

X038/12/01

NATIONAL
QUALIFICATIONS
2013

MONDAY, 13 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.



SECTION A

ITEM A

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

Pound sterling must remain weak to rebalance the UK economy towards exports

An economist at the Bank of England has said that the pound sterling will have to remain weak for some time to rebalance the economy towards exports. Since the financial crisis began, the pound sterling has lost 30% of its value against the dollar as the impact of **recession** and low interest rates have depreciated the currency. This fall in the value of sterling has highlighted the advantages and disadvantages of a **floating exchange rate system**.

A member of the UK Central Bank's **Monetary Policy Committee** added that he was close to voting for increasing the money supply, a move which in itself might further lower the value of sterling. This is in response to fears that the economic recovery in the UK may be stalling. However, other members of the Monetary Policy Committee are worried about the possible impact this increase in the money supply might have on inflation.

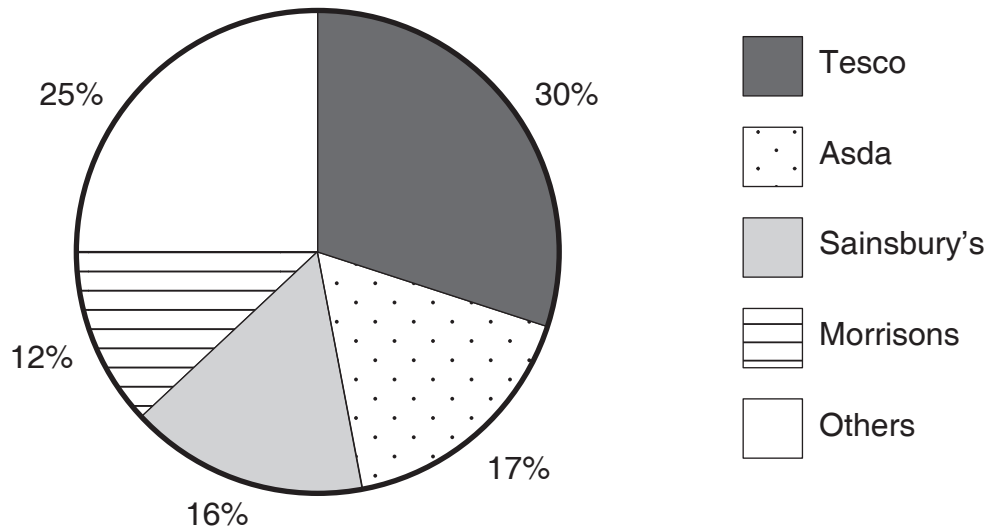
	<i>Marks</i>
(a) Explain the following terms as used in the passage :	
(i) recession.	2
(ii) floating exchange rate system.	2
(b) (i) Explain why a weak pound should encourage an increase in UK exports.	2
(ii) Apart from an increase in exports, describe the effects of a weak pound on the UK economy.	4
(c) Explain why low interest rates in the UK economy might lead to a depreciation in the value of sterling.	3
(d) Describe the role of the Monetary Policy Committee.	3
(e) Apart from an increase in the money supply, describe 2 other causes of inflation.	4
(f) (i) Name one type of exchange rate system other than a floating system.	1
(ii) Describe one advantage and one disadvantage of the system you have named in f(i).	4
	(25)

[Turn over

ITEM B

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

UK MARKET SHARE FOR SUPERMARKETS 2011



With little prospect of sales growth in 2011, the supermarket groups fought for market share

In 2011 the UK economy was suffering from slow economic growth and rising inflation. By September 2011 the **consumer price index** was increasing by an annual 5.2%, yet wages were increasing by just 1.8%. This was affecting real incomes and leading to poor retail sales. Tesco had reported its lowest UK sales growth for many years. Subdued sales in the UK were partly due to the **income elastic demand** for electronics and entertainment products, two of its largest non-food product groups. Fortunately the Tesco group managed to maintain its overall profitability because sales growth was higher in other parts of the world.

An analyst has said that Tesco is the UK's largest supermarket and therefore should be much cheaper than the competition. However, in recent years its competitors have pegged their prices to Tesco's, reducing its competitive advantage.

Market information showed that the price of wool (a raw material in winter clothing) had reached a 25 year high in 2011. Meanwhile a mild October hit sales of winter clothing, affecting the more diversified supermarket chains.

