



National
Qualifications
SPECIMEN ONLY

S822/77/11

Economics

Date — Not applicable

Duration — 2 hours 30 minutes

Total marks — 80

SECTION 1 — 30 marks

Attempt ALL questions.

SECTION 2 — 25 marks

Attempt the question.

SECTION 3 — 25 marks

Attempt ONE question.

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 8 2 2 7 7 1 1 *

SECTION 1 — 30 marks

Read the following source and attempt ALL the questions that follow.

The impact of the 'Brexit fog' on the UK economy

5 Gertjan Vlieghe, a current member of the Monetary Policy Committee, has argued that Brexit is already costing the UK £800m a week in lost output, more than double the £350m a week saving promoted by some 'Leave' campaigners before the referendum in 2016. The prolonged uncertainty over Brexit, what the governor of the Bank of England refers to as the 'Brexit fog', appears to be leading to slowing economic growth.

10 The most dire predictions before the referendum have failed to transpire — there has been no recession in the UK. However, some economists assert that worrying trends in the UK economy became more evident in 2019. The rate of economic growth in 2018 fell to 1.4%, down from 1.8% in 2017. This fall is blamed on lower manufacturing output, lower business investment and, additionally, disappointing export growth despite a relatively weak pound.

15 Longer term, the UK labour market may be negatively impacted. Unemployment in the UK has been at historically low levels but may start to rise as UK and foreign-owned businesses relocate their UK plants and operations, and foreign direct investment falls. There is also uncertainty about the impact of lower EU migration on the labour market. Of course, some of the anticipated consequences for the labour market could be mitigated by a 'good' Brexit deal. However, major uncertainty remains, given that economists disagree as to which of the potential Brexit options, a so-called 'Soft' or 'Hard' Brexit deal, will be best for the UK economy.

Questions

1. Describe what is meant by the following terms.
 - (a) Foreign direct investment (line 14) 2
 - (b) 'Hard' Brexit (line 19) 2
2. Explain why lower business investment might lead to lower economic growth. 4
3. Explain possible reasons why the UK Current Account of the Balance of Payments might not have improved, despite the pound sterling having fallen in value. 6
4. (a) Using a diagram, explain the impact of the closure of UK-based firms and lower EU migration in the UK on the UK labour market. 4
(b) Describe economic advantages and disadvantages of lower EU migration to the UK. 6
5. Other than the impact on the labour market and migration, discuss the potential benefits to the UK economy of Brexit. 6

[Turn over

SECTION 2 — 25 marks

Attempt the question

- | | | | |
|----|-----|--|---|
| 6. | (a) | Compare the characteristics of monopoly and monopolistic competition. | 6 |
| | (b) | Using a diagram/diagrams, explain why a firm in monopolistic competition can only make normal profits in the long-run. | 6 |
| | (c) | Explain, with the aid of a diagram, why the negative externalities caused by excessive sugar consumption are an example of market failure. | 7 |
| | (d) | Evaluate possible policies which could be used to reduce the market failure of excessive sugar consumption. | 6 |

SECTION 3 — 25 marks

Attempt ONE question

7. On 19 February 2019 Honda confirmed that it will close its Swindon car plant in 2021, with the loss of about 3,500 jobs. Although UK unemployment remained low, this announcement came at a time of continuing concerns over UK productivity figures.
- (a) Analyse the possible economic consequences of a declining car manufacturing industry in the UK. 8
- (b) Discuss the view that the UK has an on-going ‘productivity problem’. 10
- (c) Describe the reasons why UK unemployment remained low in 2018. 7

OR

8. In February 2019 it was reported that UK inflation fell to a two-year low of 1.8%. It was also reported at the time that wages were rising at 3.3%. These figures were released at a time of further weakening in the UK housing market.
- (a) Discuss the economic implications of ‘real’ wage growth on the UK economy. 8
- (b) Describe the potential impacts of falling house prices on the UK economy. 8
- (c) Evaluate supply-side policies which might be implemented to support long-run economic growth. 9

OR

9. On 12 December 2018 the Scottish Finance Secretary, Derek Mackay, announced that he would not pass on the tax break for higher earners that was announced by the Chancellor in his UK budget.
- (a) Discuss the possible economic effects of the increase in the number of income tax bands on the Scottish economy. 10
- (b) Describe the possible dangers for the UK economy of persistently running a budget deficit. 8
- (c) Apart from altering income tax, discuss other policy measures that could be introduced to reduce income inequality in the UK. 7

[Turn over for next question

OR

10. On 25 February 2019 President Donald Trump said that the US and China are ‘very, very close’ to signing a trade agreement. This came at a time when Chinese president Xi Jinping hailed his country’s Belt and Road Initiative as ‘the project of the century’.

- | | |
|---|---|
| (a) Describe the key aspects of China’s Belt and Road Initiative. | 4 |
| (b) Discuss the possible economic implications of the on-going trade war between China and America on the US economy. | 8 |
| (c) Apart from the US-China trade war, explain reasons for China’s slowing rate of economic growth. | 5 |
| (d) Using examples, explain reasons why some developing economies struggle to achieve economic growth. | 8 |

[END OF SPECIMEN QUESTION PAPER]



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Economics

Marking Instructions

These marking instructions have been provided to show how SQA would mark this specimen question paper.

