



National
Qualifications
SPECIMEN ONLY

S822/75/11

Economics

Date — Not applicable

Duration — 2 hours

Total marks — 90

SECTION 1 — 40 marks

Attempt BOTH questions.

SECTION 2 — 50 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.

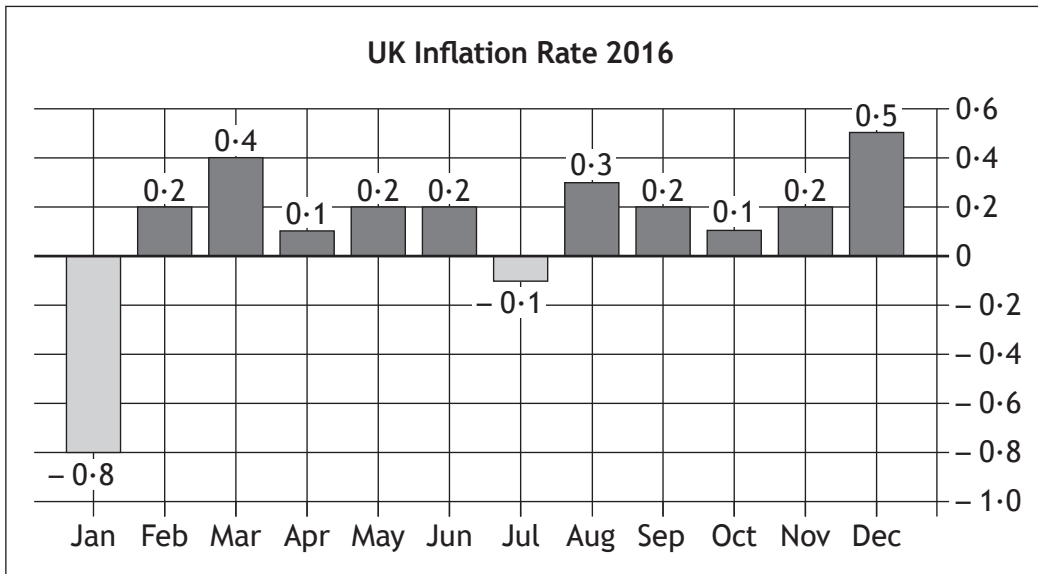


* S 8 2 2 7 5 1 1 *

SECTION 1 — 40 marks
Attempt BOTH questions

1. The UK Government uses direct and indirect taxation as well as government spending to help achieve its aims of a low rate of inflation, a low rate of unemployment and sustained economic growth. It also uses Government spending to attract foreign firms to locate in Britain.

Use the UK inflation diagram below and your knowledge to answer the following questions.



Source: www.tradingeconomics.com/Office for National Statistics

- (a) Describe the trend in the rate of inflation from August 2016 to December 2016. 2
- (b) (i) State whether prices have increased or decreased between August 2016 and October 2016. 1
- (ii) Justify your answer. 1
- (c) Explain ways in which high inflation negatively affects different groups of people. 3
- (d) Describe, using an example, what is meant by indirect taxation. 2
- (e) Explain the effect of an increase in income tax on:
- (i) individuals
- (ii) firms. 3
- (f) Outline 2 ways in which the government can attempt to increase economic growth. 2
- (g) Draw a fully labelled diagram to show the circular flow of income. 4
- (h) Suggest 2 reasons for a foreign firm choosing to locate in the UK. 2

2. UK TRADE 2016

The UK has a limited amount of resources to make the goods and services demanded by society, so it must trade with other countries. The UK's main trading partner is the EU, followed by the USA. In recent years, however, UK trade with emerging economies has increased.

The majority of UK exports are from the tertiary sector of industry. Most of the UK's imports come from the primary and secondary sectors and the price of these imports can be a significant cost for UK firms. The UK's exports and imports are affected, both positively and negatively, by the exchange rate of sterling.

