



National
Qualifications
EXEMPLAR PAPER ONLY

EP09/AH/01

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.



* EP09AH01 *

SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

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
5 by the International Monetary Fund's (IMF) cut in the global economic growth forecasts for 2014 and 2015.

Nonetheless, 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
10 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 impacts on a country's balance of payments. With the spectre of deflation in the Eurozone, falling oil prices has added to
15 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
20 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 newspaper articles, October–December 2014

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

1. Describe what is meant by “global economic growth” (line 2). 2
2. Describe why climate change is considered an example of market failure. 3
3. (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 source, draw a diagram and explain why oil prices are volatile. 4
4. Explain the effects of falling oil prices on an oil importing country’s balance of payments. 3
5. Discuss the economic consequences of reducing investment in oil extraction and exploration. 4
6. Evaluate 2 economic policy measures which could be adopted to reduce CO₂ emissions. 6
7. Discuss the effectiveness of the actions taken by the International Monetary Fund (IMF) in dealing with global economic crises. 4

SECTION 2 — 25 marks

Attempt the question

8. (a) Draw a diagram to show the effects of negative externalities resulting from the excessive consumption of alcohol. 4
- (b) Discuss the view that minimum pricing for alcohol will be inefficient and ineffective. 6
- (c) Explain, using a diagram(s), why a monopoly is neither productively nor allocatively efficient. 8
- (d) Describe the effects of price discrimination on a monopoly and its consumers. 7

SECTION 3 — 25 marks

Attempt ONE of the following questions

9. (a) Explain why the Eurozone is facing such low rates of economic growth. 8
- (b) Describe the economic measures which the European Central Bank (ECB) and Eurozone governments have taken or might take to stimulate economic growth. 9
- (c) Discuss the economic arguments for the UK leaving the EU. 8
10. Members of the Monetary Policy Committee (MPC) are still split as to when interest rates should be raised, even though inflation has fallen.
- (a) Explain why UK inflation fell in 2014. 6
- (b) Explain the arguments which could have been made to justify:
- raising interest rates
 - keeping interest rates unchanged
- 10
- (c) Discuss the view that Quantitative Easing (QE) may be ineffective or even harmful. 9
11. The youth unemployment rate in the UK is almost 3 times higher than the national average and is the worst it has been for 20 years.
- (a) Explain why the rate of youth unemployment in the UK is higher than the national average. 7
- (b) Describe the economic costs of youth unemployment to the individual and to the UK economy. 8
- (c) Discuss the policies which the UK government might introduce to address the issue of youth unemployment. 10
12. (a) Discuss the effectiveness of ongoing foreign financial aid to less economically developed countries. 8
- (b) Discuss the measures, apart from financial aid, that could be taken by economically developed countries to raise economic growth rates in less economically developed countries. 7
- (c) Describe the reasons for some emerging economies experiencing high rates of economic growth. 10

[END OF EXEMPLAR QUESTION PAPER]



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Marking Instructions

These Marking Instructions have been provided to show how SQA would mark this Exemplar Question Paper.

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General Marking Principles for Advanced Higher Economics

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this Paper. These principles must be read in conjunction with the Detailed Marking Instructions, which identify the key features required in candidate responses.

- (a) Marks for each candidate response must always be assigned in line with these General Marking Principles and the Detailed Marking Instructions for this assessment.
- (b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.
- (c) For each candidate response, the following provides an overview of the marking principles. Refer to the Detailed Marking Instructions for further guidance on how these principles should be applied.

i) Questions that ask candidates to **Describe** . . .

Candidates must make relevant, factual points which may be characteristics and/or features or a definition of an economic term, 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:

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

ii) Questions that ask candidates to **Explain** . . .

Candidates must make relevant points that relate cause and effect and/or make the relationships clear. These points may relate to a concept, process or situation.

Candidates may provide a number of 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:

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

iii) Questions that ask candidates to **Analyse** . . .

Candidates must demonstrate their ability to identify/describe/explain relevant parts and the relationship between the parts and/or the whole. Candidates should be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question:

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

iv) Questions that ask candidates to **Discuss** . . .

Candidates must make points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. It is not always necessary to give both sides of the debate in responses.

