

X038/12/01

NATIONAL
QUALIFICATIONS
2015

TUESDAY, 28 APRIL
1.00 PM – 3.30 PM

ECONOMICS
HIGHER

INSTRUCTIONS TO CANDIDATES

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



SECTION A

ITEM A

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

China's Economy at Crucial Stage

Despite difficult economic conditions globally, China's economy remains on track to achieve its growth target of 7.5% this year. There had been concern that the world's second largest economy and most important **emerging economy** might be stalling. This potential slowdown in China's **economic growth** could have had major effects on the world economy.

However Chinese officials believe that their economy needs to reform and restructure in order to sustain its rate of economic growth. The country needs to improve its relationship with multinational firms which have located there and needs to improve **productivity** in state-owned enterprises. Additionally, there needs to be a move towards domestic consumption and away from dependence on exports. A first step is to allow China's currency to rise in value.

In 2013, production of memory chips for mobile phones fell due to a fire at a major Chinese manufacturing plant. At the same time global demand for mobile phones was rising rapidly. The ability of producers to respond to these market changes depends on their price elasticity of supply.

| | <i>Marks</i> |
|--|--------------|
| (a) Explain the meaning of the following terms as used in the passage : | |
| (i) emerging economy; | 2 |
| (ii) economic growth; | 2 |
| (iii) productivity. | 2 |
| (b) Describe 2 effects that a slowdown in China's economic growth rate could have on the world economy. | 4 |
| (c) Suggest 3 reasons why a multinational firm might wish to locate in China. | 3 |
| (d) Explain the effect of a rise in the value of China's currency on the Current Account of its Balance of Payments. | 4 |
| (e) Using the information in the passage, draw a diagram to show why the price of memory chips has risen so rapidly. | 4 |
| (f) (i) Explain what is meant by the term "price elasticity of supply". | 2 |
| (ii) Explain why firms would benefit if the price elasticity of supply for their product was elastic. | 2 |
| | (25) |

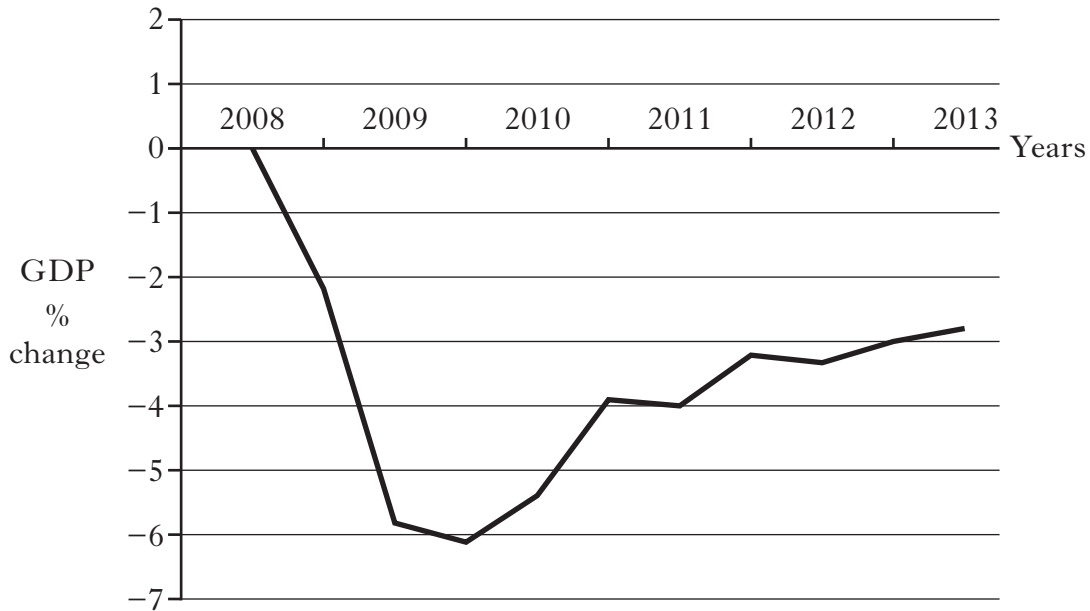
[Turn over

ITEM B

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

The following graph refers to the UK economy.

