



National  
Qualifications  
SPECIMEN ONLY

**S822/76/11**

**Economics**

Date — Not applicable

Duration — 2 hours 30 minutes

**Total marks — 90**

**SECTION 1 — 30 marks**

Attempt ALL questions.

**SECTION 2 — 60 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 6 1 1 \*

## SECTION 1 — 30 marks

Read the following source and attempt ALL the questions that follow.

### ECONOMISTS DIVIDED OVER PROSPECTS OF UK INTEREST RATE RISE

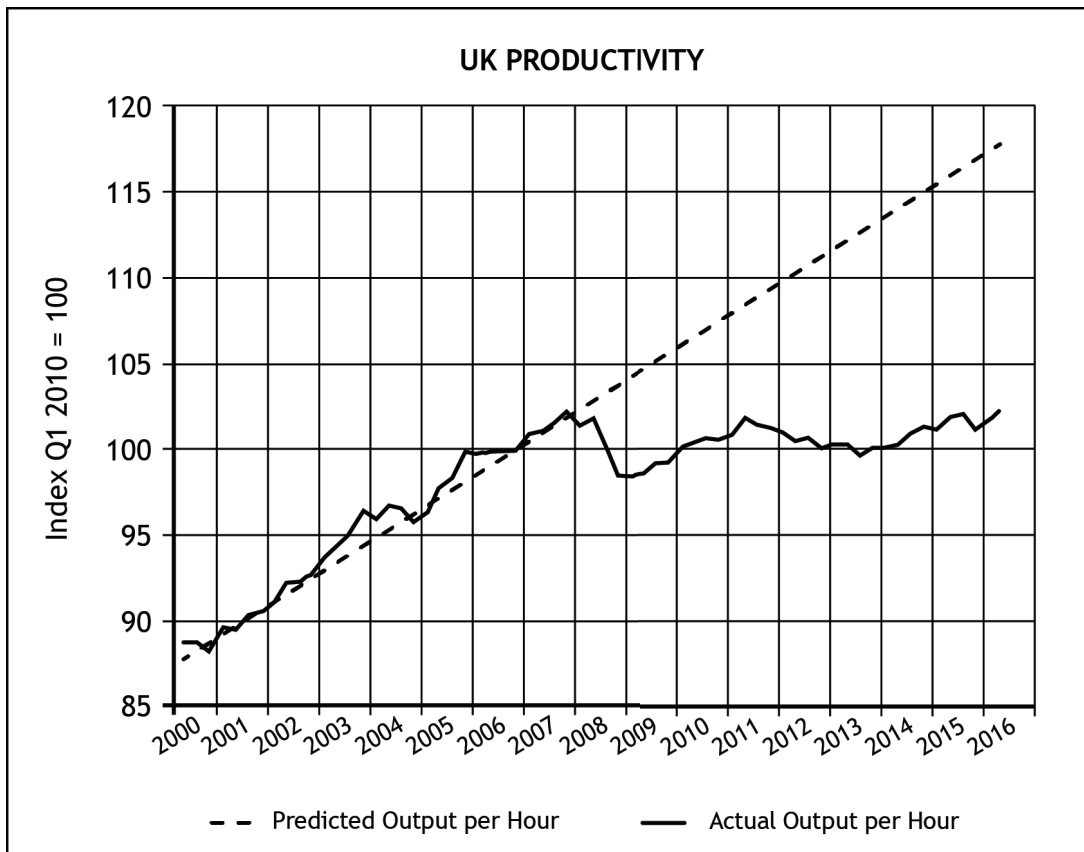
With the UK experiencing rising inflation but weak economic growth, opinions among economists are divided on how the Bank of England will react in 2018.

It could be argued that the rising inflation has been driven largely by one-off factors, for example the impact of weakening sterling, and an increase in oil and other commodity prices last year. “The Monetary Policy Committee should tolerate at least a moderate degree of inflation,” said Monique Ebell, of the National Institute of Economic and Social Research, recommending no change to interest rates.

Some argue that other factors are more important, and should result in an interest rate rise. “Growth needs to be kept in line with productive potential growth which is only about 1.5 per cent a year” said Paul Mortimer-Lee of BNP Paribas. Secondly “We still have an ‘emergency’ very low interest rate but, with the economy close to full employment, there is no longer an emergency”.