- | | | |
|-----|--|---|
| (a) | (i) Define the term 'exchange rate'. | 1 |
| | (ii) Explain how a fall in the exchange rate of sterling against the US dollar could affect UK exports to America. | 2 |
| (b) | Outline what is meant by the Eurozone. | 1 |
| (c) | Discuss advantages and disadvantages of global trade. | 6 |
| (d) | Explain why the EU is the UK's main trading partner. | 2 |
| (e) | Describe economic reasons for the UK's decision to leave the EU. | 3 |
| (f) | Outline characteristics of an emerging economy. | 3 |
| (g) | (i) Define the term 'variable cost'. | 1 |
| | (ii) Give an example of a variable cost for a car exporter. | 1 |

SECTION 2 — 50 marks

Attempt ALL questions

3. (a) Describe, using an example, what is meant by the term ‘opportunity cost’. 2
- (b) Explain why governments have to make choices. 1
- (c) (i) Compare a need with a want. 1
- (ii) Give an example of a need and a want. 2
- (d) Labour is one of the factors of production and the return to labour is wages.
- (i) Outline 2 other factors of production. 2
- (ii) Identify the returns to each of the factors outlined. 2
4. If UK banks increase their interest rates it will affect individuals. It will also affect firms, who may experience an increase in their costs of production.
- (a) Other than an increase in interest rates, identify a cost of production for a firm. 1
- (b) Describe the likely effects of an increase in interest rates on an individual. 3
- (c) Identify 2 methods of borrowing available to individuals. 2
- (d) Explain, using a demand and supply diagram, the effect that an increase in costs of production will have on the equilibrium price and quantity traded of a good. 4
5. All countries — developed, emerging and developing — use barriers to trade to protect their economies.
- (a) (i) Suggest 2 barriers to trade which would protect a country’s economy. 2
- (ii) Explain how one of these barriers to trade would work. 2
- (b) Name one developing economy. 1
- (c) Name one emerging economy. 1
- (d) Describe 4 types of aid given to developing economies. 4

| | MARKS |
|---|-------|
| 6. (a) (i) Distinguish between government current and capital spending. | 1 |
| (ii) Give an example of each. | 2 |
| (b) Describe possible causes of increasing unemployment. | 3 |
| (c) (i) Identify 2 Scottish industries. | 2 |
| (ii) Outline the benefits that these industries may bring to the Scottish economy. | 2 |
| 7. (a) Draw a diagram showing total variable cost and total cost. | 3 |
| (b) Outline 3 determinants which may increase the demand for strawberries. | 3 |
| (c) Explain, using a demand and supply diagram, how the market for theatre tickets would settle at equilibrium if there was a surplus of tickets. | 4 |

[END OF SPECIMEN QUESTION PAPER]

ACKNOWLEDGEMENT

Section 1 Question 1 – UK inflation diagram is adapted from www.tradingeconomics.com/office for national statistics. Contains public sector information licensed under the Open Government Licence v.30.

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Qualifications
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Economics

Marking Instructions

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

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General marking principles for National 5 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 the relevant question.
- (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) If a specific candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.
- (d)
 - i. Questions that ask candidates to Describe ...
Candidates must make a number of relevant, factual points up to the total mark allocation for the question. These should be key points. The points do not need to be in any particular order. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

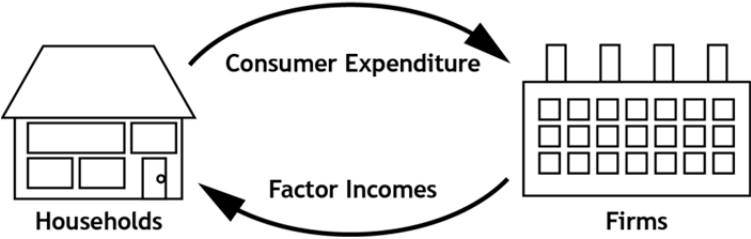
Up to the total mark allocation for this question:
 - 1 mark should be given for each accurate relevant point of knowledge
 - a second mark could be given for any point that is developed from the point of knowledge.
 - ii. Questions that ask candidates to Explain ...
Candidates must make a number of points that relate cause and effect and/or make the relationships between things clear, for example by showing connections between a process/situation. These should be key reasons and may include theoretical concepts. There is no need to prioritise the reasons. Candidates may provide a number of straightforward reasons or a smaller number of developed reasons, 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 reason
 - a second mark could be given for any other point that is developed from the same reason.