Up to the total mark allocation for this question:

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

v) Questions that ask candidates to **Compare** . . .

Candidates must demonstrate knowledge and understanding of the similarities and/or differences between things, methods or choices, for example. The relevant comparison points could include theoretical concepts.

Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate point of comparison.

vi) Questions that ask candidates to **Evaluate** . . .

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.

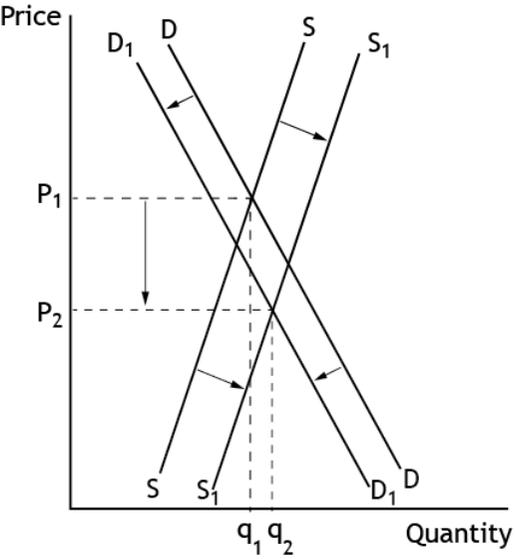
Up to the total mark allocation for this question:

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

Detailed Marking Instructions for each question

SECTION 1

Question			Possible response	Max mark	Additional guidance
1			<p>Responses could include the following:</p> <ul style="list-style-type: none"> Global economic growth is a rising GDP/increase in the productive potential of an economy (1 mark) that is not confined to one country or area of the world. (1 mark) <p>Accept any other suitable response.</p>	2	<p>1 mark for each valid description. 1 mark for a development point, which can include relevant statistics.</p>
2			<p>Responses could include the following:</p> <ul style="list-style-type: none"> Climate change is caused by greenhouse gas emissions. (1 mark) It is considered a negative externality because producers/consumers fail to take into account the negative effects it has on third parties. (1 development mark) Energy producers are currently emitting high levels of greenhouse gases and the full cost to society is not included in the price charged. (1 mark) In the case of negative externalities of production the social marginal cost is greater than the private marginal cost. (1 mark) The goods tend to be overproduced and under-priced if left to the free market. (1 development mark) Although emissions are expected to be reduced by 40% by 2030 many believe this to be too ambitious and therefore the negative externality effect will still remain. (1 mark) <p>Accept any other suitable response.</p>	3	<p>1 mark for each valid description. 1 mark for a development point.</p> <p>A maximum of 2 marks for responses that do not refer to climate change.</p>
3	a	i	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Increasing industrialisation of emerging economies such as China/India. (1 mark) Increasing wealth in emerging economies such as China/India. (1 mark) 	2	<p>1 mark for each valid description.</p> <p>Responses can be general or specific.</p>

Question	Possible response	Max mark	Additional guidance
	<ul style="list-style-type: none"> Increasing consumer wants for luxury fuel burning goods, eg cars/air conditioners/larger fridges. (1 mark) <p>Accept any other suitable response.</p>		
a	ii Responses could include the following: <ul style="list-style-type: none"> No increases in production output levels of Oil Producing Export Countries (OPEC). (1 mark) Restricted access to supply due to political conflicts. (1mark) New discoveries of oilfields. (1 mark) The USA is now extracting more shale oil gas. (1 mark) Use of more efficient extraction technologies. (1 mark) <p>Accept any other suitable response.</p>	2	1 mark for each valid description. Responses can be general or specific.
b	Responses could include the following: 	4	Up to a maximum of 3 marks for a diagram as follows: <ul style="list-style-type: none"> 1 mark for clearly showing inelastic demand and supply curves. 1 mark for showing a fall in demand and an increase in supply. 1 mark for showing the new equilibrium price and quantity. 1 mark for explanation of oil prices volatility.

