



National
Qualifications
SPECIMEN ONLY

SQ09/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.



* S Q 0 9 A H 0 1 *

SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

Uncertain economic recovery causes headaches for the Monetary Policy Committee (MPC)

During the economic recovery, average wage rises have remained stubbornly below inflation, resulting in falling real wages and a squeeze on living standards. Despite predictions of an imminent return to above inflation wage rises, in May 2014 the gap between total average wage rises and inflation widened, worsening the situation.

- 5 There are numerous reasons suggested for the slow rate of average wage rises. Some members of the MPC seem to think that the explanation lies with time lags. There tends to be a delay between an increase in the number of job opportunities and rising wages. However, other economists have suggested that there have been big structural changes to the labour market in recent years, which have increased the supply of labour and consequently reduced pay pressures. Some increases in the rate of earnings growth can be expected in the autumn, when the National Minimum Wage rises by 3%.

- Even the MPC is taking the fall in real wages into consideration, when deciding on the timing of the much heralded interest rate rise. Whilst some economists argue that the strength of the UK's recovery makes the continuation of the historic low rate of interest unjustifiable, others believe that the recovery has been built on weak foundations and fundamental imbalances remain unresolved. These include falling real wages, the level of household debt, issues in the UK housing market, the rising value of the pound and the threat of Eurozone deflation. Many economists consider **deflation** to be a worse problem than inflation and, in response to the threat of deflation, the European Central Bank (ECB) has chosen to introduce a **negative interest rate** on commercial bank deposits held by the ECB. The Eurozone's economic growth prospects remain relatively poor and the recovery fragile in some member states.

- UK unemployment fell in May 2014 to 6.5%, while the number of people in work edged higher to a record 30.6 million. There are concerns that many of the new jobs being created are of low quality and low productivity. This may harm the UK's long-term economic prospects, despite a period of strong recovery.

Newspaper article, July 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 the following terms as used in the source:
 - (a) deflation (line 18) 1
 - (b) negative interest rate (lines 19–20) 2
2. Explain the possible impact of falling real wages on the UK economy. 3
3. Explain two factors which may have led to an increase in the supply of labour in the UK in recent years. 4
4. Use a diagram to show the possible effects of a rise in the National Minimum Wage on the labour market. 3
5. Discuss the view that deflation is a worse problem than inflation. 4
6. Analyse why the Eurozone's economic growth prospects remain relatively poor. 3
7. Explain why the creation of low quality and low productivity jobs may harm the UK's long-term economic prospects. 4
8. Evaluate whether the Monetary Policy Committee (MPC) should raise interest rates sooner rather than later. 6

SECTION 2 — 25 marks

Attempt the question

9. (a) Explain why an oligopoly market is often characterised by “price stability”. If appropriate, use diagrams in your response. 8
- (b) Discuss the consequences of a “price war” in an oligopoly market for firms and consumers. 6
- (c) Explain, using a diagram, why industrial pollution may be a cause of market failure. 5
- (d) Evaluate the effectiveness of two policies which could be used to reduce industrial pollution. 6

SECTION 3 — 25 marks

Attempt ONE of the following questions

- | | | | |
|-----|-----|--|----|
| 10. | (a) | Explain why reducing the budget deficit remains a key economic objective of the UK Government. | 8 |
| | (b) | Describe the possible negative impacts of the deficit reduction policy on the UK economy. | 10 |
| | (c) | Discuss supply-side policies which might be implemented to encourage economic growth. | 7 |
| 11. | (a) | Explain why emerging economies have higher rates of economic growth than many developed economies. | 9 |
| | (b) | Using examples, explain why some developing economies struggle to achieve high rates of economic growth. | 8 |
| | (c) | Discuss whether trade barriers help or hinder economic growth in developing countries. | 8 |
| 12. | (a) | Discuss the possible economic implications for the UK economy of increased inward migration from the EU. | 10 |
| | (b) | Apart from the free movement of labour, describe the economic advantages and disadvantages to the UK of continued EU membership. | 8 |
| | (c) | Despite ongoing euro problems, Latvia joined the single currency in 2014. Explain the advantages to Latvia of euro membership. | 7 |
| 13. | (a) | Discuss the consequences for the UK economy of an ageing population. | 8 |
| | (b) | Describe potential measures that have been or may be implemented to deal with the economic effects of an ageing population. | 8 |
| | (c) | Evaluate the likely effectiveness of the measures outlined in 13(b) above. | 9 |

[END OF SPECIMEN QUESTION PAPER]



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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

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.