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General marking principles for Advanced Higher Economics

Always apply these general principles. Use them in conjunction with the detailed marking instructions, which identify the key features required in candidates' responses.

(a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.

(b) If a candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.

(c) For **describe** questions, candidates must make a number of relevant factual points, which may be characteristics and/or features, as appropriate to the question asked. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant factual point
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

(d) For **explain** questions, candidates must make accurate relevant points that relate cause and effect and/or make relationships clear. These points may relate to a concept, process or situation. Candidates may provide straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of explanation
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

(e) For **justify** questions, candidates must give good reasons for a cause of action or decision. Up to the total mark allocation for this question

- award **1 mark** for each relevant statement or opinion
- award marks for any further development of a relevant statement or opinion.

(f) For **analyse** questions, candidates must demonstrate their ability to identify, describe and explain relevant parts and the relationships between the parts and/or the whole. Candidates must be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (g) For **discuss** questions, candidates must make points that communicate issues, ideas or information about a given topic or context that make a case for and/or against. Candidates do not always need to give both sides of the debate in their response.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of knowledge that is clearly relevant
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (h) For **compare** questions, candidates must demonstrate knowledge and understanding of the similarities and/or differences between, for example, things, methods or choices. Candidates may include relevant theoretical concepts in their points.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (i) For **evaluate** questions, candidates must demonstrate the ability to make a reasoned judgement in terms of the effectiveness or usefulness of something based on criteria. Candidates should be able to determine the value of something within context.

Up to the total mark allocation for this question

- **1 mark** for each accurate point of evaluation
- **1 mark** for any further development of a relevant point, including exemplification and/or a conclusion when appropriate.

Marking instructions for each question

Section 1

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 1. | (a) | <p>Foreign direct investment</p> <ul style="list-style-type: none"> Foreign direct investment (FDI) occurs when a company physically invests in buildings, factories, machines, and other forms of capital outside of their home country (1). Nissan's investment in its Sunderland factory is an example of a Japanese multinational undertaking FDI into the UK (1). FDI occurs when a firm takes a controlling interest in a firm based in another country, through purchasing its shares (1). | 2 | <p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development.</p> <p>Give credit for mention of multinational activities/operations.</p> |
| | (b) | <p>'Hard' Brexit</p> <ul style="list-style-type: none"> A Brexit deal in which the UK leaves the single market/customs union (1) and ends free movement of people from the EU (1). A 'no deal' Brexit would be a hard Brexit (1). The UK would trade under WTO rules (1). | 2 | <p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development.</p> |
| 2. | | <ul style="list-style-type: none"> Investment is a component of Aggregate Demand and lower investment leads to lower AD (which is a measure of National Income/GDP) (1). It reduces potential aggregate supply because lower investment in capital and technology reduces potential output (1). Lower investment leads to lower economic growth because the productive potential of an economy is lower than it would otherwise have been (1). Lower investment in capital and technology reduces productivity which lowers output which leads to lower economic growth (1). Lower investment can reduce jobs in original/related industries which leads to lower output (1). | 4 | <p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for each valid development.</p> |

| Question | Expected response(s) | Max mark | Additional guidance |
|----------|--|----------|--|
| 3. | <ul style="list-style-type: none"> • Growing protectionism around the world has made it harder to export despite the lower value of the £, because there are more barriers to trade (1), eg Donald Trump has introduced tariffs on steel products (1). • Non-availability of domestically produced substitutes would mean that UK consumers would continue to buy dearer imports even after the fall in the value of the pound (1). For example, if coffee became more expensive due to the fall in the value of the pound UK consumers may continue to buy it at the higher price (1) and therefore the value of coffee imports would go up worsening the Current Account deficit (1). • A slow-down in the global economy would lead to lower demand for UK exports even if the pound has fallen because those countries would have lower demand for all goods, including UK exports (1). For example, the German and Italian economies are on the verge of recession and therefore demand for UK exports might be lower in these countries (1). • If the combined price elasticities of demand for exports and imports are less than 1, then a fall in the value of the pound would lead to a deterioration in the Current Account of the Balance of Payments (1). • If consumers in the UK are price insensitive to rising import prices and volumes fall less than proportionately relative to the increase in price then the value of imports will rise (1) and the Current Account of the Balance of payments will deteriorate rather than improve (1). • Demand for imports into the UK is not just dependent on their price but non-price factors (1) such as the branding of French champagne which makes its PED as an import less than 1 (1). If the pound fell and the price of champagne rose in the UK, but the PED was less than 1, the value of imports of champagne would increase worsening the Current Account of the Balance of Payments (1). (This is called the Marshall-Lerner Condition.) | 6 | <p>Candidates must explain at least 2 reasons to gain full marks.</p> <p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 5 marks for any one reason.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|--|---|----------|---------------------|
| 3. | | <ul style="list-style-type: none"> It can take time for consumers and producers to adjust to the changing relative prices of imports and exports so in the short term the combined price elasticities of demand for imports and exports can be more inelastic than in the long term (1). For example, it could take a long while for domestic producers to increase their output to meet greater domestic demand (1). (This is called the J curve effect.) | | |