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> The inelasticity of demand and supply lead to a change in quantity having a more than proportional change on price. <p>Accept any other suitable response.</p>		
4		<p>Responses could include the following:</p> <p>Oil importing countries:</p> <ul style="list-style-type: none"> They will benefit from falling oil prices because the value of imported oil will fall. (1 mark) This will improve the balance of trade in goods (1 development mark) and so reduce any current account deficit the oil importing country has. (1 development mark). This is good news for a country like India which imports almost 75% of its oil. (1 development mark) <p>Accept any other suitable response.</p>	3	<p>1 mark for each valid explanation. 1 mark for a development point.</p>
5		<p>Responses could include the following:</p> <ul style="list-style-type: none"> The decline of any new investment will reduce the total output of oil. (1 mark) If there is a sudden increase in global demand for oil, this could push oil prices higher again due to lack of supply. (1 development mark) Many companies in the oil industry have substantially reduced their capital spending on extraction which has led to higher unemployment for workers in the oil industry. (1 mark) The current low oil prices could force some producers to stop drilling altogether as some fields will no longer be economically viable. (1 mark) It may force governments to re-think their policies and encourage investment by cutting taxes for oil producers. (1 mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> Negative multiplier effects 	4	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Up to 3 marks for each consequence discussed.</p> <p>Full marks can be given either all positive views or all negative views.</p>

Question	Possible response	Max mark	Additional guidance
	<ul style="list-style-type: none"> • Impact on government tax revenues • Future impact on profitability <p>Accept any other suitable response.</p>		
6	<p>Responses could include the following:</p> <p>The EU Emission Trading Scheme (EU ETS):</p> <ul style="list-style-type: none"> • This sets an overall limit on CO₂ emissions which can be reduced over time. (1 mark) • Producers which more than meet their targets can sell the ‘permits’ to other firms which are failing to meet their targets. (1 mark). This gives a cash incentive to firms meeting targets. (1 development mark) • However, too many permits were issued under the EU ETS scheme so it has limited effectiveness. (1 mark) It was also limited to a few industries only. (1 development mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> • carbon taxes • regulation • education • planting trees • carbon footprints • local markets/food miles • conservation • recycling, reusing, reducing, repairing <p>Accept any other suitable response.</p>	6	<p>1 mark for each evaluation. 1 mark for a development point, including up-to-date examples and statistics.</p> <p>Up to a maximum of 4 marks for an evaluation of any one policy.</p>

Question	Possible response	Max mark	Additional guidance
7	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • The IMF has been criticised for being too inflexible on the conditions it sets on loans which often harm the economic progress of the recipient country. (1 mark) • However the IMF is reforming. It introduced The Flexible Credit Line (FCL) for which there are no policy conditions once a country is approved for the scheme. (1 mark) Columbia, Mexico and Poland have been provided combined access of about \$100 billion under FCL. (1 development mark) This goes some way to reduce criticisms that the imposed conditions on loans issued by the IMF were too inflexible. (1 development mark) • The crises firewall it created in 2009 to overcome the global financial crisis was a start in supporting growth across global markets (1 mark) but many argue it is still too little and that further increases to members' quota subscriptions are needed. (1 development mark) This would make the IMF more able to respond speedily to large economic crises. (1 development mark) • The IMF has been criticised for being slow to adapt to a role in preventing economic crises. (1 mark) Overall, it appears the reforms it has started to make will ensure it is better equipped to respond to individual countries' needs. (1 development mark) <p>Accept any other suitable response.</p>	4	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Up to a maximum of 3 marks for any well-developed point.</p>

SECTION 2

Question		Possible response	Max mark	Additional guidance
8	a	<p>Responses could include the following:</p> <p>The graph illustrates the relationship between marginal private benefit (MPB), marginal social benefit (MSB), and marginal private cost (MPC) which is equal to marginal social cost (MSC). The vertical axis represents 'Cost and benefit' with prices P_1 and P_2 marked. The horizontal axis represents 'Quantity' with quantities q_2 and q_1 marked. The intersection of MPB and MSC is point A, corresponding to price P_2 and quantity q_2. The intersection of MSB and MSC is point B, corresponding to price P_1 and quantity q_1. A shaded triangular area between q_2 and q_1, bounded by the MSB curve and the horizontal line at P_2, is labeled 'Welfare loss'.</p>	4	<p>1 mark for each correctly labelled curve as follows:</p> <ul style="list-style-type: none"> • marginal private benefit (MPB) • marginal private cost (MPC)= marginal social cost (MSC) • marginal social benefit (MSB) <p>1 mark for highlighting the negative externality, either on the axes or by shading the welfare (deadweight) loss.</p>
8	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • As price elasticity of demand (PED) for alcohol is inelastic there will be little change in the amount of alcohol consumed by heavy drinkers. (1 mark) This means the policy is relatively ineffective at reducing consumption for this group of consumers. (1 development mark) However, this penalises moderate drinkers who do not create negative externalities. (1 development mark) • There is concern about the negative impact on some key industries, eg whisky (1 mark) as these industries are already heavily taxed (1 development mark) and this action might reduce demand for their 	6	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Up to 2 marks can be given for relevant up-to-date statistics.</p>