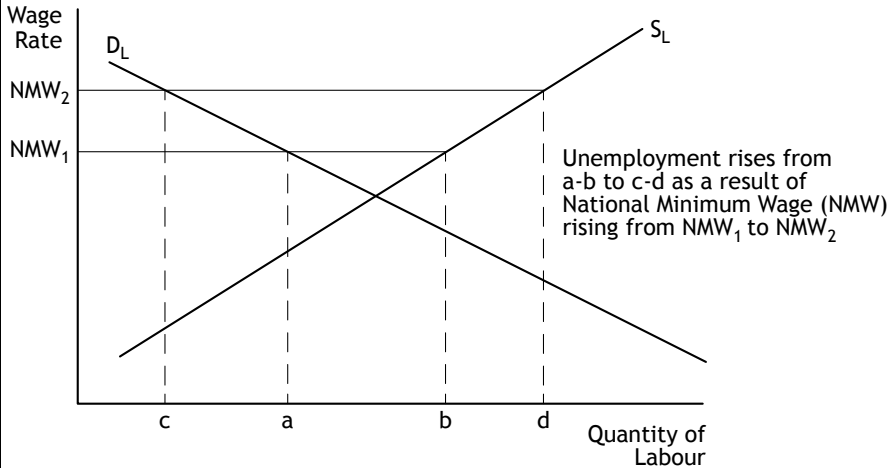
Up to the total mark allocation for this question:

- **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	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Deflation is a sustained fall in the general price level. (1 mark) <p>Accept any other suitable response.</p>	1	1 mark for a valid description.
1	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Negative interest rates occur when commercial banks have to pay the central bank to hold deposits. (1 mark) Negative interest rates stimulate lending by commercial banks and therefore economic growth. (1 mark) <p>Accept any other suitable response.</p>	2	<p>1 mark for each valid description.</p> <p>1 mark for a development point.</p>
2		<p>Responses could include the following:</p> <ul style="list-style-type: none"> Wages are rising at a slower rate than inflation and this leads to a lower standard of living. (1 mark) This fall in demand could lead to other negative consequences, such as rising unemployment (1 development mark) and lower economic growth. (1 development mark) A reduction in investment in capital, as falling consumer demand makes investment less profitable. (1 mark) A positive impact could include higher employment, as workers become relatively cheaper to employers. (1 mark) The balance of payments may improve, as demand for imports falls. (1 mark) <p>Accept any other suitable response.</p>	3	<p>1 mark for each valid explanation.</p> <p>1 mark for a development point.</p>

Question	Possible response	Max mark	Additional guidance
3	<p>Responses could include the following:</p> <p>The supply of labour could increase due to:</p> <ul style="list-style-type: none"> • A rise in immigration to the UK, increasing the size of the working population. (1 mark) The recent relaxation of rules regarding EU migrants from Romania and Bulgaria may have had some impact on migration to the UK. (1 development mark) • Government measures to incentivise work over benefits, to encourage more people into work. (1 mark) One measure which may have had this impact is the rise in the National Minimum Wage to £6.50 per hour in 2014. (1 development mark) <p>Accept any other suitable response.</p>	4	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>Up to a maximum of 3 marks per factor that may increase the labour supply.</p>
4	<p>Responses could include the following:</p> 	3	<p>1 mark for labour market axes, ie wage rate and quantity of labour.</p> <p>1 mark for clearly showing a rise in the National Minimum Wage.</p> <p>1 mark for clearly showing a rise in the level of unemployment.</p>