Detailed marking instructions for each question

| Question | | Expected response | Max mark | Additional guidance |
|----------|-----|---|----------|---|
| 1. | (a) | <ul style="list-style-type: none"> Fell from 0.3% in Aug to 0.1% in Oct (1) Rose from 0.1% in Oct to 0.5% in Dec (1) Changed from 0.3% in Aug to 0.5% in Dec (1) | 2 | <p>Award 1 mark for each part of the trend.</p> <p>Maximum (max) 1 mark if wrong start and/or end dates are selected.</p> <p>Accept without percentages, provided dates are given, eg inflation fell between August and October.</p> <p>Maximum (max) 1 if no reference to a decrease.</p> |
| | (b) | (i) | 1 | |
| | | (ii) | 1 | |
| | (c) | <ul style="list-style-type: none"> Savers lose out (ID) as the real value of savings decreases (EXP) (1) Pensioners lose out (ID) as they have no control over their income level (EXP) (1) so they cannot negotiate 'wage' rises to keep up with inflation (DEV) (1) Students' spending power decreases (ID) so they can afford to buy less (EXP) (1) so their standard of living falls (DEV) (1) Workers' real income falls (ID) so they have to prioritise their spending/make choices about what not to buy anymore (EXP) (1) | 3 | <p>Do not award (DNA) "high inflation is bad" as the ID part of the explanation (as "negatively affects" is in the question).</p> <p>A group of people need to be mentioned to gain a mark.</p> <p>Award marks for any explanation that is relevant to the group identified.</p> <p>Max 2 marks per group.</p> <p>DNA "borrowers" as an identified group (as they are positively affected).</p> |

| Question | | Expected response | Max mark | Additional guidance |
|----------|-----|--|----------|--|
| | (d) | <ul style="list-style-type: none"> • An indirect tax is a tax on spending (1) • An indirect tax is collected by an intermediary/third party and sent to the tax authority (1) • Eg: VAT (1), road tax (1), excise duty (1) | 2 | <p>Award 1 mark for description. Award 1 mark for example.</p> <p>DNA “an indirect tax is collected indirectly ...”</p> <p>Accept any named excise duty, eg duty on cigarettes, alcohol, gambling.</p> <p>Accept any other indirect tax.</p> |
| | (e) | <p>(i) individuals</p> <ul style="list-style-type: none"> • Decrease disposable income/reduce purchasing power (ID) therefore reduce standard of living (EXP) (1) • Lower net pay (ID) therefore have to prioritise spending (EXP) (1) therefore cannot buy as many luxuries (DEV) (1) | 3 | Max 2 marks for either individuals or firms. |
| | | <p>(ii) firms</p> <ul style="list-style-type: none"> • Demand for goods and services from individuals will fall (ID) therefore sales will fall (EXP) (1) • Workers have lower disposable income (ID) therefore will ask for pay rise to compensate thus increasing costs (EXP) (1) • Reduce profits (ID) therefore need to cut costs (EXP) (1) therefore may need to increase prices (DEV) (1) | | |

| Question | Expected response | Max mark | Additional guidance |
|----------|---|----------|--|
| (f) | <ul style="list-style-type: none"> • Promote entrepreneurial activity (1) • Introduce legislation to encourage competition (1) • Subsidise research and development (1) • Invest in technology infrastructure/research (1) • Improve attainment in school (1) • Subsidise apprenticeship/training schemes (1) • Build new infrastructure (1) • Reclaim land, using brownfield sites (1) | 2 | Only accept actions that the government could take. |
| (g) | <div style="text-align: center;">  <p style="margin-left: 20px;">Households</p> <p style="margin-right: 20px;">Firms</p> </div> <p>Households/firms (1) Correct direction of all arrows shown (1) Consumer Expenditure (1) Factor incomes (1)</p> | 4 | <p>Accept any recognised terms.</p> <p>Individual factor incomes need not be identified.</p> <p>If factor incomes are shown as individual names, at least 3 out of 4 must be present in full or as an abbreviation (eg RWIP).</p> <p>Households/firms can be left, right, top or bottom.</p> <p>No marks for injections or withdrawals, but do not penalise for having them.</p> <p>Ignore factors of production/goods and services given.</p> |
| (h) | <ul style="list-style-type: none"> • Skilled/educated workforce available (1) • English speaking population (1) • Good transport/IT infrastructure (1) • Quality universities and research facilities (1) • Access to the EU single market/avoid CET (1) | 2 | |