Question		Possible response	Max mark	Additional guidance
		<p>products which negatively affects their profitability. (1 development mark)</p> <ul style="list-style-type: none"> • Supermarkets may have higher profit margins than before (1 mark) so they become winners at the expense of the consumer. (1 development mark) • Unless the minimum price is raised in line with inflation, the price rise is reduced in real terms and become less effective. (1 mark) • The shadow economy in alcohol may increase (1 mark), eg UK citizens bringing in alcohol from the EU to sell on. (1 development mark) <p>Accept any other suitable response.</p>		
8	c	<p>Responses could include the following:</p> <p>A = Productive efficiency B = Allocative efficiency p_m = Profit maximising price q_m = Output that maximises profit</p>	8	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>This can include up to 4 marks for a diagram as follows:</p> <ul style="list-style-type: none"> • 1 mark for showing productive (technical) efficiency. • 1 mark for showing allocative efficiency. • 1 mark for showing profit maximising price and output. • 1 mark for showing either abnormal profit or the welfare (deadweight) loss. <p>Up to 6 marks can be given for an explanation.</p> <p>For full marks the candidate must consider a reason for the monopoly being neither productively nor allocatively efficient.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> Productive/technical efficiency occurs when goods/services are produced at their lowest average total cost (ATC) (1 mark) whereas allocative efficiency is at an output level where the price equals the marginal cost (MC) of production. (1 mark) A monopoly is productively inefficient because its output does not occur at the lowest point of its average cost curve. (1 mark). Monopolies can maximise their profits in the short and long run by producing at an output where MC is equal to marginal revenue (MR) (1 development point) and this level of output is usually less than when ATC is lowest. (1 development mark) A monopoly is always allocatively inefficient as the price it charges consumers to maximise profits is always greater than where price is equal to MC. (1 mark) It is argued that monopolies have no incentive to cut costs so the ATC curve is always higher than it needs to be. (1 mark). Inefficiency occurs because waste/over manning tends to prevail. (1 development mark) <p>Accept any other suitable response.</p>		
8	d	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Price discrimination is a pricing strategy that charges consumers different prices for the same good or service. (1 mark) <p>Monopoly:</p> <ul style="list-style-type: none"> Higher revenues can be gained and this leads to higher profits. (1 mark) However, the monopoly needs to be able to clearly identify and separate different market segments, eg domestic and commercial. (1 mark) It reduces consumer surplus by giving the producer access to more consumers. (1 mark) It can increase its market share as it can sell to many different segments of the market. (1 mark) Output will be higher as it can sell more. (1 mark) This means it can benefit from economies of scale. (1 development mark) 	7	<p>1 mark for each valid description. 1 mark for a development point/relevant examples.</p> <p>This could include:</p> <ul style="list-style-type: none"> 1 mark for a definition of price discrimination. <p>Up to 6 marks for responses that only refer to either the effects on a monopoly or on consumers.</p>

Question	Possible response	Max mark	Additional guidance
	<ul style="list-style-type: none"> • It allows cross-subsidisation of different products or markets. (1 mark) <p>Consumers:</p> <ul style="list-style-type: none"> • Some consumers can now afford products that were previously unaffordable. (1 mark) However, some still have to pay a higher price than others for the same product. (1 mark) <p>Accept any other suitable response.</p>		