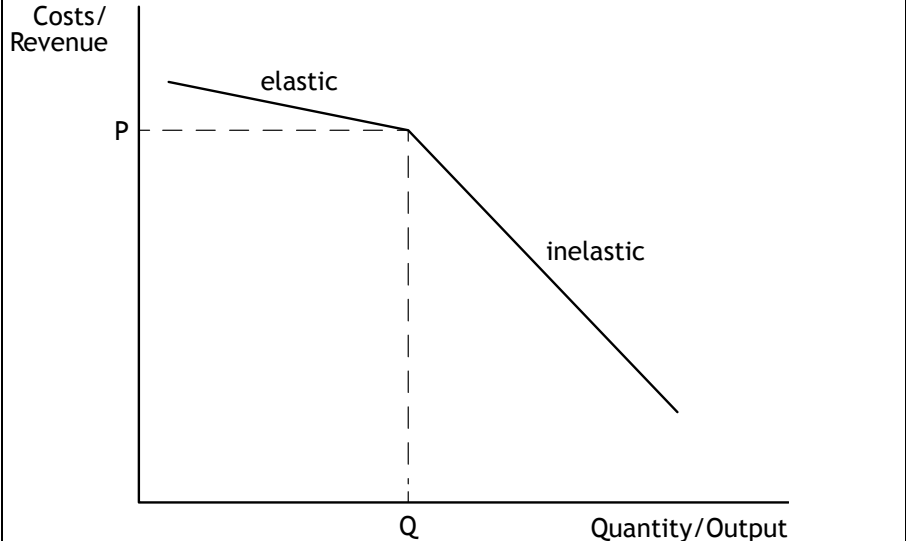
Question	Possible response	Max mark	Additional guidance
5	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Deflation can be viewed as worse than inflation as it leads to a negative spiral of falling prices, output and incomes. (1 mark) This can lead to a deep recession which can be difficult to cure (1 development mark) and to low economic growth, which leads to rising unemployment. (1 development mark) • Conventional monetary policy can be ineffective when trying to reverse deflation (1 mark), because interest rates cannot fall below 0% and it is impossible to achieve negative real interest rates. (1 development mark) • Consumers may postpone consumption anticipating further price falls, so aggregate demand falls. (1 mark) • Deflation can be “benign” and even improve living standards if it is caused by technological progress. (1 mark) This lowers production costs and leads to better quality goods at lower prices. (1 development mark) • High rates of inflation can be as damaging as deflation, if the high rate of inflation totally debases the currency. (1 mark) Real incomes may fall leading to less aggregate demand, employment, and investment. (1 development mark) <p>Accept responses referring to Japan’s “lost decade” or any other suitable response.</p>	4	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Candidates can gain full marks for answers which discuss only that deflation is a worse problem or for answers that discuss only that inflation is a worse problem. They do not need to refer to both inflation and deflation in their answer.</p> <p>No marks for “flip” points, ie if positive and negative views of the same point are discussed.</p>
6	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Some Eurozone countries are still experiencing the legacy of Eurozone sovereign debt crises. (1 mark) For example, the Greek economy is still experiencing very high rates of unemployment and negative economic growth. (1 development mark) 	3	<p>1 mark for each accurate point of analysis. 1 mark for a development point.</p>

Question	Possible response	Max mark	Additional guidance
	<ul style="list-style-type: none"> • The larger economies of the Eurozone are experiencing the knock-on effect of low growth in the smaller Eurozone economies. (1 mark) For example, the German economy has faced falling exports compared to other Eurozone countries, as well as low domestic consumption. (1 development mark) • High taxes and cuts in public expenditure in some Eurozone countries have stifled demand. (1 mark) <p>Accept responses referring to:</p> <ul style="list-style-type: none"> • ongoing banking issues • deflation in some member states • high unemployment in some member states • balance of payments problems in some member states <p>Accept any other suitable response.</p>		
7	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Low quality/low productivity jobs add little to increase Gross Domestic Product (GDP) per capita. (1 mark) • Those on low incomes may require government tax credits and/or pay low levels of income tax, which makes government tax revenues lower than anticipated. (1 mark) • Low paid jobs require little training and therefore do little to improve the quality of the UK workforce in the long run (1 mark), or help UK productivity comparisons with other countries such as the USA. (1 development mark) <p>Accept responses referring to:</p> <ul style="list-style-type: none"> • lack of employer investment into training 	4	<p>1 mark for each valid explanation. 1 mark for a development point.</p>

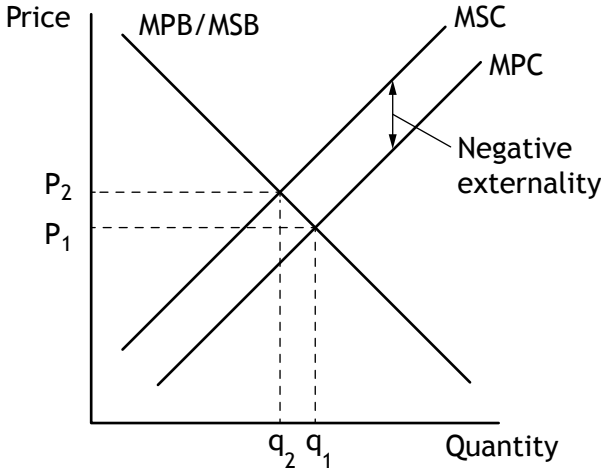
Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> • lack of transferable skills • less job security • lack of contribution to international competitiveness <p>Accept any other suitable response.</p>		
8		<p>Responses could include the following:</p> <ul style="list-style-type: none"> • In 2014, the Monetary Policy Committee (MPC) was split on deciding when, not if, interest rates should rise. (1 mark) • Some MPC members argue that the UK economy has been enjoying a strong recovery and so there is no need for interest rates to remain as low.(1 mark) They argue that it is better to start raising interest rates to more “normal” levels in small steps, than to have to raise them rapidly later. (1 development mark) • It is believed that given the falls in unemployment, labour shortages may lead to rising wages, which will feed through to higher inflation. (1 mark) • Other economists argue that the recovery is still uncertain and in fact inflation in the UK has been falling. (1 mark) Some economists might query whether the interest rate should rise at all. (1 development mark) • The threat of deflation in the Eurozone (the UK’s largest export destination), may lead to falling economic growth in the UK. (1 mark) • Falling real wages in the UK does not necessarily indicate that there is an imminent threat of upward wage rate pressures with the knock on effect this could have on inflation. (1 mark) • Given the uncertainty surrounding the current economic situation and falling inflation in the UK, there seems to be no imminent need for the MPC to raise interest rates (1 mark), but if inflation 	6	<p>1 mark for each evaluation. 1 mark for a development point.</p>