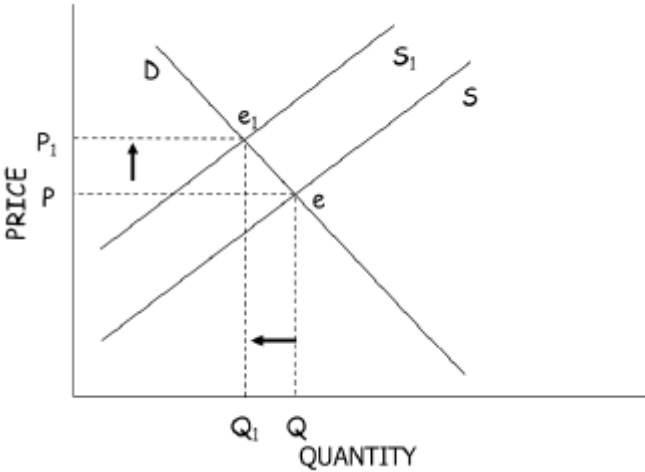
| Question | | | Expected response | Max mark | Additional guidance |
|----------|-----|------|--|----------|---|
| 2. | (a) | (i) | The value of one currency in terms of another (1) | 1 | |
| | | (ii) | <p>The USA firm gets more £ for \$ (ID) therefore exports are cheaper (EXP) (1) which means firms will sell a greater volume/demand will increase (EXP) (1)</p> <p>Exports become cheaper (ID) which means firms can maintain their prices abroad and make an increased level of profit (EXP) (1)</p> | 2 | |
| | (b) | | Countries which use the Euro (1) | 1 | |
| | (c) | | <p>Advantages for individuals</p> <ul style="list-style-type: none"> • Greater choice/variety of goods and services (1) • Lower prices of goods and services (1) • Increased quality of goods and services (1) <p>Advantages for firms</p> <ul style="list-style-type: none"> • Greater choice/variety of raw materials (1) • Lower prices of raw materials (1) • Increased quality of raw materials (1) • Availability of new markets for firms (1) • Higher profits to exporting firms (1) • Multinationals can take advantage of cheap labour/land/relaxed regulations in other countries (1) • Firms can get economies of scale (1) <p>Advantages for government</p> <ul style="list-style-type: none"> • Augments home supplies which may have shortages (1) • Stimulates great efficiency in production (1) • Trade can bring countries together politically (1) | 6 | <p>A minimum of one advantage and one disadvantage required.</p> <p>DNA 'flips', eg higher profits for exporters, lower profits for domestic firms as consumers buy imports.</p> <p>Sub-headings not required.</p> <p>If sub-headings are used or implied DNA repeats for different groups, eg lower prices of goods for consumers and lower prices of raw materials for firms.</p> |

| Question | | Expected response | Max mark | Additional guidance |
|----------|-----|---|----------|---------------------|
| | | <p>Disadvantages for individuals</p> <ul style="list-style-type: none"> • Potential job losses/firms closing down due to international competition (1) <p>Disadvantages for firms</p> <ul style="list-style-type: none"> • Potential loss of customers as customers buy from abroad (1) • Lower profits as customers buy from abroad (1) <p>Disadvantages for governments</p> <ul style="list-style-type: none"> • Potential job losses/firms closing down due to international competition (1) • Increase in deficit in Balance of Payments (1) • Lower corporation tax as profits of UK firms fall (1) | | |
| | (d) | <ul style="list-style-type: none"> • Geographically close (ID) therefore transport costs are relatively low (EXP) (1) • Geographically close (ID) therefore fresh products are unlikely to deteriorate in transit (EXP) (1) • Good infrastructure links (ID) therefore transport time is reduced (EXP) (1) • EU is culturally like UK (ID) so produces the type of goods that UK consumers want (EXP) (1) • UK trade is 'free' /with no trade barriers (ID) therefore reducing costs (EXP) (1) | 2 | |