Percentage Change in Gross Domestic Product 2008 to 2013



In the USA the recovery from the 2008 recession has been much quicker than in the UK, due to a stronger stimulus from fiscal and monetary policy.

In autumn 2013, the International Monetary Fund upgraded its forecast for 2013 UK economic growth to 1.4%. At this time wages were growing at 0.7% per annum, but the consumer price index had risen as high as 2.7%.

As winter approached, some companies operating in the **oligopolistic energy market** were announcing price increases of approximately 10% for gas and electricity.

| | <i>Marks</i> |
|--|--------------|
| (a) Using the graph, describe the performance of the UK economy from 2008 to 2013. | 3 |
| (b) Explain the method used to calculate the consumer price index. | 4 |
| (c) Explain the meaning of the term “oligopolistic energy market”. | 2 |
| (d) Describe the role of the International Monetary Fund in the international economy. | 2 |
| (e) Describe the ways in which the following policies can be used to increase economic growth: | |
| (i) fiscal policy; | 4 |
| (ii) monetary policy. | 4 |
| (f) (i) Explain what happened to real wages in 2013. | 2 |
| (ii) Describe 2 ways this may affect the economy. | 2 |
| (g) Explain an effect that higher gas and electricity prices could have on UK businesses. | 2 |
| | (25) |

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

SECTION B

Attempt any TWO questions.

- | | | |
|---------|---|-------------|
| 1. (a) | Explain why the basic economic problem of scarcity can never be solved. | 6 |
| (b) | Using a production possibility curve, explain the concept of opportunity cost. | 5 |
| (c) (i) | Explain the term “market failure”. | 2 |
| (ii) | Describe 3 examples of market failure. | 6 |
| (iii) | Explain 3 ways the government intervenes to correct market failure. | 6 |
| | | (25) |
| 2. (a) | Discuss the economic advantages and disadvantages of international trade for the UK economy. | 8 |
| (b) | Explain the factors which affect the demand for, and supply of, the pound sterling in foreign exchange markets. | 6 |
| (c) | Explain why the demand curve for most goods and services is downward-sloping. | 5 |
| (d) | Explain why the demand curve for some goods and services is not downward-sloping. | 6 |
| | | (25) |
| 3. (a) | Explain, using diagrams: | |
| (i) | the relationship between marginal cost and average cost; | 5 |
| (ii) | the shape of an average fixed cost curve. | 3 |
| (b) | Explain, using an example, what is meant by diseconomies of scale. | 3 |
| (c) | Explain possible causes of inflation. | 6 |
| (d) | Explain the consequences of inflation for: | |
| (i) | individuals; | 4 |
| (ii) | firms. | 4 |
| | | (25) |

| | <i>Marks</i> |
|--|--------------|
| 4. One of the main aims of government is a low rate of unemployment. | |
| (a) Describe 2 ways in which unemployment is measured. | 5 |
| (b) Explain the problems that a high rate of unemployment can create for an economy. | 8 |
| (c) Explain 2 supply side policies which can be used to reduce unemployment. | 4 |
| (d) (i) Suggest 2 sources of government income other than taxation. | 2 |
| (ii) Discuss the effects of a shift from direct to indirect taxation. | 6 |
| | (25) |
| 5. (a) (i) Draw a circular flow of income diagram showing injections and leakages. | 6 |
| (ii) Explain why an increase in government spending will lead to a multiplier effect. | 5 |
| (b) Describe the economic characteristics of a developing country. | 6 |
| (c) Discuss the advantages and disadvantages of foreign aid for a developing country. | 8 |
| | (25) |
| 6. (a) (i) Explain the difference between the income elasticity of demand for normal goods and inferior goods. | 4 |
| (ii) Explain the importance to producers of understanding the income elasticity of demand. | 4 |
| (b) (i) Explain the difference between a budget deficit and a trade in goods deficit. | 4 |
| (ii) Explain why the UK has a trade in goods deficit. | 5 |
| (c) Discuss the economic advantages and disadvantages of a country adopting the Euro as its currency. | 8 |
| | (25) |

[END OF QUESTION PAPER]

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