Question	Possible response	Max mark	Additional guidance
	<p>were to rise or indeed fall, the MPC needs to be vigilant and prepared to act decisively. (1 development mark)</p> <p>For raising interest rates sooner, accept responses referring to:</p> <ul style="list-style-type: none"> • rising inflation in the short and medium term • falling unemployment • risks of housing bubble • need to reverse Quantitative Easing (QE) <p>For raising interest rates later, accept responses referring to:</p> <ul style="list-style-type: none"> • burden of household debt and dangers of default • rising value of the pound • negative impact on businesses and investment • lack of export-led growth • sustainability (or not) of UK recovery • importance of the housing market and construction sector to the UK recovery • inflation is still close to target <p>Accept any other suitable response.</p>		

SECTION 2

Question	Possible response	Max mark	Additional guidance
<p>9 a</p>	<p>Responses could include the following:</p> <p>One possible explanation for why oligopoly is characterised by price stability is kinked demand curve theory.</p>  <ul style="list-style-type: none"> This theory explains that the top part of the demand curve is price elastic because if a firm puts its price up, none of its competitors will follow. (1 mark) This means that the firm will lose proportionately more market share to its competitors than it gains from raising price, so its total revenue will fall. (1 mark). There is therefore no incentive for the firm to raise the price. (1 development mark) 	<p>8</p>	<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 2 marks for relevant examples of collusion/non-price competition/price leadership up to 5 marks for full explanation of kinked demand curve theory up to 2 marks for basic kinked demand curve diagram: ie 1 mark for clear and correct elastic and inelastic sections of the curve; 1 mark for equilibrium price up to 3 marks for profit-maximisation diagram, with disjoint in marginal revenue curve

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> If the firm lowers its price all competitors will follow, which will lead to this part of the demand curve being inelastic. (1 mark) The firm will not gain proportionately more market share than it loses from lowering price, so total revenue will fall if the firm lowers its price. (1 development mark) Price stability can also be explained if firms in oligopoly collude and form a cartel, which formally agrees to fix the price. (1 mark) Formal collusion is illegal in the UK and firms which have been found to have colluded (such as British Airways) are heavily fined. (1 development mark) <p>Accept any other suitable response.</p>		
9	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> In the short run, firms may experience lower revenues and lower profits during a “price war”. (1 mark) However, in the long run, firms may drive out competitors from the market and be able to achieve higher profits when prices are raised. (1 mark) Some businesses may fail during a price war. (1 development mark) In the short run, consumers may benefit from lower prices but in the long run, they may experience higher prices and less choice. (1 mark) Lower levels of competition may lead to lower quality. (1 development mark) <p>Accept responses relating to possible referral to “competition authorities” or any other suitable response.</p>	6	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Full marks can be given for responses which include either all positive consequences or all negative consequences.</p> <p>Candidate could refer to the consequences for consumers or firms.</p>

Question		Possible response	Max mark	Additional guidance
9	c	<p>Responses could include the following:</p>  <ul style="list-style-type: none"> A “market failure” occurs when a market fails to lead to an optimal allocation of resources. (1 mark) In the case of industrial pollution, there is a divergence between the marginal private cost to the firm and the marginal social cost, which is called a “negative externality”. (1 mark) This is caused by the knock-on effects to the third parties not being internalised into the price mechanism. (1 development mark) <p>Accept any other suitable response.</p>	5	<p>Award a maximum of 3 marks for a diagram as follows:</p> <ul style="list-style-type: none"> 1 mark for the correct labelling of MPC/MSB/MPB curves 1 mark for showing initial equilibrium, and optimal quantity and price 1 mark for showing negative externality as the difference between MPC and MSC <p>A maximum of 1 mark for defining the term “market failure”.</p> <p>A maximum of 2 marks for fully explaining the term “negative externality” in production.</p>
9	d	<p>Responses could include the following:</p> <ul style="list-style-type: none"> A pollution or carbon tax would pass the cost of the pollution on to producers who, facing extra costs, would reduce supply 	6	<p>1 mark for each evaluation point. 1 mark for a development point.</p> <p>Up to a maximum of 4 marks for the evaluation of any</p>