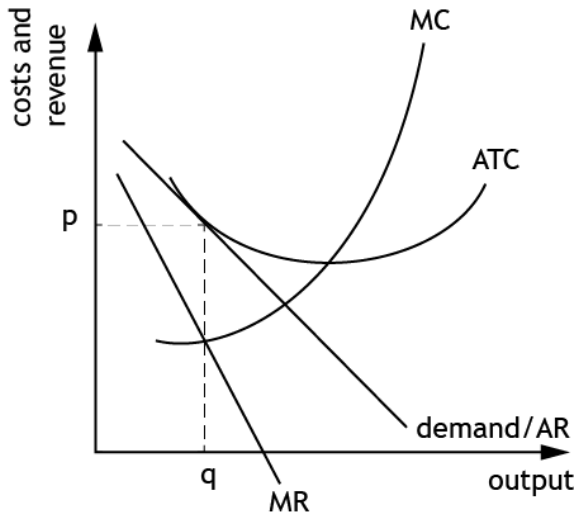
| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|--|
| 4. | (a) | <p style="text-align: center;">UK labour market</p> <p>Diagram</p> <ul style="list-style-type: none"> • Axes labelled correctly and old and new equilibrium shown (1). (the new equilibrium can be at W but does not have to be) • Demand shifting curve to the left (1). • Supply curve shifting to the left (1). <p>Explanation</p> <ul style="list-style-type: none"> • The closure of factories leads to lower demand for labour which shifts demand curve to the left (1). • Lower EU migration leads to lower supply of labour which shifts supply curve to the left (1). • The impact on wages depends on the candidate's diagram. In the diagram above the impact on the labour market is that the wage rate is unchanged at W because the fall in demand offsets/matches the fall in supply (1). • There is a fall in the quantity of labour employed (q to q_1) because there will be less inward migration from the EU (1). | 4 | <p>Award up to 3 marks for a correct diagram.</p> <p>Award up to 2 marks for the explanation.</p> <p>Award 1 mark for a valid development.</p> |

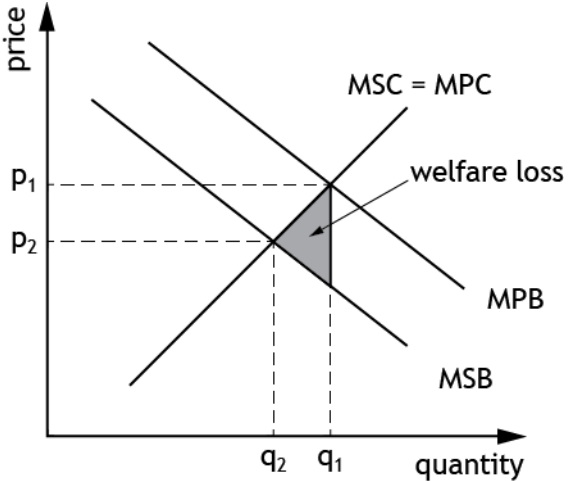
| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|---|
| 4. | (b) | <p>Advantages</p> <ul style="list-style-type: none"> • More jobs available for UK citizens leading to lower unemployment in the UK (1). • Upward pressure on wages will lead to ‘real’ wage rises leading to higher AD (1). • Firms may be more prepared to substitute capital for labour which will raise UK productivity (1). • Less pressure on housing leading to increased affordability of buying/renting (1). • Less pressure on local councils’ services in some areas leading to smaller increases in council tax (1). <p>Disadvantages</p> <ul style="list-style-type: none"> • Labour shortages in key sectors could lead to poorer quality services or make it impossible for firms to continue to provide services (1). • Loss of skills in some areas leading to lower productivity (1). The NHS/hospitality/agriculture sector are heavily dependent on EU labour (1). • Upward pressure on wages will make UK firms less profitable/less competitive (1). • Lower potential output and lower economic growth (1). • Higher training/recruitment costs for firms who employ UK workers or workers from non EU countries (1). • More bureaucracy for firms who may need to check visas/immigration status of EU workers which adds to costs (1). | 6 | <p>Candidates must describe at least one advantage and one disadvantage to gain full marks.</p> <p>Award 1 mark for each valid description.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 5 marks for any one advantage or disadvantage.</p> |

| Question | Expected response(s) | Max mark | Additional guidance |
|----------|--|----------|--|
| 5. | <ul style="list-style-type: none"> • Saving UK contribution to EU budget (1) but the cost of the ‘divorce bill’ will more than offset this in the short run (1). ‘Divorce’ – £39 billion/€42 billion (1). Net annual contribution – £9 billion (1). • The ability to negotiate trade deals with non-EU countries bilaterally (1). However, only 7 deals have been signed by February 2019 (1). Most trade deals take 5-7 years to negotiate (1). Japan has signed new trade deal with EU but will not automatically offer same terms to UK (1). • Trade deals elsewhere could lead to cheaper food coming into the UK from countries such as New Zealand/USA (1), but there could be problems with maintaining food standards (1) such as chlorinated chicken (1). • No EU red tape and bureaucracy which adds to business costs (1), but some of this bureaucracy protects workers’ rights (1), and sets standards for pollution/food quality (1). This could lead to greater worker/consumer exploitation if not replaced by similar UK standards (1). | 6 | <p>Candidates must discuss at least 2 benefits to gain full marks.</p> <p>Award 1 mark for each valid discussion point.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 5 marks for any one benefit.</p> <p>Award up to 2 marks for use of accurate statistics.</p> |

