X038/12/01

NATIONAL QUALIFICATIONS 2014

WEDNESDAY, 28 MAY
9.00 AM – 11.30 AM

ECONOMICS
HIGHER

INSTRUCTIONS TO CANDIDATES

Candidates must attempt **both** items in Section A and any **two** questions in Section B.

LI

SECTION A

ITEM A

Read the passage below and then answer the questions which follow.

Olive Oil Prices to Soar after Spanish Drought Devastates Crop

The wholesale price of olive oil has jumped 62% in 3 months after an early frost followed by a drought which wiped out 600,000 tonnes of production. One major olive oil retailer reported, "It's very difficult to buy olive oil because the growers are expecting the price to rise even higher next week than the current £2,800 per tonne." There has also been a long term increase in the consumption of olive oil with more countries developing a taste for the Mediterranean diet.

This has all happened one year after a bumper crop caused a **surplus** and a steep fall in prices that left many growers struggling to survive, despite the assistance they received through the Common Agricultural Policy.

Below are the details of the weekly variable costs at different output levels for an olive farmer. These can be used to calculate the farmer's **optimum output** level. **Note that fixed costs are £2,000 per week.**

OUTPUT (tonnes):	1	2	3	4	5
VARIABLE COSTS (£)	1,000	1,800	2,500	2,800	4,000

Marks

(*a*) Define the following terms **as used in the passage**:

(i) surplus; **1**

(ii) optimum output. **2**

(*b*) Calculate:

(i) the marginal cost for the farmer of increasing output from 4 to 5 tonnes of olives; **1**

(ii) the average cost per tonne of producing 3 tonnes of olives. **1**

(*c*) Explain the shape of the firm's average fixed cost curve. **2**

(*d*) (i) Identify whether the information provided shows short-run or long-run costs for the olive farmer. **1**

(ii) Explain your answer to (*d*)(i) above. **2**

(*e*) Using the information in the passage, draw a diagram and explain why the equilibrium price of olive oil has risen. **6**

(*f*) Explain **2** factors that could affect the price elasticity of supply for olives. **4**

(*g*) Describe an advantage of the Common Agricultural Policy to:

(i) European Union farmers; **1**

(ii) European Union consumers. **1**

(*h*) Explain why the Common Agricultural Policy may harm the economy of a developing country. **3**

(25)

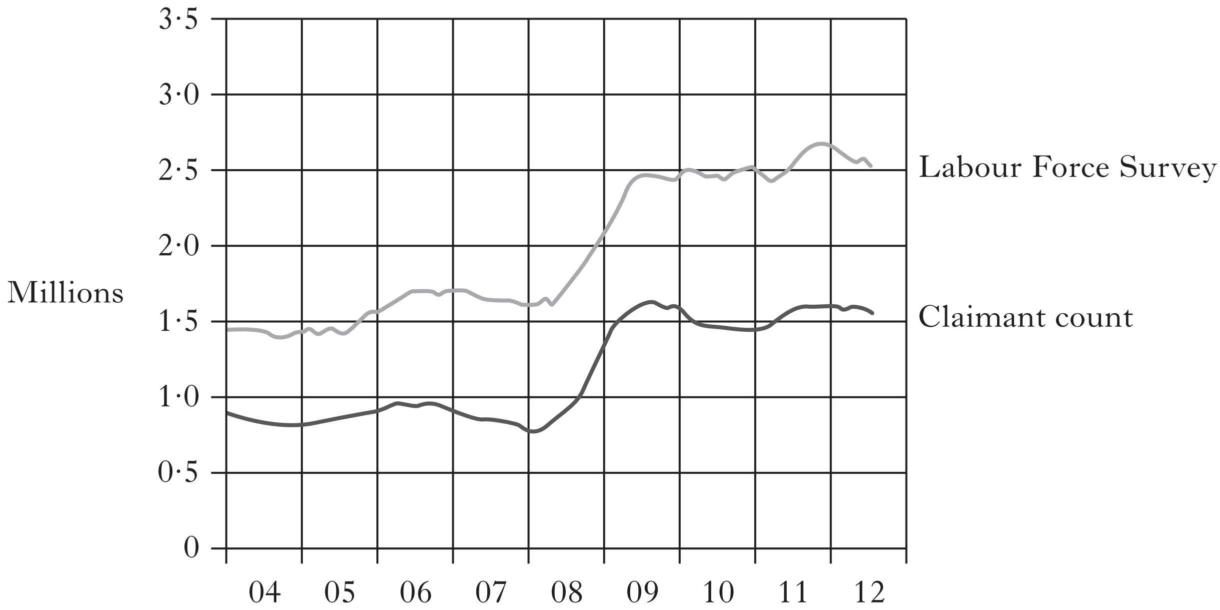
[Turn over

ITEM B

Read the passage below and then answer the questions which follow.