Question	Possible response	Max mark	Additional guidance
	<p>and equilibrium price would rise. (1 mark) If the pollution tax is imposed at the correct level, it might be possible for the market failure to be corrected and the socially optimal price and quantity to be reached, as the negative externality is internalised. (1 development mark) This policy has the advantage that it is a market-based solution, based on the “polluter pays” principle. (1 development mark) However, if the domestic country imposes pollution tax whilst others do not, it can reduce international competitiveness for the domestic producers. (1 development mark)</p> <ul style="list-style-type: none"> • Another possible policy is to regulate emissions by using government bodies and legislation to set limits. (1 mark) The advantage of legislation is that it sets clear upper limits, which cannot be legally breached. (1 development mark) A disadvantage can be that firms may have little fear of being caught, or believe that penalties are too low to incentivise compliance with the law. (1 development mark) • The EU emissions trading scheme (ETS) has been ineffective because too many permits were issued during the first round of trading, which led to no effective market or price for permits being established. (1 mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> • property rights • recycling • subsidies for greener technologies <p>Accept any other suitable response.</p>		one policy.

SECTION 3

Question		Possible response	Max mark	Additional guidance
10	a	<p>Responses could include the following:</p> <p>This is a key objective because a high persistent budget deficit may have many negative consequences such as:</p> <ul style="list-style-type: none"> • In the short run, running high budget deficits can lead to credit rating agencies downgrading the sovereign debt of a country. (1 mark) This can lead to investors in government bonds requiring higher yields, which are perceived to be of higher risk. (1 development mark) This raises the cost of government borrowing and, in extreme cases such as in Greece, can lead countries to be unable to refinance their government debt at affordable levels. (1 development mark) • In the UK, the interest burden associated with high levels of debt means that more is spent on debt interest than the UK's defence budget. (1 mark) There is an opportunity cost because the funds, which the government uses to pay interest, could have been put to more productive use. (1 development mark) • High levels of debt also cause intergenerational unfairness, because future generations of taxpayers will have to pay for the budgetary problems and overspending of previous generations. (1 mark) • High levels of debt can also lead to "crowding out", which occurs when high levels of government borrowing cause upward pressure on interest rates. (1 mark) These higher interest rates can lead to lower private sector investment and spending. (1 development mark) 	8	<p>1 mark for each valid explanation. 1 mark for a development point.</p>

Question		Possible response	Max mark	Additional guidance
		<p>Accept responses relating to:</p> <ul style="list-style-type: none"> • avoiding a sovereign debt crisis, as has been experienced in some Eurozone countries • general problems associated with running a high and persistent budget deficit that relates to the context of the UK in particular • ideological reasons, eg size of state • questioning the premise of the question, ie should reducing the budget deficit always be a key priority? <p>Accept any other suitable response.</p>		
10	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Any fall in government spending and a rise in taxation will lead to lower national income. (1 mark) This will have a knock-on effect to lower rates of economic growth, as aggregate demand will be lower than it might have been. (1 development mark) • It will also cause a negative multiplier effect, so that any initial small fall in national income will ultimately lead to a much bigger fall in national income. (1 mark) This is because money is spent many times and the initial fall in national income will have negative ripple effects through the economy. (1 development mark) • Cuts in government spending may lead to higher unemployment, directly from cuts in public sector jobs and indirectly from the negative multiplier effect. (1 mark) This leads to lower incomes, output and living standards. (1 development mark) 	10	<p>1 mark for each valid description. 1 mark for a development point.</p> <p>Candidates should only be given a mark once for a description of the negative multiplier, irrespective of how often they mention it.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> Cuts in welfare spending can lead to rising inequality and poverty. (1 mark) Vulnerable groups may receive less social protection and services, eg the NHS may provide poorer services to the patients. (1 development mark) Rising taxation, (particularly raising tax rates/not raising tax thresholds in line with inflation for those on higher incomes) may lead to disincentives to work. (1 mark) Some higher earners may relocate abroad or evade tax, which could reduce UK potential output. (1 development mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> the lack of investment in infrastructure and consequences – short run and long run the impact of particular policies, eg higher tuition fees/cuts in defence/cuts in local government budgets lower public sector procurement/contracts <p>Accept any other suitable response.</p>		
10	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Supply-side policies are designed to increase aggregate supply or output in the UK economy. (1 mark) One possible supply-side policy is increased government spending on training and education, which should improve the skill and/or productivity of the UK workforce. (1 mark) This should help firms in the UK fill vacancies for skilled workers, who will be more productive than those with lower education. (1 development mark) The disadvantage of this is that it is costly to the taxpayer (1 development mark) and it is a long- 	7	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Up to 5 marks for each policy discussed.</p> <p>Full marks can be given for discussing either all positive views or all negative views.</p>