Section 2

| Question | | Expected response(s) | | | | Max mark | Additional guidance |
|----------|-----|-------------------------------------|--|----------------|---|----------|--|
| 6. | (a) | Characteristics | Monopoly | | Monopolistic competition | | <p>6</p> <p>Candidates must compare at least 2 characteristics to gain full marks.</p> <p>Award 1 mark for each valid comparison.</p> <p>Award 1 mark for each valid development.</p> |
| | | Number of firms in the market | One | | Many | (1) | |
| | | Barriers to entry | High | | Low | (1) | |
| | | Control over price | Price maker with high degree of control | | Price maker with low degree of control | (1) | |
| | | Shape of demand curve | Downward sloping – steep/inelastic | whereas | Downward sloping – flatter/more elastic | (1) | |
| | | Product differentiation | Unique | | Differentiated, but similar to substitutes | (1) | |
| | | Number of, closeness of substitutes | Few, no close substitutes | | Many, very close substitutes | (1) | |
| | | Short run and long run profits | Abnormal profits in both | | Abnormal profits in the short run, normal profits in the long run | (1) | |
| | | Economies of scale | High | | Low | (1) | |
| | | Efficiency | Both productively and allocatively inefficient | | Low | (1) | |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 6. | (b) |  <p>Diagram</p> <ul style="list-style-type: none"> • Downward sloping demand/AR curve (1) • Equilibrium output where $MC=MR$ (1) • Showing where $ATC=AR$ (1) <p>Explanation</p> <p>Only normal profits are made in the long run because of the lack of significant barriers to entry (1). Short-run abnormal profits will induce new firms to enter the market (1). As new firms enter the market, the demand/AR curve shifts to the left (1) until it's tangential to the ATC curve (1). At this point only normal profits are earned (1) and there is no incentive for further firms to enter the industry (1).</p> | 6 | <p>Award up to 3 marks for a correct diagram.</p> <p>Award up to 4 marks for the explanation.</p> <p>Award 1 mark for each valid development.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 6. | (c) |  <p>Diagram</p> <ul style="list-style-type: none"> Fully labelled diagram (price, quantity, MSC, MPB, MSB, p_1, q_1, p_2, q_2) (1) Clearly showing that MPB is higher than MSB (1) Clearly showing quantity and price for both initial market equilibrium and socially optimal equilibrium (1) Clearly showing welfare loss (1) <p>Explanation</p> <ul style="list-style-type: none"> Excessive sugar consumption is connected to obesity/tooth decay which not only negatively impacts the individual who consumes the product but also third parties (1). These negative impacts include costs to the NHS of obesity related illnesses (1), and to employers through time absent from work (1). If these negative impacts on third parties are not taken into account, the good is overvalued and over-consumed which is the market failure (1). The individual places a higher value on the good than society (1). The over consumption of the good leads to a welfare loss, which is the shaded area in the diagram (1). | 7 | <p>Award up to 4 marks for the correct diagram.</p> <p>Award up to 4 marks for the explanation.</p> <p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for each valid development.</p> |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|--|----------|---------------------|
| 6. | (c) | | <ul style="list-style-type: none"> From the diagram we can see that the market produces at p_1 and q_1, which results in a higher output and a higher price than the optimum output at p_2 and q_2 (1). The optimum output is where $MSB = MSC$ (1). | 7 | |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 6. | (d) | <p>An indirect tax on sugary food/drinks</p> <ul style="list-style-type: none"> • An indirect tax raises the price which should deter consumption depending on the PED (1). If the PED is less than 1 (inelastic) then will have little impact on quantity demanded (1). Some believe that sugar is more addictive than heroin, and therefore the PED is likely to be less than 1 (1). • The tax revenue raised from a 'sugar tax' could be used to pay for costs of obesity/tooth decay (1) which would make it a hypothecated tax (1). There are very few hypothecated taxes in the UK (1) because governments prefer the flexibility to use tax revenue on their spending priorities (1). • This is a market-based solution which creates disincentives through the price mechanism but gives consumers the choice to consume the product or not (1). However, it is a regressive tax as those on low incomes are more impacted than those on higher incomes, because they spend a higher proportion of their income on sugary foods (1). Also, healthier food alternatives may be more expensive which gives those on low incomes fewer substitutes (1) therefore some argue that sugar taxes are unfair because they disproportionately impact those on low incomes (1). • Are relatively easy to impose and have already been implemented in the UK and California/Mexico for highly sugared fizzy drinks (1). But there are questions over their effectiveness in reducing sugar consumption because there are lots of 'sugary' foods which are not included in taxes on fizzy drinks, such as fruit juices/smoothies/yoghurt drinks/chocolate etc (1). <p>Other policies which can be evaluated can include</p> <ul style="list-style-type: none"> • legal regulation/restrictions • industry agreements on sugar/portion size • education of consumers • better food labelling – particularly of 'hidden' sugar in processed food, eg bread, takeaway, baby food etc • behavioural economics theories that 'nudge' consumers away from sugary products | 6 | <p>Candidates must evaluate at least 2 policies to gain full marks.</p> <p>Award 1 mark for each valid evaluation.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 5 marks for any one policy.</p> |