SECTION 3

Question		Possible response	Max mark	Additional guidance
9	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Many Eurozone countries are facing austerity measures due to the size of their national debt. (1 mark) Civil unrest and many one-off strikes in response to austerity, such as in Greece, lowers productive capacity even more. (1 development mark) • Many Eurozone countries are still in recession and this causes further unemployment. (1 mark) Increasing youth unemployment is persistent in many of the Eurozone countries (1 development mark) and the higher the unemployment the lower the overall aggregate demand, slowing down growth further. (1 development mark) • Many Eurozone countries found difficulty in adjusting to the new global competitiveness (1 mark) and countries such as France and Germany suffered from lack of export-led growth (1 development mark) and labour market rigidities. (1 development mark) • Until recently, Eurozone countries lacked policies to stimulate growth impeding their recovery. (1 mark) The European Central Bank (ECB) only introduced Quantitative Easing (QE) belatedly to improve matters. (1 development mark) • Deflation is occurring in some Eurozone member countries which leads to a vicious spiral of lower spending. (1 mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> • falling demand from emerging economies • ageing population <p>Accept any other suitable response.</p>	8	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> • Up to 3 marks for any well-developed point. • Up to 2 marks for relevant up-to-date statistics.

Question		Possible response	Max mark	Additional guidance
9	b	<p>Responses could include the following:</p> <p>ECB</p> <ul style="list-style-type: none"> • It has launched its own ‘Quantitative Easing’ (QE) of €1.1 trillion (1 mark) which should help the banking sector improve its liquidity. (1 development mark) This should ‘free up’ lending for investment purposes to aid economic growth. (1 development mark) • At present ECB have very low interest rates, 0.05% (1 mark) which may stimulate spending for growth. (1 development mark). The ECB hope that this borrowing will be led by small and medium sized enterprises. (1 development mark) Bank lending in the Eurozone is improving but slowly. (1 development mark) • The ECB could sell its reserves of the Euro currency. (1 mark). This would have the effect of lowering the exchange rate against other currencies (1 development mark) making it more favourable for suppliers/consumers to buy goods/services from the Eurozone countries. (1 development mark) • The ECB has negative interest rates on overnight commercial bank deposits to encourage them to lend and not hoard cash. (1 mark) <p>Governments:</p> <ul style="list-style-type: none"> • They could consider leaving the Eurozone. (1 mark) This means they are no longer tied in to ECB policy decisions and can make decisions based on the immediate needs of their own country. (1 development mark) At present Eurozone rules limit budget deficits/national debt ratios. (1 development mark) For example, there is speculation that Greece might leave the Eurozone because of the size of its national debt. (1 development mark) • Loosen fiscal policy by increasing government spending. (1 mark) However, given debt issues and austerity measures this is not a possibility in some countries. (1 development mark) Governments are also constrained by the reformed Growth and Stability Pact which limits government borrowing. (1 development mark) 	9	<p>1 mark for each valid description. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> • Up to 4 marks for any well-developed point. • Up to 2 marks for any relevant up-to-date statistics. • Up to 8 marks for responses that only refer to either ECB measures or Eurozone government measures.

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> • Bigger economies like Germany need to encourage domestic consumption. (1 mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> • ECB – corporate easing • Governments – fiscal transfers <p>Accept any other suitable response.</p>		
9	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • A major argument for the UK leaving the EU is that it is a major contributor to the EU budget (1 mark) and this would reduce our payment of about £65 bn a year. (1 development mark) This money could be better spent on improving the UK economy. (1 development mark) <p>The effect on trade</p> <ul style="list-style-type: none"> • The UK currently exports 48% of its goods to EU countries.(1 mark) Prior to the UK joining the EU, the UK only exported 30% of goods therefore leaving the EU could have a substantial negative effect on the UK’s balance of trade. (1 development mark) There is no guarantee that the UK as a single country would be able to make effective alternative free-trade agreements with other countries such as USA. (1 development mark) • If the UK left the EU, the price of imports from the EU could become more expensive, as there would be no guarantee of free trade.(1 mark) Increased import prices could increase the price consumers have to pay for goods (1 development mark) and run the risk of inflation rising due to the cost-push pressures. (1 development mark) 	8	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> • Up to 3 marks for any well-developed point. • Up to 2 marks for any relevant up-to-date statistics.

