



National  
Qualifications  
SPECIMEN ONLY

**SQ12/H/01**

**Economics**

Date — Not applicable

Duration — 2 hours

**Total marks — 70**

**SECTION 1 — 25 marks**

Attempt ALL questions.

**SECTION 2 — 45 marks**

Attempt ALL questions.

You may use a calculator.

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

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

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



\* S Q 1 2 H 0 1 \*

## SECTION 1 — 25 marks

Read the following Sources and attempt ALL questions that follow.

### Source A

#### TAX REVISION AND RISING BORROWING HIT DEBT PLAN

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

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

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

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

### Source B

#### UK RECOVERY TO GATHER PACE IN 2014

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

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

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

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

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

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

## SECTION 2 — 45 marks

Attempt ALL questions

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

[END OF SPECIMEN QUESTION PAPER]

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**SQ12/H/01**

**Economics**

## Marking Instructions

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

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## General Marking Principles for 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 specific Marking Instructions for further guidance on how these principles should be applied.

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

Candidates must make a number of 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 a number of 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 a number of 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.

## Marking Instructions for each question

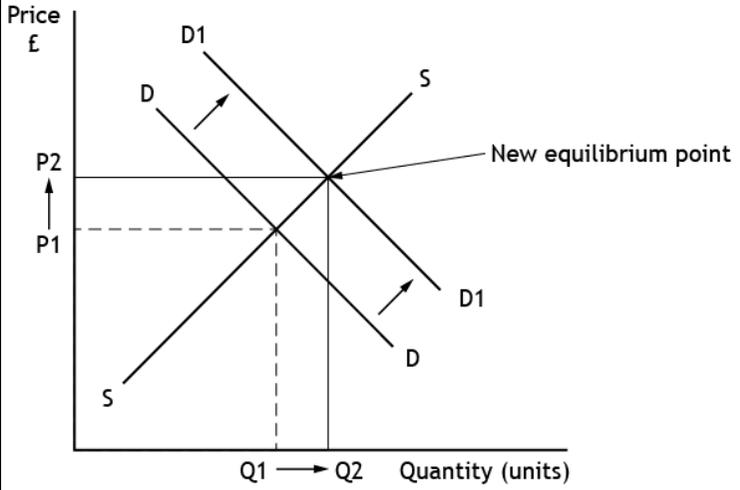
### SECTION 1

Question		Possible response	Max mark	Additional guidance
1	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• A budget deficit refers to a situation in which the government's outgoings are more than its incomings. (1 mark)</li> </ul> <p><i>or</i></p> <ul style="list-style-type: none"> <li>• Government planned spending is more than planned tax receipts. (1 mark)</li> </ul> <p>From passage:</p> <ul style="list-style-type: none"> <li>• Local government spending in June rose by 15% more than extra taxation receipts from businesses and households. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>	2	<p>Award a maximum of 1 mark for a valid description of a budget deficit.</p> <p>Award a maximum of 1 mark for referencing the information from Source A relating to a budget deficit listed opposite.</p> <p>The only acceptable reference from Source A is that shown.</p>
1	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• Governments have limited income so must make choices on how to spend this income. (1 mark) For example, the opportunity cost of the government spending on healthcare is giving up spending on education. (1 mark)</li> </ul> <p><i>or</i></p> <ul style="list-style-type: none"> <li>• Governments can't always provide everything they want because they have limited income. (1 mark) Therefore, to spend on one thing they have to give up spending on another. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>	2	<p>Award a maximum of 1 mark for a valid explanation of why the government has choices to make.</p> <p>Award 1 mark for a reference to opportunity cost and how it relates to government spending.</p> <p>Award marks if the explanation is shown through a production possibility curve with narrative.</p>