| Question | | Expected response | Max mark | Additional guidance | |
|----------|-----|---|---|---|---|
| | (e) | <ul style="list-style-type: none"> • Decrease in regulation from EU (1) • UK will not need to pay into the EU budget (1) • Can have restricted immigration from EU (1) • UK can make its own trade deals with non-EU countries (1) • Will be a decrease in imports from cheaper EU countries (1) • UK firms will not relocate to cheaper EU countries (1) | 3 | | |
| | (f) | <p>Economic</p> <ul style="list-style-type: none"> • Rise of employment in secondary sector/move from primary to secondary sector (1) • High level of FDI (1) • Available cheap labour (1) • High levels of exports (1) • High rates of economic growth (1) • Increased infrastructure (1) • Increased levels of education (1) • Reduced poverty/growing standards of living (1) <p>Social</p> <ul style="list-style-type: none"> • Lower infant mortality (1) • Longer life expectancy (1) • Improved healthcare (1) • Higher literacy rates (1) | 3 | <p>Each outline must include an adjective, eg “<u>high</u> rates of economic growth”, not just “economic growth”.</p> <p>Max 1 for social, rather than economic, characteristics.</p> | |
| | (g) | (i) | A cost which changes with the level of output (1) | 1 | DNA “a variable costs <u>varies</u> ...” |
| | | (ii) | <ul style="list-style-type: none"> • Tyres (1) • Rubber (1) • Exhausts (1) • Fuel for transporting cars (1) • Wages of assembly line workers (1) • Transaction costs (1) • Exchange rate costs (1) | 1 | <p>Example must be specific to the car industry or an exporting industry.</p> <p>Accept any car part.</p> |

| Question | | Expected response | Max mark | Additional guidance | |
|----------|-----|---|---|---|---|
| 3. | (a) | <ul style="list-style-type: none"> The sacrifice of the next best alternative forgone (1) If the choice is between a pink t-shirt and a blue t-shirt, and you choose the pink t-shirt then the blue t-shirt is the opportunity cost (1) | 2 | <p>Award 1 mark for description. Award 1 mark for example.</p> <p>The description needs to show an understanding of sacrifice.</p> <p>The example must clearly show the choice <u>and</u> identify the item which is the opportunity cost to be awarded the mark.</p> | |
| | (b) | <ul style="list-style-type: none"> Governments have limited tax revenue (ID) therefore they have to spend it on what will provide the greatest benefit to society (EXP) (1) | 1 | DNA “to get re-elected” as an explanation. | |
| | (c) | (i) | <ul style="list-style-type: none"> A need is something that is required for survival WHEREAS a want is something that makes life more pleasant (1) | 1 | Both sides of comparison needed to gain the mark. |
| | | (ii) | <ul style="list-style-type: none"> Needs - food/water/shelter (1) Wants - TV/freezer/nights out (1) | 2 | Accept any suitable examples. |
| | (d) | (i) | <p>Land - natural resources (1) Capital - man-made resources (1) Enterprise - bringing together the other factors of production (1)</p> | 2 | DNA “labour” as this is in the stem. |
| | | (ii) | <p>Land - Rent (1) Capital - Interest (1) Enterprise - Profit (1)</p> | 2 | DNA “wages” as this is in the stem. |

| Question | | Expected response | Max mark | Additional guidance |
|----------|-----|--|----------|---|
| 4. | (a) | <ul style="list-style-type: none"> • Staff wages (1) • Raw materials (1) • Rent (1) | 1 | Accept any suitable cost of production. |
| | (b) | <ul style="list-style-type: none"> • The value of savings will increase (1) • People are likely to save more (1) • Cost of mortgage repayments/borrowing will rise (1) • Mortgage holders/borrowers will have less to spend on other products (1) therefore their standard of living will fall (DEV) (1) | 3 | Max 1 for any development. |
| | (c) | <ul style="list-style-type: none"> • Mortgage (1) • Bank loan (1) • Overdraft (1) • Hire purchase/leasing (1) • Credit card (1) • Payday lender (1) | 2 | Accept borrow from friends and family. |