Question		Possible response	Max mark	Additional guidance
		<p>The effect on jobs</p> <ul style="list-style-type: none"> If the UK exit the EU lots of UK jobs could be lost in the foreign-owned car industry and jobs linked to sectors dependent on EU membership, eg eurofighter (1 mark). Many global manufacturers, such as Nissan, have said they would move production from the UK to other EU countries to ensure continued free-trade agreements within the EU. (1 development mark) However, others believe that small and medium sized UK firms could cancel out any job losses in these industries by creating others. (1 mark) This is because more than 90% of these types of firms are not involved in EU trade but must abide by EU rules, eg social chapter. (1 mark) The issue with this is that many of these newly created jobs could be of lower-skill than those lost. (1 development mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> economic arguments for or against EU migration <p>Accept any other suitable response.</p>		
10	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> A big contributor is the falling oil price which has a significant weighting in the consumer price index (CPI). (1 mark) Fierce price wars between the major supermarkets to fend off competition from Aldi and Lidl was another factor that helped push inflation down. (1 mark) However, despite lower prices consumers are still buying less in terms of volume due to lack of confidence/uncertainty in the economy. (1 development mark) This could lead to greater deflationary pressures. (1 development mark) Imported goods prices were falling due to Eurozone deflation and this was passed on to retail goods prices. (1 mark) The value of the pound (£) has strengthened against the Euro and US dollar leading to lower imported inflation. (1 development mark) 	6	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> Up to 3 marks for any well-developed point. Up to 2 marks for any relevant up-to-date statistics.

Question		Possible response	Max mark	Additional guidance
		<p>Accept responses relating to:</p> <ul style="list-style-type: none"> • lower exports • tight credit conditions • falling real wages <p>Accept any other suitable response.</p>		
10	b	<p>Responses could include the following:</p> <p>Raising interest rates</p> <ul style="list-style-type: none"> • The UK economy has experienced a recovery so there is no need for interest rates to remain as low. (1 mark) It is better to start raising interest rates in small steps than to have to raise them rapidly later. (1 development mark) Gradual interest rate increases can still support recovery whilst ensuring inflation remains on target. (1 development mark) • It is expected the economy will soon return to full capacity and this will further fuel inflationary pressures. (1 mark) • The recent falls in unemployment may create labour shortages and this may lead to rising wages. (1 mark) Workers have increasing confidence now in asking for higher than inflation pay rises, pushing pay growth up even further. (1 development mark) • This would appease savers who have consistently seen a real fall in the value of their wealth over the past few years due to very low returns on their investments. (1 mark) <p>Keeping rates the same</p> <ul style="list-style-type: none"> • There is still uncertainty in the current economic situation as inflation is still very low (1 mark) and is still below the government's target of 2%. (1 development mark) • Rising real wages in the UK does not necessarily mean there is an imminent threat of upward wage rate pressures with the knock-on effect this could have on inflation. (1 mark) 	10	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> • Up to 3 marks for any well-developed point. • Up to 2 marks for any relevant up-to-date statistics. • Up to 7 marks for responses referring to either side of the argument. <p>No marks for 'flip' points, eg stating a reason why interest rates should be increased and then stating the exact opposite why they shouldn't.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> The housing market is still recovering from its collapse a few years ago and jeopardising this recovery could have negative impacts. (1 mark) Even though households are likely to see living standards rise due to the drop in oil prices and consequent drop in energy prices, there is still no real evidence this would lead to marked increase in inflation. (1 mark) Sterling is currently a strong currency in exchange rate terms and any increase in interest rates would raise the exchange rate, (1 mark) further hurting the chances of the UK's export-led growth. (1 development mark) <p>Accept any other suitable response.</p>		
10	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Buying up large quantities of bonds suppresses long-term interest rates that are important in order to achieve economic growth. (1 mark) QE only buys more time, it does not solve the underlying economic problems. (1 development mark) Forcing down interest rates encourages riskier investments because the returns are higher. (1 mark) This means that QE generates an increase in investment in stocks, shares and company bonds etc. (1 development mark) The rise in the stock market causes a positive wealth effect and may not be harmful. (1 development mark) However, if a stock market bubble occurs and bursts it could cause an enormous blow to the economy. (1 development mark) The currency of the country implementing QE may depreciate. (1 mark) A cheaper currency then aids foreign trade and economic growth. (1 development mark) However, some economists believe that QE becomes less effective the more you do, (1 mark) eg some of the bonds have been bought by foreign institutions and the cash ends up abroad. (1 development mark) 	9	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> Up to 4 marks for any well-developed point. Up to 2 marks for any relevant up-to-date statistics.