Question		Possible response	Max mark	Additional guidance
		<p>term solution. (1 development mark)</p> <ul style="list-style-type: none"> The government could try to make it easier and cheaper to hire and fire workers, which should make the labour market more flexible and responsive to changing market conditions. (1 mark) The reduction in trade union powers has reduced the power of workers to improve conditions of service. (1 development mark) The advantage of this is that it makes workers cheaper to employ and more likely to be recruited. (1 development mark) The disadvantage of this is that many firms are able to impose zero hours contracts and low pay on their employees. (1 development mark) Zero hours contracts occur when a worker has no guaranteed hours or income and only works and is paid when required by the employer so there is no job or income security. (1 development mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> the government investment in infrastructure lower business taxation to encourage more private sector investment incentives/grants for research and development support for SMEs reduction of red tape <p>Accept any other suitable response.</p>		
11	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> Emerging economies are those countries which have experienced rapid rates of economic growth, usually as a result of industrialisation. (1 mark) For example, the Chinese 	9	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>No marks for “flip” points, ie marks should be given for points which explain why economic growth rates can be lower in some developed countries, but not points which</p>

Question	Possible response	Max mark	Additional guidance
	<p>economy experienced average economic growth rates of 10% per annum until more recently, when it reduced to 7-5% per annum, which is still well above the norm for developed economies. (1 development mark) There is no single explanation for analysing rapid economic growth in each individual emerging economy, because they are all unique. (1 mark) Many of these countries have a lower starting point, so it's easier to achieve higher returns on investment, particularly due to higher productivity. (1 development mark)</p> <ul style="list-style-type: none"> • In some rapidly growing economies the rise in the economic growth rate has been due to price increases in commodities and minerals and to the ability of these countries to capitalise on this. (1 mark) Examples of that would be oil-rich/mineral-rich countries such as Mozambique and Nigeria. (1 development mark) However, oil prices fell in 2014, so this volatility in oil prices can make sustainable economic growth difficult, unless the economy diversifies. (1 development mark) • Some of these countries, eg Brazil and Malaysia, have industrialised rapidly due to inward investment by foreign investors and multinationals. (1 mark) Multinational companies have provided capital technology and training to the relatively cheaper labour forces of these countries, to create highly competitive manufacturing industries. (1 development mark) These industries create export-led economic growth, as these relatively cheap products have been sold worldwide. (1 development mark) Export-led growth can create a rise in incomes and a growing middle class, eg India and China, that increases domestic consumption and living standards. (1 development mark) 		<p>are simply reverse statements of those previously made. For example, if a candidate writes that economic growth rates in BRIC countries are higher because of a growing middle class, no marks will be given for a direct flip that says growth rates are lower in developed countries because they do not have a growing middle class.</p>

Question		Possible response	Max mark	Additional guidance
		<p>Accept responses relating to:</p> <ul style="list-style-type: none"> • rising global trade • high savings ratio filling the investment gap • improvements in education and training, leading to a high skill base from basic manufacturing into high-tech fields, eg South Korea/China/Brazil/India • Foreign Direct Investment • lower impact of the credit crunch and financial crisis <p>Accept any other suitable response.</p>		
11	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Many developing countries have barriers to development and growth, which can be difficult to overcome. Some low-income countries, such as Burkina Faso (which is land-locked and close to the Sahara), lack the resource and rainfall which help countries improve productivity. (1 mark) Burkina Faso also lacks easy access to a sea port or other infrastructure, which would enable it to easily engage in trade. (1 development mark) • Many developing countries still have a high percentage of their GDP which is agricultural production; this can make them vulnerable to crop failures, severely restricting output. (1 mark) The price volatility of agricultural production can also lead to large swings in income for farmers and affect the balance of payments of these countries. (1 development mark) • Trade barriers in developed countries can also have a damaging effect on the economics of developing countries, as many trade barriers erected by the UK and the EU are 	8	<p>1 mark for each valid explanation. 1 mark for a development point.</p> <p>Up to 5 marks if no relevant examples are given.</p>

Question	Possible response	Max mark	Additional guidance
	<p>specifically designed to protect their own industries, at the expense of others elsewhere in the world. (1 mark) Cotton subsidies in the US are examples of a policy which has negative impact on countries such as Mali and Kenya, who used to have their own cotton industries. (1 development mark)</p> <ul style="list-style-type: none"> • Lack of political stability and corruption are also barriers to economic growth and development. Kenya has the reputation for being corrupt and this applies to accessing jobs, permits to set up business, and the misuse of aid. (1 mark) Corruption creates barriers to entrepreneurial activity and job creation. (1 development mark) The misuse of aid means that funds intended to support projects to improve human capital are used for another purpose. (1 development mark) • Some developing countries lack the financial and legal infrastructure to allow business to flourish. There are few savings/lending institutions to provide business loans. (1 mark) In Pakistan and Bangladesh, the growth of micro-finance (designed to give out small-scale loans) is trying to bridge this gap. (1 development mark) <p>Accept responses relating to:</p> <ul style="list-style-type: none"> • burden of debt • low productivity, due to low investment in capital and technology • poverty cycle <p>Accept any other suitable response.</p>		