Section 3

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|---|
| 7. | (a) | <ul style="list-style-type: none"> Thousands of manufacturing jobs could be lost as a result of the decline (1). This could lead to regional and/or structural unemployment in the UK as car manufacturing is heavily localised (1). It will also have a negative impact on the ancillary suppliers that make car components for the industry (1). These knock-on effects on the local and national economy would lead to a negative multiplier effect (1). And this would lead to a lower rate of economic growth as UK output/income/spending would be lower (1). It could negatively impact UK car exports (1), which could further deteriorate the balance of payments (1). Investment in the UK car manufacturing industry could fall, resulting in lack of productivity gains or innovation (1). In the long term this could negatively impact UK competitiveness (1). Foreign car manufacturing firms may leave, taking with them an outward flow of FDI (1). Innovative manufacturing processes may also be lost to the industry, such as lean manufacturing and JIT, associated with Japanese car makers (1). This could significantly reduce the skill-set of laid-off workers (1). The UK government may be forced to provide additional incentives for foreign car makers (1). They could result in additional fiscal expenditures/opportunity costs (1). | 8 | <p>Candidates must analyse at least 2 consequences to gain full marks.</p> <p>Award 1 mark for each valid analysis point.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 7 marks for any one consequence.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 7. | (b) | <ul style="list-style-type: none"> The UK ranks low in GDP per hour worked – lower than USA/France/Germany/Canada (1). However, the UK has higher productivity than Italy/Japan (1). The UK has only seen a 2% rise in overall productivity since 2008 (1). However, this is part of a general trend among developed countries rather than a problem unique to the UK (1). The UK government has set up a National Productivity Investment Fund in an attempt to close the UK’s productivity gap with its competitors (1). It is £31bn over 5 years (1). Not all of the UK suffers from low productivity (1). London has very high productivity levels due to concentration of highly productive sectors (1). London has excellent infrastructure and communication networks etc (1). There has been a significant increase in low productivity service-sector jobs (1). It has been argued that the UK suffers from a highly uneven digital infrastructure (1). UK productivity could be greatly improved if 5G was spread out evenly across the whole of the UK (1). Financial services productivity has been falling in recent years, which has impacted overall productivity figures (1). The UK lags in robotics adoption compared to other developed economies (1). It has been argued that the UK has too many ‘zombie’ firms (1). It has been argued that long hours in retailing results in ‘dead time’: long periods when there is nobody in the store and very little productivity being generated (David Smith – The Sunday Times) (1). It has been argued that the UK has a high number of family firms that are too conservative and lack innovation (1). This is in contrast to Germany’s Mittelstand family-owned firms who are seen to drive productivity gains in the German economy (1). | 10 | <p>Award 1 mark for each valid discussion point.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 2 marks for use of accurate statistics.</p> <p>Give credit for productivity measurement – GDP per unit of labour employed.</p> <p>Give credit for mention of factors that may have contributed to low productivity in the UK, such as</p> <ul style="list-style-type: none"> low levels of investment (lowest in G7) poor management poor infrastructure low investment in training/vocational education geographical immobility of labour labour hoarding during the recession large services sector (about 80% of economy) – difficult to make productivity gains. |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|---------------------|
| 7. | (b) | <ul style="list-style-type: none"> Some economists argue it is very difficult to make productivity gains in an 'intangible economy' such as the UK. (Haskel and Westlake in Capitalism Without Capital: The Rise of the Intangible Economy) (1). It is very hard to measure productivity in the service sector (1). | 10 | |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|--|
| 7. | (c) | <ul style="list-style-type: none"> Public sector employment – civil service – has been boosted by the Brexit process (1). Many workers are only working part-time, therefore there is possible under-employment taking place (1). There has been a rise in self-employment and the gig economy (Uber etc) (1). Workers who have zero-hour contract jobs and who only work one hour in a week, will still be classified as employed (1). There are approximately 1 million zero-hour workers in the UK (1). The female employment rate is at a record high, due to changes in the nature of modern jobs resulting from a decline in heavy industry and an increase in services (1). UK manufacturing sector expanded slightly in 2018 (1); 2.6m employed directly in manufacturing, with 7.4m dependent on the sector (1). Many retail workers are being employed during ‘fallow’ opening hours – low footfall opening hours and low footfall late-night shopping, 24hr supermarkets etc (1). Real wages have been falling for almost a decade, and therefore labour has been relatively cheaper than capital (1). This has discouraged firms from investing in capital and encouraged labour-intensive production (1). Jobs have been created in construction/food/services/transport/storage/beauty industries (1). Many new jobs are in low-earning, low-skilled service sector (1). Many EU workers have returned home creating employment opportunities for people who were previously classified as unemployed (1). Supply-side policies have created greater flexibility in the UK labour market increasing employment (1). | 7 | <p>Candidates must describe at least 2 reasons to gain full marks.</p> <p>Award 1 mark for each valid description.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 6 marks for any one reason.</p> <p>Award up to 2 marks for use of accurate statistics.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|--|
| 8. | (a) | <p>Positive</p> <ul style="list-style-type: none"> • Real wage growth may encourage discretionary spending (1) which could lead to higher retail/on-line spending (1) which could stimulate economic growth (1). Current real wage growth was 1.4% (as of June 2019) (1). • Rising wages may result in an increase in income tax paid to the government (1). • Rising wages may act as an incentive for the unemployed to supply their labour (1), thereby reducing unemployment (1). • With rising labour costs, firms may decide to invest in capital equipment, which may improve UK productivity figures (1). • Improves standards of living (1). <p>Negatives</p> <ul style="list-style-type: none"> • Rising wages may impact firms' profitability and long term sustainability (1). • Sectors of the economy where workers are not gaining real wage increases could experience industrial unrest (1). • 'Footloose' firms may decide to locate to another country due to rising labour costs (1). • Consumer spending may not actually increase due to weak consumer confidence and continuing Brexit uncertainty (1). • Those with higher wages could be moved into higher tax bands creating fiscal drag (1). • It could be inflationary (1). • Negative impact on UK international competitiveness (1). • Consumers may decide to switch to relatively cheaper imports (1), thereby worsening the Balance of Payments (1). | 8 | <p>Candidates must discuss at least 2 implications to gain full marks.</p> <p>Award 1 mark for each valid discussion point.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 7 marks for any one implication.</p> <p>Award up to 2 marks for use of accurate statistics.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|--|