Question		Possible response	Max mark	Additional guidance
1	c	<p>Responses could include the following:</p> <p><b>Monetary policy</b></p> <ul style="list-style-type: none"> <li>• Interest rates can be reduced giving consumers/businesses access to cheaper loans (1 mark) or gives consumers/businesses less incentive to save therefore spending goes up. (1 mark)</li> <li>• Firms respond to increased consumer spending/aggregate market demand (AMD) by using more resources to produce more output. (1 mark) This could lead to more people being employed therefore the spending cycle continues, ie the multiplier effect. (1 mark)</li> </ul> <p><i>or</i></p> <p><b>Quantitative easing</b></p> <ul style="list-style-type: none"> <li>• This increases the amount of lending available in the economy and could lead to more borrowing by consumers/businesses. (1 mark) This could lead to increased aggregate demand through increased consumer spending or business investment. (1 mark)</li> <li>• Firms respond to increased consumer spending/AMD by using more resources to produce more output. (1 mark) This could lead to more people being employed therefore the spending cycle continues, ie the multiplier effect. (1 mark)</li> </ul> <p><i>or</i></p> <p><b>Fiscal policy</b></p> <ul style="list-style-type: none"> <li>• Increased government spending leading to increased AMD (1 mark)</li> <li>• Firms respond to increased demand by producing more. (1 mark) This could lead to more people being employed therefore increasing consumer spending. (1 mark) This increases AMD and the spending cycle continues, ie the multiplier effect. (1 mark)</li> </ul>	3	<p>Award a maximum of 1 mark for a valid explanation of a policy measure.</p> <p>Award a maximum of 2 further marks for making the link between the policy and expansion/growth or helping the economy out of recession.</p> <p>Award marks to candidates who give an accurate explanation of the multiplier effect.</p>

Question		Possible response	Max mark	Additional guidance
		<p><i>or</i></p> <ul style="list-style-type: none"> <li>Reduced taxation leading to more disposable income and spending. (1 mark) This could lead to more consumer spending/AMD. (1 mark)</li> <li>Firms respond to increased consumer spending/ AMD by using more resources to produce more output. (1 mark) This could lead to more people being employed therefore increasing consumer spending. (1 mark) This increases AMD and the spending cycle continues, ie the multiplier effect. (1 mark)</li> </ul> <p><i>or</i></p> <p><b>Supply side policies</b></p> <ul style="list-style-type: none"> <li>Tax breaks/infrastructure investment at business parks/flexibilisation of the labour market/privatisation in various forms can help to increase supply. (1 mark) Thus more output is created. (1 mark) This can lead to increased efficiency and the ability to make more use of resources, ie to gain more economic growth. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>		<p>(Note: only need to mention one of the measures listed and its link to increasing supply to gain 1 mark)</p>
1	d	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>Low and stable inflation: keeping prices low and not fluctuating. (1 mark)</li> <li>Providing more merit goods such as healthcare and education. (1 mark)</li> <li>Equity: a more equal distribution of income and wealth. (1 mark)</li> <li>Low rate of unemployment: having more of the working population in jobs (1 mark)</li> <li>Keeping the balance of payments in balance/in surplus. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>	3	<p>Award a maximum of 1 mark for each description of a government objective.</p> <p>It must be clear from the description what objective is being referred to.</p> <p>No marks should be awarded for merely identifying the objective.</p> <p>No marks should be awarded for describing objectives that are stated in the sources, eg reducing the budget deficit, housing recovery or economic growth.</p>

Question			Possible response	Max mark	Additional guidance
1	e	i	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>The situation in which the buyers/consumers of houses meet/come in to contact with the sellers/producers of houses (1 mark) to determine the price of houses. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>	2	<p>Award 1 mark for each valid description/definition of the housing market.</p> <p>Award 1 mark for any development point.</p> <p>Candidates must make reference to 'houses' to gain full marks.</p>
1	e	ii	<p>Responses could include the following:</p> <p><b>Demand derived</b></p> <ul style="list-style-type: none"> <li>Lowering interest rates makes mortgages cheaper to pay back. (1 mark)</li> <li>Cheaper mortgages could result in more people moving house or entering the housing market. (1 mark)</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>Government's help-to-buy scheme can lead to it being easier for people to access the housing market so demand increases. (1 mark) This is because the scheme can provide people with government loans up to 20% of the value of the house they wish to buy at a preferential interest rate (1 mark)</li> </ul> <p><b>Supply derived</b></p> <ul style="list-style-type: none"> <li>Easing of planning regulations encourages more builders into the market</li> </ul> <p>Accept any other suitable response.</p>	2	<p>Award a maximum 1 mark for a valid explanation.</p> <p>Award a maximum of 1 mark for making the link between the measure (initiative) and stimulation of the housing market.</p>