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> If the central banks start to reverse QE there are potentially large financial losses and bond prices fall. (1 mark) (Speculation of) quantitative easing has an upward effect on commodity prices. As Western countries have to import a lot of commodities, that inhibits growth. (1 mark) <p>Accept any other suitable response.</p>		
11	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> A sizeable number of students are still leaving school without qualifications so do not have the basic skills/knowledge required. (1 mark) A recent UK government report has indicated that 15% of young people across the UK are not in education, employment or training. (1 development mark) Employers do not want the additional training costs that would be needed to get these students ready for employment. (1 development mark) Many employers are seeking employees with a proven track record so they can hit the ground running (1 mark) Employers are taking on over-skilled graduates for lower skilled jobs in preference to those who match the skills for the job. (1 mark) This means they get skills needed for a lower cost. (1 development mark) Increases in youth unemployment figures can be related to changes to the way the figures are counted due to recent benefit reforms. (1 mark) Many existing employees are willing to accept wage freezes or even wage cuts so employers keep existing workers instead of hiring new ones. (1 mark) Regional – more youngsters are unemployed in areas of declining economic activity, eg North East. (1 mark) <p>Accept any other suitable response.</p>	7	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> Up to 3 marks for any well-developed point. Up to 2 marks for any relevant up-to-date statistics.

Question		Possible response	Max mark	Additional guidance
11	b	<p>Responses could include the following:</p> <p>The individual</p> <ul style="list-style-type: none"> Experiencing unemployment during youth can lead to health/emotional problems. (1 mark) Poorer health outcomes are linked to long-term reduction in wages. (1 development mark) It reduces a person's life-long earning/career potential (1 mark) and so creates further inequalities particularly between communities. (1 development mark) Research has suggested earnings are reduced by about 6% for those youths who are unemployed for over a year. (1 development mark) Unemployment while young often increase chances of subsequent periods of unemployment later in life. (1 mark) <p>The UK economy</p> <ul style="list-style-type: none"> A high proportion of youth unemployment means an inadequate pool talent for future business needs. (1 mark) The financial costs of supporting youth unemployment in terms of benefits reach into billions. (1 mark) It is estimated to cost the UK economy over £30 bn. (1 development mark). This total is increased due to all the lost tax revenues that could be gained for the government. (1 mark) Reduction in tax revenue and the increased spending on benefits together stimulates a negative multiplier effect. (1 development mark) Actual output of the UK can never reach its potential output with so many unemployed youth resources unused. (1 mark) This hinders the UK's economic growth. (1 development mark) This leads to a huge opportunity cost as actual output is below potential output. (1 development mark) Increased spending in the economy on healthcare for the youth who are long-term unemployed/policing to combat crime for youths who turn to crime to fund living. (1 mark) <p>Accept any other suitable response.</p>	8	<p>1 mark for each valid description. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> Up to 3 marks for any well-developed point. Up to 2 marks for any relevant up-to-date statistics. Up to 6 marks for responses that only refer to either the individual or the UK economy.

Question		Possible response	Max mark	Additional guidance
11	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Increase employer support by reducing legislation that creates barriers for employers working with young people. (1 mark) This will help employers recognise the skills and behaviours of young people and help prepare them for work. (1 development mark) • Ensure education prioritises employability skills/careers planning for young people (1 mark) and that this education emphasises the importance of both vocational routes and academic routes into qualifications. (1 development mark). Careers education should be aligned with the future needs of the economy and local labour market information. (1 development mark) • Create a welfare system that supports young people to find training or employment opportunities. (1 mark) Some argue that any welfare reform should include the rule ‘if you don’t take a job when offered, you won’t get any benefits’. (1 development mark) • Adhere to recommendations in the Wood report – Scotland only (1 development mark) • Update <i>Skills Strategy</i>: outlining the importance of incorporating the changing needs of employers in vocational and technical training (1 mark) and ensure that more funding is made available for apprenticeships (1 development mark) and increase the age to include young people up to age 24. (1 development mark). <p>Accept responses relating to:</p> <ul style="list-style-type: none"> • policies to encourage geographical mobility • policies to restrict immigration • policies of economic growth <p>Accept any other suitable response.</p>	10	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>At least two policies must be discussed to gain full marks.</p> <p>This could include:</p> <ul style="list-style-type: none"> • Up to 3 marks for any well-developed point. • Up to 2 marks for any relevant up-to-date statistics. • Up to 6 marks for the discussion of any one policy.