| 8. | (b) | <ul style="list-style-type: none"> • It could result in a negative wealth effect (1), leading to lower consumer spending (1). • There would be the possibility of negative equity for borrowers (1), which would reduce their geographical mobility (1). • Loss of jobs in construction/estate agencies as profits fall (1), due to less people moving and needing these services (1). One new-build house supports five jobs (1). • Falling house prices lead to lower profits for house builders worsening the supply of housing (1) which will worsen the existing housing shortages (1). • If severe, there are negative consequences for banks (1): if people default on their mortgages, there would be bad debts for banks if the value of the house is lower than the value of the mortgage (1). • However, lower prices will make housing more affordable for first time buyers (1), which may help those wishing to own their first home (1). • It may reduce speculation in the housing market (1), which might eventually lead to a more stable housing market (1). • Negative expectations might lead to fall in demand for property (1) as potential buyers delay purchase (1) which leads to further fall in prices (1). However, this may benefit the rental market as sellers are forced to rent out their properties (1) leading to higher supply and lower rent (1). • Government may get less revenue from stamp duty/LBTT (1). • Regional differences can occur as some areas have rising house prices, whilst others have falling house prices (1). | 8 | <p>Candidates must describe at least 2 impacts to gain full marks.</p> <p>Award 1 mark for each valid description.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 7 marks for any one impact.</p> <p>Award up to 2 marks for use of accurate statistics.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|---|
| 8. | (c) | <ul style="list-style-type: none"> Government could make significant investment in infrastructure/Crossrail/new run at Heathrow/5G but this would be very expensive at a time of budgetary constraints (1). It may lead to productivity gains through improved connectedness/lower transport cost which would raise UK productivity and output in the long-run (1). HS2/investment in transport could improve labour mobility, but there are fears that the project will run significantly over-budget (1) and will not reduce regional inequality as hoped (1). The government could make significant investments in training and education, especially vocational education and apprenticeships, but returns on this type of investment take a long time to show (1). It would fill labour skills gaps and hopefully produce more productive workers in the long-term (1). The government could lower corporation tax, which is currently 19% in the UK, with further reductions being promised by the Chancellor (1). But this may lower government tax revenue (1) that could be spent on further government economic objectives, so it may be self-defeating (1) and would also worsen the public finances (1). However, firms might reinvest into future expansion or R&D (1) increasing employment/productivity leading to long-term economic growth (1). The government could provide incentives, such as grants/tax breaks, to encourage further research and development, but there would need to be an availability of highly-skilled workers (1). The government also funds university research which leads to innovation, new products and processes which raise productivity and long-term economic growth (1). Brexit threatens collaboration between UK and EU universities which could reduce UK benefits from these projects (1). The government could provide support for SMEs through innovation funds, but these firms may grow and be bought by foreign owned firms (1). They provide employment and regional regeneration (1). | 9 | <p>Candidates must evaluate at least 2 policies to gain full marks.</p> <p>Award 1 mark for each valid evaluation.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 8 marks for any one policy.</p> <p>Award 1 mark for a definition of supply-side policies.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---------------------|
| 8. | (c) | <ul style="list-style-type: none"> Government could reduce trade union power to help deliver a more flexible labour market (1). This allows firms to adapt quickly to changing market conditions allowing them to survive/prosper in the long-term (1). Its impact is limited because trade union membership has already fallen significantly (1). Lower trade union power can lead to greater exploitation (1). The government could change employment protection legislation, such as the 'working time directive', to allow businesses to change working practices to suit them (1). The UK labour market is flexible but the gig economy and zero hour contracts have led to poor worker protection in the UK (1). However, unemployment is at a record-low (1). The level of poverty for people in work has risen (1). | | |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 9. | (a) | <p>Positive effects</p> <ul style="list-style-type: none"> • It makes the tax system more progressive (1). • An increase in income tax on higher earners could be redistributed to lower earners, thereby reducing income inequality (1). • The majority of Scottish tax payers – 55% (1) – will pay less income tax than elsewhere in the UK, thereby increasing their take home pay (1) because the average income in Scotland is lower than the average UK income (1). • It could lead to more taxation revenue which will help pay for the greater public spending per person (1) or possibly lead to a reduction in the Scottish debt-to-GDP ratio (1). • The additional tax may help pay for free university tuition and free prescriptions in Scotland (1). • The additional tax may help pay for more generous public sector pay settlements (1), such as the recent 13.51% pay settlement deal over three years for Scottish teachers (1). This could attract people into the teaching profession, thereby improving the quality of education in Scotland (1). • It could be used to maximise welfare, such as helping to reduce child poverty in Scotland (1). • It could be used to pay for additional infrastructure, which would help improve productivity and labour mobility (1), such as the recently completed Aberdeen by-pass etc (1). <p>Negative effects</p> <ul style="list-style-type: none"> • It is argued that it could affect where people/businesses choose to locate over time (1). This may result in Scotland suffering from the ‘brain drain’ phenomenon (1), particularly if there is a widening divergence between Scotland and the rest of the UK (1). • It is also argued that it could have a negative impact on whether people apply for a promotion or work more hours, possibly reducing the supply of labour to the market (1). | 3 | <p>Candidates must discuss at least 2 effects to gain full marks.</p> <p>Award 1 mark for each valid discussion point.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 9 marks for any one effect.</p> <p>Award up to 2 marks for use of accurate statistics.</p> <p>Give credit for knowledge of the Scottish tax bands.</p> <p>Give credit for Laffer curve.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|---------------------|
| 9. | (a) | <ul style="list-style-type: none"> • It could lead to tax avoidance or even tax evasion (1), which could actually reduce the overall tax take (1). • Scotland may find it difficult to attract talented professionals (1). This could have major implications for the NHS who rely on highly-skilled professionals such as hospital consultants (1). • The Scottish Fiscal Commission forecasts that the Scottish government could have to pay back £472m to the UK government due to differences in the forecast between the block grant and devolved tax take (1). | | |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 9. | (b) | <p>Crowding out</p> <ul style="list-style-type: none"> A larger budget deficit will increase the demand for financial capital (1). If private saving and net foreign investment remain the same, then less financial capital will be available for private investment in physical capital (1). When government borrowing soaks up available financial capital and leaves less for private investment in physical capital (1), the result is crowding out (1). This decrease in the amount invested in physical capital makes the workforce less productive (1). This could also have a negative effect on wages (1). <p>OR</p> <ul style="list-style-type: none"> A larger budget deficit puts pressure on interest rates to rise (1) because the government may need to raise the rates of the return they pay on government bonds to attract sufficient lenders (1). These higher interest rates on government bonds lead to higher retail/commercial bank rates which makes funding investment more expensive (1) thus higher government spending just replaces investment spending in the private sector (1) leading to a lower net impact on GDP (1). A larger budget deficit requires lenders to remove funds from the banking system (1) which means there is less money available to fund private sector investment (1). <p>Other dangers may include</p> <ul style="list-style-type: none"> burden of debt and future interest payments opportunity cost of interest repayments intergenerational unfairness possible negative impact on the UK's credit rating negative impact on business confidence risk of a sovereign debt crisis Ricardian equivalence dangers of external ownership of government bonds greater risk of future austerity measures use of fiscal stimulus is limited if a country already has a high level of debt | 8 | <p>Candidates must describe at least 2 possible dangers to gain full marks.