Question		Possible response	Max mark	Additional guidance
11	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Developing countries may benefit from trade barriers if they are used to pursue an import substitution strategy, designed to achieve economic growth. (1 mark) Some Asian countries have developed their infant car industries, by putting up trade barriers. (1 development mark) This policy can be useful if the domestic industry can achieve growth and become more competitive in global markets, leading to higher output and growth for the domestic economy. (1 development mark) However, if the protected industries fail to thrive, domestic consumers can face restricted choice and poorer quality goods, as the infant industries never “grow up”. (1 development mark) • Trade barriers may lead either developing or developed countries to devote resources to producing products in which they lack natural or comparative advantage, which in the long run leads to a misallocation of resources. (1 mark) In the long run, this leads to lower world output, as countries do not specialise in the products in which they are comparatively more efficient. (1 development mark) • Trade barriers imposed by developed countries (particularly on agricultural products) tend to have negative impacts on developing countries, because their farmers face unfair competition in domestic markets and in foreign markets. (1 mark) For example, the Common Agricultural Policy (CAP) and US farm subsidies. (1 development mark) This is particularly the case if foreign farmers “dump” their surpluses in the world market, depressing prices, which drives farmers in developing countries out of business. (1 development mark) 	8	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Full marks can be given for either all positive views or all negative views.</p>

Question		Possible response	Max mark	Additional guidance
		Accept any other suitable response.		
12	a	<p>Responses could include the following:</p> <p>Inward migration from the EU has many possible implications for the UK such as:</p> <ul style="list-style-type: none"> • Many migrants from the EU fill shortages in the UK labour market, both in skilled and unskilled industries. (1 mark) This leads to higher output in the UK economy (1 development mark) and many employers believe that migrant workers raise UK productivity because of their work ethic. (1 development mark) The availability of migrant workers has increased the supply of labour and contributed to low-wage inflation. (1 development mark) • This has the benefit of keeping inflationary pressure low in the UK economy (1 mark) but may also have allowed employers to raise wages by less than the rate of inflation, leading to falling “real” wages in the UK. (1 development mark) • Migrant workers also contribute positively to the public finances and have therefore helped reduce the budget deficit. (1 mark) The rise in output and spending by migrant workers has a positive multiplier effect in the UK (1 development mark), but this may be reduced if some of their income is repatriated to their home countries and not spent in the UK. (1 development mark) • Some believe that domestic unemployment may be higher, as some UK firms recruit EU migrant workers over UK nationals (1 mark) but there is little evidence that UK nationals are disadvantaged in the labour markets, since UK unemployment has been falling. (1 development mark) 	10	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Up to 7 marks for each economic implication discussed.</p> <p>Full marks can be given for either all positive implications or all negative implications.</p>

Question		Possible response	Max mark	Additional guidance
		Accept any other suitable response.		
12	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • An advantage of UK membership of the EU is the single market, which means that there are no trade restrictions between the UK and other EU members. (1 mark) This lack of trade barriers means the EU is the largest export destination for UK businesses. (1 development mark) Thus, many jobs in the UK export industries rely on EU membership. (1 development mark) • EU membership makes the UK an attractive location for inward investment, as UK output can be exported freely to the EU (1 mark), eg Nissan in Sunderland has always said that continued investment in the UK relies on the UK's continued membership of the EU. (1 development mark) • Some believe that UK membership of the EU is too costly (1 mark), eg the recent £1.7 billion demand from the EU for payment of UK membership. (1 development mark) The UK is a net contributor to the EU budget, which accounts for 0.9% of UK GDP. (1 development mark) At a time of austerity, some believe that the UK contribution should be lower, to help repair UK public finances. (1 development mark) • Some criticise the bureaucracy and red tape imposed by the EU, as it adds to business costs. (1 mark) Increasingly in Scotland, the Common Fisheries Policy is criticised for destroying the Scottish fishing communities through stringent restrictions on fishing in the North Sea. (1 development mark) <p>Accept any other suitable response.</p>	8	<p>1 mark for each valid description. 1 mark for a development point.</p> <p>Up to 5 marks if only advantages or disadvantages are covered.</p>

Question		Possible response	Max mark	Additional guidance
12	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Membership of the euro allows Latvia to join a relatively stable and strong currency, which gives it greater exchange rate certainty. (1 mark) The Latvian currency may have been more prone to being destabilised by speculation. (1 development mark). The euro is a much larger currency and therefore it is much harder for speculators to have an impact on its value. (1 development mark) • The Latvian economy may also benefit from the European Central Bank (ECB) monetary policy, which is likely to be more stable and credible than its own previous monetary policy. (1 mark) • Since most of Latvia's trade is with Eurozone members, it will reduce transaction costs (1 mark) and exchange rate risk in most of its international transaction (1 development mark). This would give Latvia, and any Eurozone business trading with it, greater certainty. (1 development mark) Consequently, this should lead to higher volumes of trading between Latvia and Eurozone countries. (1 development mark) • Latvia also hopes to attract more inward investment from other Eurozone members, as there is no longer an exchange rate risk. (1 mark) <p>Accept any other suitable response.</p>	7	<p>1 mark for each valid explanation. 1 mark for a development point.</p>