Question			Possible response	Max mark	Additional guidance
1	e	iii	<p>Responses from 1e (ii) that refer to increase in demand should be like the following:</p>  <p>Accept a diagram that shows supply shifting to the right if appropriate.</p>	3	<p>Award 1 mark for drawing a correctly fully labelled diagram showing a demand and supply curve and showing original equilibrium price and quantity.</p> <p>Award 1 mark for showing the demand curve or the supply curve shifting to the right (depending on which measure is explained in 1e (ii) above).</p> <p>Award 1 mark for showing the new equilibrium price and quantity.</p>
1	f		<p>Responses could include the following:</p> <p><b>Positive</b></p> <ul style="list-style-type: none"> <li>• Chinese producers get more £s for their yuan. (1 mark)</li> <li>• This makes UK exports to China less expensive/more competitive. (1 mark)</li> <li>• UK producers are more likely to be able to export more to China than they did before. (1 mark)</li> </ul> <p><b>Negative</b></p> <ul style="list-style-type: none"> <li>• UK producers get less yuan for each pound (£). (1 mark)</li> <li>• UK imports from China are more expensive. (1 mark)</li> </ul>	4	<p>To gain full marks at least one positive and one negative effect must be described.</p> <p>Award 1 mark for any valid description.</p> <p>Award 1 mark for any development point of the description.</p> <p>A maximum of 3 marks will be awarded if only positive or negative effects are described.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> <li>• Costs of production for UK producers importing from China increases. (1 mark).</li> <li>• This could mean reduced profits for them if they cannot pass the costs on to consumers. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>		
1	g	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• UK firms may prefer to trade with EU firms because the Single European Market reduces trade barriers between members. (1 mark)</li> <li>• This means that it will be more cost-effective to trade in the eurozone. (1 development mark).</li> <li>• Therefore profits will be increased for UK firms. (1 development mark)</li> <li>• UK firms may prefer to trade with EU firms because the cultures of inhabitants within the eurozone are largely similar to those in the UK. (1 mark)</li> <li>• Therefore UK goods/services are more transferrable or sought after in the eurozone than in China. (1 development mark)</li> <li>• UK firms may prefer to trade with EU firms because of the geographical proximity between the UK and the Eurozone. (1 mark)</li> <li>• This can lead to reduced transport costs for UK traders. (1 development mark)</li> <li>• This means it is a more attractive option for UK producers to do business in Europe than in China. (1 development mark)</li> </ul> <p>Accept any other suitable response.</p>	4	<p>Award 1 mark for each valid explanation.</p> <p>To gain full marks at least two reasons must be explained.</p> <p>Up to 3 marks can be awarded for explaining any one reason.</p>

## SECTION 2

Question		Possible response	Max mark	Additional guidance
2	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• The price mechanism uses the forces of demand and supply to determine the price of a good/service. (1 mark)</li> <li>• If demand for a good/service increases, there will be a shortage and this will cause the price to rise. (1 mark).</li> <li>• Price acts as a signal to the producer who is motivated by profit. (1 development mark)</li> <li>• If the price rises, the good will become more profitable to supply than other goods. (1 mark)</li> <li>• This will encourage existing and new suppliers to increase their supply. (1 development mark)</li> <li>• More resources are required to make the good/service to increase supply. (1 mark)</li> <li>• Therefore resources are re-allocated to the production of the more profitable good and away from other (less profitable) goods. (1 mark)</li> </ul> <p><i>An alternative way of describing how the price mechanism allocates resources could be to describe a fall in demand reducing price, for example:</i></p> <ul style="list-style-type: none"> <li>• The price mechanism uses the forces of demand and supply to determine the price of a good/service. (1 mark) If consumer demand for a good falls, there will be a surplus and this will result in a fall in price. (1 mark)</li> <li>• Price acts as a signal to the producer who is motivated by profit. (1 mark) This fall in price means the good will be less profitable than other goods to supply. (1 mark)</li> <li>• In order to decrease supply, less resources are needed to make the good/service. (1 mark) Producers will then move resources out of the production of that good and so reduce supply. (1 mark)</li> </ul>	5	<p>Award 1 mark for each valid description.</p> <p>To be awarded full marks candidates must mention how the price mechanism leads to the allocation of resources</p> <p>Candidates are likely to describe the price mechanism from the demand side, however credit should also be given to candidates who describe it starting from the supply side.</p> <p>Up to a maximum of 4 marks can be awarded if a candidate does not link their description of the price mechanism to resource allocation.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> <li>Resources would be re-allocated to produce those goods that are now relatively more profitable. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>		
2	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>ATC is U-shaped/ATC falls and then rises as output increases because the shape of the ATC curve in the short-run is determined by the shape of the AFC + AVC added together. (1 mark)</li> <li>AFC falls continuously because fixed costs are spread over a larger and larger output. (1 development mark)</li> <li>AVC falls because of increasing returns and then rises because of diminishing returns. (1 mark)</li> <li>When AFC and AVC are both falling, this causes ATC to fall. (1 mark)</li> <li>When the rise in AVC outweighs the fall in AFC then this will cause the ATC to rise. (1 mark)</li> </ul> <p><i>or</i></p> <ul style="list-style-type: none"> <li>As a firm approaches its optimum output it experiences increasing returns, ie falling ATC because the fixed factor becomes less and less underworked (1 mark) but when it goes beyond its optimum, it experiences diminishing returns, ie rising ATC because the fixed factor becomes increasingly overworked. (1 mark)</li> </ul> <p><i>or</i></p> <ul style="list-style-type: none"> <li>Another approach could involve an explanation of the shape of a marginal cost curve (variable marginal returns) and its effect on the ATC curve (it pulls down the ATC curve) and will continue to do so as long as it is below it. Once it is above it, it will pull up the ATC curve.</li> </ul> <p>Accept any other suitable response.</p>	5	<p>Award a maximum of 1 mark for a valid explanation of the shape of the short-run average cost curve.</p> <p>Award 1 mark for each valid development of a point.</p>