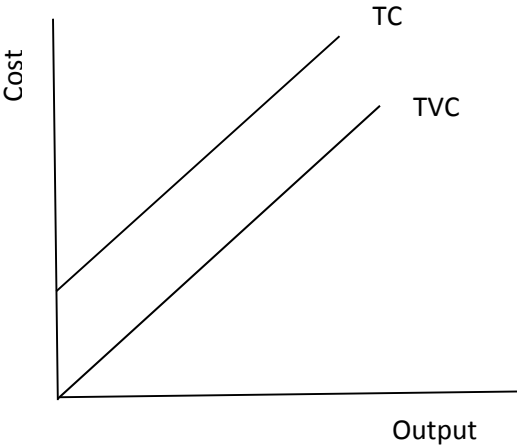
| Question | Expected response | Max mark | Additional guidance |
|----------|---|----------|--|
| (d) | <ul style="list-style-type: none"> • Correctly labelled axes and diagram (Price, Quantity, P, Q, D and S) (1) • Supply decreases plus label (S_1) - ie shift to left (1) • New P_1 and Q_1 (or e^1) (1)  <ul style="list-style-type: none"> • There will an increase in price and a decrease in quantity traded (ID) because firms are less willing to supply as their profit margin falls (EXP) (1) • As less is supplied, equilibrium price rises (ID) because competition between consumers drives up the price (EXP) (1) | 4 | Award up to 3 marks for diagram. Award up to 2 marks for explanation. |

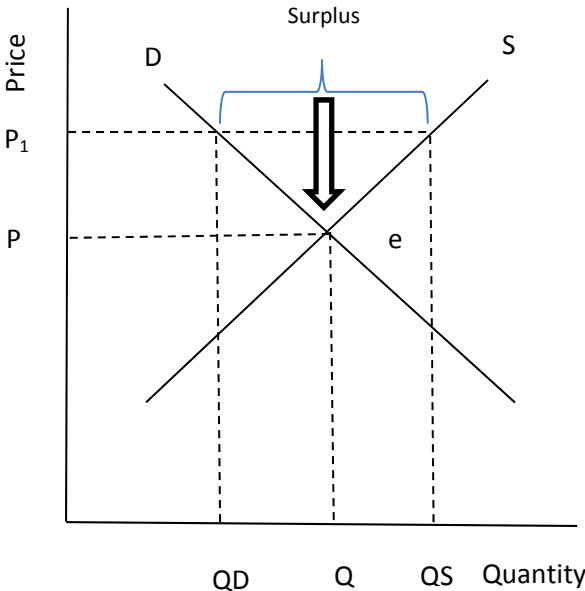
| Question | | | Expected response | Max mark | Additional guidance |
|----------|-----|------|---|----------|--|
| 5. | (a) | (i) | <ul style="list-style-type: none"> • Tariff (1) • Quota (1) • Embargo (1) • Quality standards/legislation (1) • Subsidy (1) | 2 | |
| | | (ii) | <ul style="list-style-type: none"> • Tariff - taxes imports (ID) therefore raises the price of imports (EXP) (1) and therefore reduces competitiveness (DEV) (1) • Quota - limits the number/volume of imports entering a country (ID) therefore once limit is reached no more are available (EXP) (1) and therefore consumers must buy domestic alternatives (DEV) (1) • Embargo - bans goods from certain countries/bans certain goods (ID) therefore the product is not available (EXP) (1) and therefore consumers must buy domestic alternatives (DEV) (1) • Quality standards - insists on stringent health and safety standards (ID) therefore raises the production cost abroad (EXP) (1) and therefore increases the price/decreases attractiveness/reduces competitiveness of import (DEV) (1) • Subsidy - gives cash to a domestic firm (ID) therefore reduces domestic production cost (EXP) (1) therefore firms can reduce prices which makes domestic products more attractive (DEV) (1) | 2 | <p>Award 1 mark for each explanation. Award 1 mark for each development.</p> <p>The explanation must match the identifications from (a)(i) above, but do not need to be named again.</p> |
| | (b) | | Current examples include: Malawi, Niger, Chad, Sudan, Somalia, Ivory Coast (1) | 1 | <p>DNA 'Africa'</p> <p>Accept any suitable economy at time of answering.</p> |
| | (c) | | Brazil, Russia, India, China, South Africa, Mexico, Indonesia, Nigeria, Turkey (1) | 1 | <p>The BRICS and MINT countries are given here.</p> <p>Accept any suitable economy at time of answering.</p> |