Questions	MARKS
1. (a) Describe what is meant by ‘full employment’.	2
(b) Describe the current trend in UK unemployment.	2
(c) Describe 2 disadvantages of economic growth.	2
(d) Distinguish between the UK’s current inflation rate and the Bank of England’s target rate.	2
(e) (i) Suggest reasons for the fall in the exchange rate of sterling.	2
(ii) Explain the effects on the UK economy of this fall in the value of sterling.	2
(f) Describe, using a diagram, what is meant by an increase in the ‘productive potential’ of an economy.	3

Read the following source and attempt ALL the questions that follow.



The vast majority of economists expect improvement in productivity to remain sluggish in the UK in 2018. Speculation about the UK's future outside the EU is further contributing to this gloomy outlook. Improved productivity is a key method of boosting living standards in the long run.

Brexit, described by some as a rejection of globalisation, casts uncertainty over the UK's potential to grow in the short run. It is widely acknowledged that globalisation can result in both winners and losers. Many of the UK's smaller firms report finding it increasingly difficult to operate and survive in a global economy.

[Turn over

	<b>MARKS</b>
2. (a) With reference to the above graph, describe trends in predicted and actual productivity.	<b>2</b>
(b) Describe <b>3</b> ways a firm may attempt to improve productivity.	<b>3</b>
(c) Explain why 'improved productivity' boosts average living standards.	<b>2</b>
(d) Some features of the EU form part of the Brexit negotiations. Describe <b>3</b> of these features.	<b>3</b>
(e) Define what is meant by the term 'globalisation'.	<b>2</b>
(f) Describe the conditions under which a loss-making firm may continue to operate in the short run.	<b>3</b>

SECTION 2 — 60 marks

MARKS

Attempt ALL questions

3. (a) Explain why normal demand curves slope downwards from left to right, while abnormal ones do not. 7
- (b) Compare:
- (i) scarcity and shortage 2
- (ii) joint demand and competitive demand. 2
- (c) Draw a diagram to show how a guaranteed minimum price may lead to overproduction of a good or service. 3
- (d) Explain, using a diagram, the shapes of average fixed and average variable cost curves. 6
4. (a) Explain the ways in which the UK government's target to reduce national debt may impact on the economy. 6
- (b) Explain the supply-side measures a government could use to decrease inflation. 4
- (c) Describe, using a diagram, what is meant by National Income equilibrium. 6
- (d) Describe what is meant by the multiplier effect. 4
5. (a) Describe absolute advantage. 2
- (b) (i) Describe 4 items included in the UK's balance of payments. 4
- (ii) Explain the impact of multinationals locating in Scotland on the UK's balance of payments. 2
- (c) Discuss the advantages and disadvantages of imposing barriers to trade. 8
- (d) Describe the main role of the:
- (i) World Trade Organization 2
- (ii) International Monetary Fund. 2

[END OF SPECIMEN QUESTION PAPER]

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Section 1 Question 1 — Financial Times Source: Gemma Tetlow and Gavin Jackson, 2018, 'Economists divided over prospects of UK interest rate rise,' 2nd January. Used under licence from the Financial Times. All rights reserved.

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Section 1, Question 2 — Graph is adapted from 'Mind the Gap' graph by Macrobond taken from <https://www.independent.co.uk/news/business/news/uk-productivity-crawls-back-to-2007-peak-a7347826.html>. Reproduced by kind permission of MACROBOND Financial Ltd.



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**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

*Always apply these general principles. Use them in conjunction with the detailed marking instructions, which identify the key features required in candidates' responses.*

- (a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.
- (b) If a 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.
- (c) For **describe** questions, candidates must make a number of relevant, factual points up to the total mark allocation for the question. These should be key points; they 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:

- award **1 mark** for each accurate relevant point of knowledge
  - award a second mark for any point that is developed from the point of knowledge.
- (d) For **explain** questions, 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:

- award **1 mark** for each accurate relevant point of reason
  - award a second mark for any other point that is developed from the same reason.
- (e) For **discuss** questions, 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. They do not always need to give both sides of the debate in their response.

Up to the total mark allocation for this question:

- award **1 mark** for any accurate point of knowledge that is clearly relevant
- award a second mark for any other point that is developed from the point of knowledge.