</p> <p>Award 1 mark for each valid description.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 7 marks for any one possible danger.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|--|
| 9. | (c) | <p>Possible areas for discussion could include</p> <p>Increase the National Minimum/Living Wage</p> <ul style="list-style-type: none"> Increases incomes of those on low incomes, raising living standards, reducing poverty (1). It reduces the amount that the government pays out in working tax credits (1). It adds to the costs of firms and may impact employment as firms cut back on labour costs (1). It will also impact UK firms' overall competitiveness (1). It can be inflationary if higher labour costs are passed on to consumers (1). It only affects a very small proportion of the workforce, as most workers earn above the NMW/NLW (1). <p>Increase in State benefits</p> <ul style="list-style-type: none"> They can be targeted at most vulnerable groups eg pensioners (1). Those on low incomes have a high marginal propensity to consume which leads to a higher multiplier effect (1). They can be means-tested (1) which reduces poverty and associated socio-economic costs such as lower incidents of mental health issues/criminality (1). Increasing state benefits may have to be paid for by increases in taxation or government borrowing (1) which has a negative impact on public finances (1). Disincentive effects may result in small number of recipients of state benefits becoming dependent on benefits rather than seeking employment (1). This may lead to an increase in long-term unemployment. | 7 | <p>Candidates must discuss at least 2 policy measures to gain full marks.</p> <p>Award 1 mark for each valid discussion point.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 6 marks for any one policy measure.</p> <p>Award up to 2 marks for use of accurate statistics.</p> <p>Give credit for knowledge of current National Minimum/Living Wage rates.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|---------------------|
| 9. | (c) | <p>Other policies might include</p> <p>Investment in education and training – focusing on raising attainment/widening access</p> <p>Improving healthcare – reducing health inequality would lead to greater employability</p> <p>Investment in affordable housing/tackling social deprivation – better educational outcomes, better health outcomes, improving employability and improving social mobility etc</p> <p>Providing job opportunities – reducing labour immobility through reduced transport cost; providing funding for apprenticeships and government training schemes</p> | | |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|---|
| 10. | (a) | <ul style="list-style-type: none"> • It aims to expand trade links between Asia, Africa and Europe (1). • It aims to give China access to factor markets and product markets (1). • The 'Belt' refers to the overland routes for road and rail transportation, called the Silk Road Economic Belt (1). • The 'Road' refers to the sea routes, or the 21st Century Maritime Silk Road (1). • The Belt and Road Initiative addresses an 'infrastructure gap' (1) and thus has potential to accelerate economic growth across the Asia Pacific area and Central and Eastern Europe (1). • The initial focus has been infrastructure investment, education, port, railway and highway construction (1). | 4 | <p>Candidates must describe at least 2 aspects to gain full marks.</p> <p>Award 1 mark for each valid description.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 3 marks for any one aspect.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|--|----------|--|
| 10. | (b) | <ul style="list-style-type: none"> • A trade war leads to lower exports, lower output and lower growth (1). • US \$200bn worth of tariffs have been imposed by the US on Chinese goods (1). Chinese have imposed US \$60bn on US goods (1). • Consumers may lose the benefit of cheap imports/less choice/inferior domestically produced goods (1). • Higher inflation in US due to higher import costs (1). • Free trade and specialisation lead to higher world output and more efficient use of global resources (1), and protectionism prevents this (1). • In the short-run, inefficient domestic industries are protected (1), but in the long-run this just reinforces inefficiency (1). • The US economy may experience fewer job losses and lower unemployment because there is less competition from Chinese goods (1). Lower unemployment leads to lower benefits paid out by government (1). • Some industries will benefit (steel) but some will lose out (soy beans) (1). • The Current Account of US Balance of Payments may improve as imports fall (1). • Less industrial theft of US intellectual property could lead to higher profits for US firms (1). • Government tax revenues may go up from tariffs (1), depending on the elasticity of imports (1). But lower exports from US firms to China lower their profits (1), leading to lower corporation tax (1). • If other countries decide to increase protectionism the global economy could suffer a depression similar to the 1930s (1). | 8 | <p>Candidates must discuss at least 2 implications to gain full marks.</p> <p>Award 1 mark for each valid discussion point.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 7 marks for any one implication.</p> <p>Award up to 2 marks for use of accurate statistics.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|---|
| 10. | (c) | <ul style="list-style-type: none"> China's rate of economic growth has fallen from an average of 10% in 1990's to 6.3% (June 2019) (1). Rising wage costs in China have lowered China's international competitiveness (1). Some MNC's have shut down in China and moved to lower wage economies such as Vietnam (1). Sluggish global demand has impacted on China's export market (1). Chinese debt bubble/property bubble has built up debt leading to a fragile banking sector (1). Chinese government trying to curtail unregulated shadow banking sector (1). China is becoming more aware of environmental impacts which may raise costs for business as they try to reduce the pollution (1). Unbalanced growth – the economy has relied on exports and not enough internal consumer demand (1). There is a need to boost domestic consumption but China has a high savings rate (1). The former One Child Policy is now having a negative impact on China's labour market (1), as the country's working-age population is due to fall between 2015 and 2030 (1). Inefficient state industries lower productivity (1). There is rising unemployment in China, but government statistics do not necessarily reflect the full extent (1). Chinese state spending to promote economic growth has not been put to long-run sustainable projects (1), empty cities, and roads that go nowhere (1). The Yuan has been allowed to float up against the US\$ which lowers Chinese international competitiveness (1). | 5 | <p>Candidates must explain at least 2 reasons to gain full marks.</p> <p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 4 marks for any one reason.</p> <p>Award up to 2 marks for use of accurate statistics.</p> |