Question		Possible response	Max mark	Additional guidance
2	c	<p>Responses could include the following:</p> <p>If the demand for a good is price inelastic then</p> $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} = <1 \quad (1 \text{ mark})$ <p>This means that a change in the price of the good will cause a less than proportionate change in the quantity demanded. (1 mark) or this means that a small %age change in the price of the good will cause a smaller %age change in the quantity demanded. (1 mark) Therefore quantity demanded is not very responsive to a change in price. (1 mark)</p> <p>For example, the demand for bread is price inelastic because it is a necessity. (1 mark)</p> <p>So if there is a small % increase in the price of bread, there will be a smaller % decrease in the quantity demanded. (1 mark)</p> <p>Therefore, consumers will still continue to buy bread even when its price rises. (1 mark)</p> <p>Accept any other suitable response.</p>	5	<p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for a development point.</p> <p>To gain full marks a relevant example must be provided and be related to price inelastic demand.</p> <p>Up to a maximum of 4 marks can be awarded if no relevant example is provided.</p> <p>Credit candidates who give a numerical example.</p>
3	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• Determining the price of alcohol (1 mark) such as limiting price reductions/offers of alcohol. (1 development mark)</li> <li>• Controlling aspects of the market for cigarettes (1 mark) eg having cigarettes hidden from consumer view or enforcing the smoking ban in public buildings/transport. (1 development mark)</li> <li>• Deciding on spending/budgets on education and health (1 mark) such as no fees at point of use for higher education students. (1 development mark)</li> </ul>	3	<p>Award 1 mark for each valid description of a devolved matter.</p> <p>Award 1 mark for any development point which could include exemplification.</p> <p>At least two economic powers must be described to gain full marks.</p> <p>No marks are awarded for merely identifying any devolved powers.</p>

Question		Possible response	Max mark	Additional guidance
		<ul style="list-style-type: none"> <li>• Making decisions regarding the health budget (1 mark) such as having no prescription charges. (1 development mark)</li> <li>• Deciding on environmental matters relating to Scotland. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>		
3	b	<p>Responses could include the following:</p> <p>If income tax is increased :</p> <p><b>Positive:</b></p> <ul style="list-style-type: none"> <li>• This could lead to the Scottish Parliament gaining extra tax revenue from income tax receipts. (1 mark)</li> <li>• Increased income tax receipts may be spent on benefits/social services/communities. (1 mark)</li> <li>• This could result in a better standard of living for some. (1 mark)</li> <li>• Increasing income tax could lead to a more even distribution of income in Scotland. (1 mark)</li> <li>• Increasing income tax could lead to lower inflation due to the dampening of aggregate demand. (1 mark)</li> </ul> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>• Consumers have less disposable income to spend. (1 mark)</li> <li>• Resulting in lower aggregate demand in Scotland. (1 mark)</li> <li>• Leading to less income/profit for businesses. (1 mark)</li> <li>• Less profit for businesses could result in business closures. (1 mark)</li> <li>• Business closures could lead to higher unemployment. (1 mark)</li> <li>• Business closures/higher unemployment could lead to lower economic growth. (1 mark)</li> <li>• All of the above could lead to a negative multiplier. (1 development mark)</li> </ul> <p>Accept any other suitable response.</p>	8	<p>Award 1 mark for each valid discussion point.</p> <p>A maximum of 7 marks will be awarded if only positive or negative effects are described.</p> <p>Specific knowledge of the Scottish economy is not essential to gain full marks.</p>