Jobless Total

Labour Force Survey and Claimant Count in the UK 2004-2012



Source: ONS

The UK economy has struggled to make a **sustained recovery** from the financial crisis which started in 2008. As a result, the Bank of England's Monetary Policy Committee (MPC) has kept its **interest rate** at an all-time low of 0·5% and injected £375 billion of new money into the economy.

Since 2008, unemployment has risen in the UK, particularly amongst young people. Youth unemployment is considered particularly harmful to the long term growth prospects of the UK economy.

The UK construction industry was badly hit by the financial crisis. Some economists are confident that this industry will benefit from the decisions of the MPC. However, it is likely that some firms will shut down in the long run if the UK's economic performance does not significantly improve.

Marks

(*a*) Define the following terms as used in the passage:

(i) sustained recovery; **2**

(ii) interest rate. **2**

(*b*) Explain why the **2** methods of measuring unemployment, as shown in the graph, produce different results. **4**

(*c*) Explain why persistently high rates of youth unemployment may be harmful to the long run growth prospects of the UK economy. **3**

(*d*) Suggest **3** measures the UK Government could introduce to reduce unemployment. **3**

(*e*) Explain the likely economic implications of low interest rates on the:

(i) value of sterling; **2**

(ii) rate of inflation in the UK. **3**

(*f*) Explain why the UK construction industry may benefit from the decisions taken by the MPC. **4**

(*g*) Describe the economic conditions under which a firm will shut down in the long run. **2**

(25)

[Turn over for Section B on *Pages six* and *seven*

Marks

SECTION B

Attempt any TWO questions.

1. (*a*) Explain how a free market economy answers the questions:

- what to produce?
- how to produce?
- for whom to produce? **6**

(*b*) Describe the disadvantages of a:

(i) free market economy;

(ii) centrally planned economy. **10**

(*c*) Explain, using a diagram, the effect a government imposed maximum price would have on the market for a product. **6**

(*d*) Identify **3** main economic objectives of the UK government. **3**

(25)

2. (*a*) (i) Describe the basic economic problem. **3**

(ii) Explain why the basic economic problem leads to opportunity cost. **3**

(*b*) Compare the characteristics of perfect competition with those of a monopoly. **10**

(*c*) Explain, using examples, why a firm may experience economies **and** diseconomies of scale. **9**

(25)

3. (*a*) Explain the difference between a Budget Deficit and the National Debt. **4**

(*b*) (i) Describe government economic policies which could be used to reduce a budget deficit. **4**

(ii) Explain the effect these policies may have on the UK economy. **4**

(*c*) (i) Describe how the rate of inflation is calculated in the UK. **4**

(ii) Describe the benefits to the UK economy of a low rate of inflation. **6**

(*d*) Define, using examples, the term “supply side policies”. **3**

(25)

Marks

4. Over many years the UK's Trade in Goods has been in deficit, but its Trade in Services has been in surplus on the Current Account of the Balance of Payments.

(*a*) Explain possible reasons for the UK's Trade in Goods deficit and Trade in Services surplus. **6**

(*b*) Explain, using a circular flow of income diagram, the effect of an increase in imports on the equilibrium level of national income. **8**

(*c*) Apart from the Current Account, describe **2** other components of the Balance of Payments. **4**

(*d*) Apart from improving the Balance of Payments on Current Account, explain why a government might introduce measures to reduce imports. **7**

(25)

5. (*a*) (i) Explain **3** reasons for a multinational company deciding to locate in a developing country. **6**

(ii) Describe **2** possible **economic** disadvantages to the developing country of this foreign direct investment. **4**

(*b*) Apart from foreign direct investment, describe how developed countries can assist developing countries to increase their rates of economic growth. **7**

(*c*) Using a production possibility diagram, explain the term "technical (productive) efficiency". **5**

(*d*) Explain the relationship between "technical (productive) efficiency" and "economic efficiency". **3**

(25)

6. (*a*) Explain what is meant by the term "price elasticity of demand." **2**

(*b*) Describe factors which influence price elasticity of demand. **8**

(*c*) Explain why it is important for firms to consider the price elasticity of demand of their products when making pricing decisions. (You must use diagrams to support your answer.) **6**

(*d*) Explain the effects that a rise in the value of sterling may have on:

(i) the competitiveness of UK firms;

(ii) the UK economy. **9**

(25)

[*END OF QUESTION PAPER*]

ACKNOWLEDGEMENT

Section A Item B – Graph is adapted from “Labour Force Survey and Claimant Count in the UK 2004-2012” taken from ONS.