| Question | Expected response | Max mark | Additional guidance |
|----------|---|----------|---|
| (d) | <ul style="list-style-type: none"> • Emergency aid - providing food/shelter/etc in flood/drought/earthquake (1) • Financial aid - giving cash or loans (1) • Medical aid - providing doctors/medicines/ vaccinations/pop-up hospital facilities, etc (1) • Debt relief - allowing non-payment of debt/debt interest (1) • Education aid - providing teachers, books, etc (1) • Capital equipment - providing machinery (1) • Technical expertise - providing engineers, architects, etc (1) • Military aid - providing equipment, personnel, etc (1) • Tied aid - cash provided to a country on the understanding that it is spent on exports of the donor country (1) • Bilateral aid - cash provided by the government of one country directly to the government of one country (1) • Multilateral aid - cash provided by a group of countries, or an institution such as the World Bank, to one or more recipient countries (1) | 4 | <p>Name of aid not required.</p> <p>If the name of the aid is given, it must match the description.</p> |

| Question | | | Expected response | Max mark | Additional guidance |
|----------|-----|------|---|----------|--|
| 6. | (a) | (i) | <ul style="list-style-type: none"> Current spending is day to day/short term spending WHEREAS capital spending is long term spending/spending on non-current assets (1) | 1 | Both current and capital must be included to gain the mark. |
| | | (ii) | <p>Current Spending</p> <ul style="list-style-type: none"> Jotters for schools (1) Bandages for hospitals (1) Travel expenses for government ministers (1) Meals in prisons (1) <p>Capital Spending</p> <ul style="list-style-type: none"> Building a new road (1) Building a new hospital (1) Decommissioning a nuclear power plant (1) | 2 | Examples must be specific. |
| | (b) | | <ul style="list-style-type: none"> Cyclical - a downturn in the trade cycle/less demand due to recession (1) Structural - a change in the make-up of the economy/ some industries no longer required (1) Seasonal - workers are unemployed due to the nature of their job at certain times of year (1) Frictional - workers are between jobs (1) Technological - workers have been replaced by machines (1) Increased competition from abroad/foreign producers (1) | 3 | <p>The name of the type of unemployment is not needed, but if it is given it must accurately match the description.</p> <p>Allow exemplification as a description (eg strawberry pickers are unemployed in the winter).</p> <p>DNA 'seasonal unemployment is due to the season'.</p> |

| Question | | Expected response | Max mark | Additional guidance |
|----------|-----|-------------------|----------|--|
| | (c) | (i) | 2 | DNA food or drink unless a product is also named, eg fish processing or bottling natural spring water - as it is far too wide a category on its own. |
| | | (ii) | 2 | |

| Question | | Expected response | Max mark | Additional guidance |
|----------|-----|---|----------|--|
| 7. | (a) |  <ul style="list-style-type: none"> • Correctly labelled axes (Cost, Output) (1) • Correctly labelled TVC curve (1) • Correctly labelled TC curve (1) | 3 | <p>Do not penalise for an extraneous total fixed cost curve.</p> <p>DNA “price” and/or “quantity” instead of “cost” and/or “output” as axes labels.</p> <p>Accept curve name labels in full.</p> <p>Accept VC instead of TVC as a label.</p> |
| | (b) | <ul style="list-style-type: none"> • Change in season (1) • Increased advertising/publicity (1) • Fall in price of complementary good/eg cream (1) • Rise in price of substitute good/eg raspberries (1) • Going into fashion/eg use at a major sporting event (1) • Increase in income (1) • Increase in population (1) | 3 | <p>Note that there has to be a <u>change</u> of some sort, eg increasing, falling.</p> |

| Question | Expected response | Max mark | Additional guidance |
|----------|---|----------|--|
| (c) |  <ul style="list-style-type: none"> • Correctly labelled axes and diagram (Price, Quantity, P, Q, D and S, QD and QS) (1) • Correct insertion of P_1 above P (1) • Correct labelling of surplus with arrow showing downward pressure on price back to P (1) • With a surplus supply outstrips demand (ID) therefore, tickets are hard to sell (EXP)(1) so the venue reduces the ticket price (to make them more attractive to potential buyers) (EXP)(1) | 4 | <p>Award 3 marks max for diagram. Award 2 marks max for text.</p> <p>Allow the label for “surplus” to read “excess supply”.</p> <p>Allow QD and QS to have different appropriate labels.</p> |

[END OF SPECIMEN MARKING INSTRUCTIONS]