| Question | | Expected response(s) | Max mark | Additional guidance |
|----------|-----|---|----------|--|
| 10. | (d) | <p>Lack of property rights</p> <ul style="list-style-type: none"> Property rights give an individual the exclusive use of their resources as they see fit, and allows them to keep any profit made (1). The individual or firm will therefore aim to maximise the efficient use of their resources (1). Economists such as Hernando de Soto and Niall Ferguson argue that a lack of property rights is the key reason why some countries are unable to experience rapid economic growth (1). In Kenya setting up a business and obtaining rights to property is a lengthy and expensive process (1) which makes it difficult for businesses to establish and grow (1). Bureaucracy in Kenya involves numerous layers of local government and often requires bribery of local officials to start up (1). <p>Other factors which can be explained can include</p> <ul style="list-style-type: none"> poor human capital dependency on primary production corruption low productivity lack of capital/technology poverty cycle lack of natural resources poor infrastructure lack of developed banking system war/conflict burden of debt trade barriers | 8 | <p>Candidates must explain at least 2 reasons to gain full marks.</p> <p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for each valid development.</p> <p>Award up to 7 marks for any one reason.</p> <p>Award up to 2 marks for use of accurate statistics.</p> <p>Award a maximum of 4 marks if candidates do not use appropriate examples.</p> |

[END OF SPECIMEN MARKING INSTRUCTIONS]