Another issue supermarkets need to consider is how they can reduce the impact of their activities on the environment.

Adapted from an article in *The Observer*, 25 September 2011

	<i>Marks</i>
(a) Explain the term, “consumer price index”, as used in the passage :	2
(b) (i) Using the diagram , identify the type of market structure shown.	1
(ii) Describe how firms in this type of market structure typically compete with each other.	2
(c) Explain what has happened to real incomes in 2011.	2
(d) Explain why Tesco should be much cheaper than the competition.	4
(e) Describe the ways in which Tesco is diversified and give one advantage of this.	3
(f) (i) Explain what is meant by “ income elasticity of demand ”.	2
(ii) Explain why the income elasticities of demand for food and non-food products are different.	3
(g) Draw a diagram to show the impact on equilibrium price and quantity of the changes described in the market for winter clothing.	4
(h) Suggest 2 measures the government could take to reduce the environmental impact of the food retailing industry.	2
	(25)

[Turn over for Section B on *Pages six to eight*

SECTION B

Attempt any TWO questions.

1. Economics is the study of scarcity and choice.
 - (a) Explain the difference between scarcity and a shortage. 5
 - (b) Explain, using examples, the difference between:
 - (i) a free good and an economic good. 4
 - (ii) a public good and a merit good. 4
 - (c) Explain how the price mechanism allocates scarce resources. 6
 - (d) Explain, using examples, why the demand curve for some goods slopes upwards from left to right. 6

(25)

2. One of the keys to reducing average costs of production is to increase productivity.
 - (a) Explain the shape of the short run average cost curve. 6
 - (b) Explain, **using a diagram**, the relationship between marginal costs and average total costs. 5
 - (c)
 - (i) Explain what is meant by the term “productivity”. 2
 - (ii) Explain **3** actions that firms can take to improve their productivity. 6
 - (d) Explain **3** reasons why a multinational firm may choose to locate in Scotland. 6

(25)

3. Economic Growth is an important objective of the UK Government.
 - (a)
 - (i) Explain what is meant by economic growth. 2
 - (ii) Explain why it is desirable for an economy to achieve economic growth. 4
 - (b) Describe **fiscal** and **monetary** measures a government may use to achieve economic growth and explain how they would work. 10
 - (c) Identify **3** other main economic objectives of the UK Government. 3
 - (d) Explain the difficulties of measuring a country’s National Income. 6

(25)

4. Unemployment is a waste of economic resources in both advanced and developing economies.
- (a) (i) Describe **2** ways of measuring unemployment in the UK. **4**
- (ii) Explain **3** causes of rising unemployment. **6**
- (b) Explain the economic effects of high unemployment on:
- (i) the UK economy.
- (ii) UK firms. **6**
- (c) (i) Describe the economic characteristics of developing countries **other than** high levels of unemployment. **5**
- (ii) Explain why foreign aid is **not** always successful in assisting the economic growth of developing countries. **4**
- (25)**
5. Many economists are of the opinion that free trade is threatened by protectionist policies being used in the world today.
- (a) Describe the main economic benefits of free trade. **5**
- (b) Explain why some countries decide to impose restrictions on free trade. **8**
- (c) Using examples, explain why the UK Government considers the concept of price elasticity of demand when raising indirect taxation. **6**
- (d) Discuss the effects of a shift from direct to indirect taxation. **6**
- (25)**

[Turn over for Question 6 on Page eight

6. In 2012 the UK economy experienced both a “budget deficit” and a “trade in goods deficit”.
- (a) Explain the difference between a “budget deficit” and a “trade in goods deficit”. **4**
- (b) (i) Explain the reasons why the UK has a large “trade in goods deficit”. **5**
(ii) Describe the components of the balance of payments accounts **other than** trade in goods. **6**
- (c) Describe the main roles of the:
(i) World Trade Organisation.
(ii) International Monetary Fund. **6**
- (d) Explain how an increase in the production of goods can lead to negative externalities. **4**
- (25)**

[END OF QUESTION PAPER]

ACKNOWLEDGEMENTS

Section A Item B—Article and information are adapted from “Trouble at the till: Tesco rounds on its rivals and starts a £500m price war” taken from *The Observer*, 25 September 2011. © Guardian News and Media Ltd 2011.