Question		Possible response	Max mark	Additional guidance
12	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Many argue that financial aid is ineffective due to the misappropriation of funds by corrupt officials. (1 mark) Aid does not reach its intended recipients or is used for projects that would not promote economic growth. (1 development mark) • Others argue that this type of aid is the most effective way of assisting developing countries kick start growth by producing a surplus if it is used to boost productivity. (1 mark) This could lead to higher incomes and potentially boost exports and foreign earnings. (1 development mark) • However, aid is often criticised for its lack of sustainability as many projects that are started fail due the inability to maintain them. (1 mark) • Some argue aid is ineffective as it builds a ‘dependency culture’ rather than countries seeking self-solutions. (1 mark) Some governments devote resources to proving their need for aid rather than investing in growth. (1 development mark) • Donor countries have become more rigorous in monitoring the use and effectiveness of aid. (1 mark) <p>Accept any other suitable response.</p>	8	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> • Up to 3 marks for any well-developed point. • Up to 2 marks for any relevant up-to-date statistics/examples.
12	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Offering capital investment aid such as agricultural machinery would increase productive capacity. (1 mark) This is helpful in the short run but in the long run machinery needs to be maintained or replaced (1 development mark) and workers need to be trained in using the machinery. (1 development mark) • Cancelling debt interest repayments so that more can be invested into their own country. (1 mark) However, some economists believe that cancelling debt leads to moral hazard and may encourage other borrowing that will not be paid back. (1 development mark) 	7	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>This could include:</p> <ul style="list-style-type: none"> • Up to 3 marks for any well-developed point. • Up to 2 marks for any relevant up-to-date statistics.

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> • Non-government organisations (NGOs) offering better education/training schemes so citizens can become more productive. (1 mark) • Stimulating private sector investment in developing countries, eg FDI, (1 mark) Diageo’s recent investment in Kenya. (1 development mark) • Offering advice to help the countries improve their basic services to citizens or to help improve the infrastructure of the country, (1 mark) eg Scottish government advice and continued support for Malawi. (1 development mark) • Helping countries remove barriers to trade and investment, (1 mark) eg India reducing barriers to foreign ownership of domestic firms. (1 development mark) • Ending agricultural subsidies should allow less economically developed countries to compete on a fairer basis in world markets. (1 mark) Many economists believe that ‘Trade not Aid’ is the key to economic growth. (1 development mark) <p>Accept any other suitable response.</p>		
12	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Emerging economies all have big and growing populations with plentiful supplies of young workers. (1 mark) This helps them grow faster compared to countries with ageing/shrinking populations. (1 development mark) • Some emerging economies are well placed geographically to take advantage of large markets nearby, (1 mark) for example Mexico to USA and Indonesia to China. (1 development mark) • Strong growth in Asia has fuelled demand for the resources/raw materials they have. (1 mark) This has led to the emerging economies becoming leading commodity producers (1 development mark) leading to increases in export-led growth. (1 development mark) • All the economies are politically stable which makes investment in the countries more secure. (1 mark) The World-Bank index for ease 	10	<p>1 mark for each valid description. 1 mark for a development point.</p>

Question	Possible response	Max mark	Additional guidance
	<p>of doing business in these countries is high as a result of the stability. (1 development mark) The index is based on the regulatory environment (or lack of it) in the economies and that it supports productivity increases. (1 development mark)</p> <p>Accept responses relating to:</p> <ul style="list-style-type: none"> • economies of scale • speed of industrialisation • human capital – education levels and attitude to work • increased size and spending power of middle classes • relatively cheap labour • high savings ratio • constraints on economic growth of falling oil price in Nigeria <p>Accept any other suitable response.</p>		

[END OF EXEMPLAR MARKING INSTRUCTIONS]