 'budget deficit'. Your response must make reference to information from Source A. | 2 |
| (b) Explain why governments always have spending choices to make. Your response must make reference to an opportunity cost related to government spending. | 2 |
| (c) Explain a policy measure that can be used to stimulate recovery from a recession. | 3 |
| (d) Describe three economic objectives, other than those mentioned in the sources, that a government may have. | 3 |
| (e) (i) Describe what is meant by the 'housing market'. | 2 |
| (ii) Explain a measure the government may take to 'stimulate the housing market'. | 2 |
| (iii) Draw a diagram to show how the measure you explained in part (ii) would affect the equilibrium price and equilibrium quantity of houses traded. | 3 |
| (f) Describe the positive and negative effects of a rise in the value of the Chinese exchange rate on UK producers. | 4 |
| (g) Explain why UK firms may prefer to trade with eurozone firms even though exports to the US and China may increase. | 4 |

SECTION 2 — 45 marks

Attempt ALL questions

1. In a free market economy resources are allocated by the price mechanism, ie the forces of supply and demand.
- (a) Describe how the price mechanism allocates scarce resources. 5
 - (b) Analyse the shape of a normal short run average cost curve. 5
 - (c) Explain, using an example, what is meant by price inelastic demand. 5
2. The Scotland Act 2012 gives the Scottish Parliament powers to make changes to income tax rates for the Scottish taxpayer from 2016.
- (a) Describe economic powers given to the Scottish Parliament, other than the ability to make changes to income tax. 3
 - (b) Discuss the positive and negative effects on the Scottish economy of a change in the rate of income tax. 8
 - (c) Describe progressive taxation and regressive taxation. Your response should include relevant examples. 4
3. The annual income of some multinational companies exceeds the Gross Domestic Product (GDP) of some eurozone countries.
- (a) Explain the effects on a host country of a multinational company locating in it. 8
 - (b) Describe the role of the European Central Bank (ECB) within the eurozone. 3
 - (c) Describe four components of the UK's balance of payments. 4

[END OF SPECIMEN QUESTION PAPER]

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