Question		Possible response	Max mark	Additional guidance
13	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • An ageing population can cause a higher dependency ratio, ie there are a higher number of dependents per head of working population, which has implications for the affordability of pensions. (1 mark) This will either mean that the working population will have to work harder/longer to cover the cost of the ageing population (1 development mark) or those reliant on state pensions/benefits will receive less. (1 development mark) • There is also the cost to the NHS of an ageing population, because most people use the NHS more as they grow older. (1 mark) This also implies that the NHS budget may have to increase or that priorities within it may have to change, to ensure adequate provision for an ageing population. (1 development mark) In a time of austerity, with strains on government spending (even though the NHS has been ring-fenced from cuts), this is a particular issue. (1 development mark) • The end of a compulsory retiral age may allow firms to retain experienced employees, and this could have positive benefits for productivity and GDP. (1 mark) Given the changing nature of work, it is possible for people to work longer because technology has reduced the amount of jobs which are physically demanding. (1 development mark) • Increasing the retiral age will have a negative impact on the job prospects of those who become long-term unemployed. (1 mark) • An ageing population can have more disposable income and contribute more to retail sales. (1 mark) There will be new 	8	<p>1 mark for each valid discussion point. 1 mark for a development point.</p> <p>Up to 5 marks for each consequence discussed.</p> <p>Full marks can be given for either all positive consequences or all negative consequences.</p>

Question		Possible response	Max mark	Additional guidance
		<p>business opportunities related to providing goods and services for an ageing population. (1 development mark)</p> <ul style="list-style-type: none"> • Pension provision is still an issue in the UK, with many people still underproviding for their old age. Pensioner poverty therefore is – and will continue to be – a problem. (1 mark) • Problems of ageism in the workplace. (1 mark) <p>Accept any other suitable response.</p>		
13	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • The abolition of the compulsory retiral age will allow people to delay retirement until it suits them. (1 mark) This also gives workers and employers longer to contribute into their pension fund. (1 developmental mark) • The state pension age has been increased from 65 yrs to 66 yrs and will rise to 67 yrs in due course. (1 mark) This will not be the end of the rise in state pension age, which many believe will raise to at least 70 yrs for the current young generation. (1 development mark) • The state pension has also been simplified and capped, which should improve affordability. (1 mark) • The Conservative-led coalition government also introduced a compulsory pension scheme for all workers and employers, to ensure that more workers start saving earlier for a private pension for their retirement. (1 mark) • The Conservative-led coalition government has also introduced new rules to give pensioners more freedom to decide how to use their “pension pots”. (1 mark) Pensioners will no longer be forced to purchase annuities, but will be able to invest funds in other assets or savings. (1 development mark) 	8	<p>1 mark for each valid description. 1 mark for a development point.</p> <p>Up to 5 marks for each measure discussed.</p>

Question		Possible response	Max mark	Additional guidance
		Accept any other suitable response.		
13	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> • Despite measures taken to reduce the impact of an ageing population, there is no simple or cheap solution and problems will persist. (1 development mark) • As most final salary pension schemes are replaced by those linked to the performance of investments, this will create more uncertainty and volatility. (1 mark) • Changes to the investment rules on annuities may lead to risky or poorly advised decisions being made by some less financially aware investors. (1 mark) They may choose to invest in property, which could lead to a “property bubble”. (1 development mark) • Raising the state pension age to 68 yrs may leave some older people feeling unable/unwilling to work beyond 65 yrs and therefore become reliant on benefits. (1 mark) Those who do want to work may be unable to find jobs, which will lead to lower living standards. (1 development mark) • Capping state pensions may lead to pensioner poverty. (1 mark) • The dependency ratio will continue to worsen, unless the birth rate increases or there is more immigration. (1 mark) • Educating younger people to make pension provision needs to improve, so that these important decisions are not deferred until it is too late. (1 mark) The new compulsory stakeholder pension may improve this, but it is still possible to opt out and the contribution is a relatively small percentage of income. (1 development mark) 	9	<p>1 mark for each evaluation point. 1 mark for a development point.</p>

Question			Possible response	Max mark	Additional guidance
			<ul style="list-style-type: none"> There is a danger of higher youth unemployment as an indirect result of a higher retiral age. (1 mark) <p>Accept any other suitable response.</p>		

[END OF SPECIMEN MARKING INSTRUCTIONS]