Question		Possible response	Max mark	Additional guidance
3	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• Progressive taxation is when the proportion of taxation rises as income increases. (1 mark)</li> <li>• This type of taxation is seen as being fairer to society. (1 development mark)</li> <li>• Income tax is an example of a progressive tax: as a worker's salary increases they will pay a higher tax rate, eg from 20% to 40%. (1 mark)</li> <li>• Regressive taxation is when the proportion of taxation falls as income increases. (1 mark)</li> <li>• Regressive taxation is favoured by the wealthier because of this. (1 development mark)</li> <li>• VAT is an example of a regressive tax: as a low income earner pays the same amount of tax on goods and services as a high income earner.(1 mark)</li> </ul> <p>Accept any other suitable response.</p>	4	<p>Award 1 mark for each valid description.</p> <p>Award 1 mark for a valid development point, including exemplification.</p> <p>A maximum of 3 marks can be awarded for a description of either progressive or regressive taxation.</p> <p>No marks are awarded for merely identifying a progressive or regressive tax.</p>
4	a	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• The initial cash investment of the multinational company (MNC) immediately improves the balance of payments of the host country. (1 mark)</li> <li>• The MNC will sell its goods abroad, increasing the level of exports of the host country and improving its balance of trade figures. (1 mark)</li> <li>• The MNC provides more local employment opportunities, giving additional tax revenue for the host government (1 mark) and improving the standard of living in the host country as workers can buy more goods and services than before. (1 development mark)</li> <li>• Use of new technology by the MNC gives the host county's workers more opportunity to improve their skills for the future (1 mark) and other organisations in the host country can benefit from technology transfer, leading to greater overall output. (1 development mark)</li> <li>• The MNC will send its profits back to its home country taking money out of the host country. (1 mark) This affects the interests, profits and dividends</li> </ul>	8	<p>Award 1 mark for each valid explanation which must include the link between the MNC and the effect on the host country.</p> <p>Award 1 mark for a development point</p> <p>Credit any exemplification which shows the link between the MNC and the effect on the host country.</p> <p>Full marks can be awarded for all positive or all negative explanation points.</p>

Question		Possible response	Max mark	Additional guidance
		<p>(IPDs) in the host country's current account. (1 development mark)</p> <ul style="list-style-type: none"> <li>• The MNC has no loyalty to the host country therefore it can withdraw its facilities at any time (1 mark) which will have a negative effect on economic growth of the host country. (1 development mark)</li> <li>• The MNC can dilute local and/or traditional customs (McDonaldised) and have a negative effect on the cultural and social wellbeing of the host country. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>		
4	b	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• It authorises the issue of euro notes and coins. (1 mark)</li> <li>• It ensures the safety and sound operation of the European banking system. (1 mark)</li> <li>• It monitors and encourages financial integration and stability in Europe. (1 mark)</li> <li>• It sets interest rates for the eurozone. (1 mark)</li> <li>• Experts from the European Central Bank (ECB) give advice to eurozone countries that are experiencing financial difficulties. (1 mark)</li> <li>• Helps organise financial rescue packages to eurozone countries that are in financial difficulty. (1 mark)</li> <li>• It is responsible for the single supervisory mechanism for the banking system in Europe. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>	3	Award 1 mark for each valid description.
4	c	<p>Responses could include the following:</p> <ul style="list-style-type: none"> <li>• Trade in goods: shows value of exports and value of imports of goods (1 mark)</li> <li>• Trade in services: shows the value of exports and value of imports of services</li> </ul>	4	Award 1 mark for each valid description. It must be clear from the description which component the candidate is referring to.

Question	Possible response	Max mark	Additional guidance
	<p>such as government services, travel and financial services. (1 mark)</p> <ul style="list-style-type: none"> <li>• Investment income shows the net interest, profits and dividends between the UK and other countries. (1 mark)</li> <li>• Current transfers show government transfers and private transfers between the UK and other countries. (1 mark)</li> <li>• The current balance shows the sum of all earnings less payments for goods, services, investment income and transfers. (1 mark)</li> <li>• The capital account shows the transfer of ownership of fixed assets. (1 mark)</li> <li>• The financial account shows short-term and long-term monetary transactions between the UK and other countries.(1 mark)</li> <li>• Direct investment shows investment in land, premises and equipment by UK companies setting up branches overseas and vice versa. (1 mark)</li> <li>• Portfolio investment shows flows of money between countries to buy stocks and shares overseas. (1 mark)</li> <li>• Reserve assets: shows reserves of foreign currencies. (1 mark)</li> </ul> <p>Accept any other suitable response.</p>		

[END OF SPECIMEN MARKING INSTRUCTIONS]