Marking instructions for each question

Question		Expected response	Max mark	Additional guidance
1.	(a)	<ul style="list-style-type: none"> <li>• Virtually all who are able and willing to work are employed (1).</li> <li>• The level of unemployment where there is no cyclical or structural/demand-deficient unemployment (1).</li> <li>• The level of unemployment that does not cause inflation/inflationary pressures (1).</li> <li>• In economics, it does not actually mean zero unemployment (1).</li> </ul>	2	Award 1 mark for each valid description.
	(b)	<ul style="list-style-type: none"> <li>• Current rate/level (1).</li> <li>• Falling/rising (1).</li> <li>• Stable/fluctuating (1).</li> <li>• Recent relevant reason for trend (1).</li> </ul>	2	<p>Award 1 mark for each valid description.</p> <p>Accept any current relevant figure or information.</p>
	(c)	<ul style="list-style-type: none"> <li>• Inflationary pressures are created (1).</li> <li>• Can lead to increased social costs, for example pollution (1).</li> <li>• Is a strain on scarce/finite resources (1).</li> <li>• Could cause a current account deficit (1).</li> <li>• Growth may not be equitably distributed (1).</li> </ul>	2	<p>Candidates must describe 2 disadvantages to gain full marks.</p> <p>Award 1 mark for each valid description.</p>



Question		Expected response	Max mark	Additional guidance										
	(d)	<table border="1"> <thead> <tr> <th>Current rate</th> <th rowspan="3">whereas</th> <th>Target rate</th> <th></th> </tr> </thead> <tbody> <tr> <td>x% (as at, or close to, the date of the assessment)</td> <td>2.0%</td> <td>(1)</td> </tr> <tr> <td>rising/steady/falling</td> <td>prefer steady inflation</td> <td>(1)</td> </tr> </tbody> </table>	Current rate	whereas	Target rate		x% (as at, or close to, the date of the assessment)	2.0%	(1)	rising/steady/falling	prefer steady inflation	(1)	2	<p>Candidates must make 2 separate points of distinction to gain full marks.</p> <p>Award 1 mark for each valid point.</p> <p>For the current rate of inflation accept a figure, or accept a comment about the rate being above/on/below target.</p>
Current rate	whereas	Target rate												
x% (as at, or close to, the date of the assessment)		2.0%	(1)											
rising/steady/falling		prefer steady inflation	(1)											
	(e)	(i)	<ul style="list-style-type: none"> <li>• Low interest rates (1).</li> <li>• Fall in demand for sterling (1).</li> <li>• Fall in demand for UK exports (1).</li> <li>• Running a persistent trade deficit (1).</li> <li>• Fall in demand for foreign direct investment (FDI) (1).</li> <li>• Fall in 'hot money' into the UK (1).</li> <li>• Low investor confidence (1).</li> <li>• The Brexit vote created uncertainty (1).</li> <li>• Concern that Brexit may limit economic markets/growth (1).</li> </ul>	2	<p>Candidates must suggest 2 reasons to gain full marks.</p> <p>Award 1 mark for each valid suggestion.</p>									

Question		Expected response	Max mark	Additional guidance
	(ii)	<ul style="list-style-type: none"> <li>Overseas citizens receive more sterling for their foreign currency (Identification = ID) making UK exports more attractive (Explanation = EXP) (1).</li> <li>The UK's balance of payments will improve (ID), as the volume of exports will increase (EXP) (1).</li> <li>National income/economic growth may rise (ID), as exports increase injections into circular flow of income (EXP) (1).</li> <li>Unemployment may fall (ID), as firms experience increased demand, so hire more workers (EXP) (1).</li> </ul>	2	<p>Candidates must explain 2 effects to gain full marks.</p> <p>Award 1 mark for each valid explanation.</p> <p>Accept reference to the effects on UK imports.</p>

Question	Expected response	Max mark	Additional guidance
(f)	<p><b>Diagram</b></p> <ul style="list-style-type: none"> <li>• Correctly labelled production possibility curve (PPC) (1).</li> <li>• Indication of outward shift (either new curve or arrows or letters) (1).</li> </ul> <div data-bbox="647 501 965 831" data-label="Figure"> </div> <p><b>Description</b></p> <ul style="list-style-type: none"> <li>• The outward shift represents economic growth (1).</li> <li>• The economy is capable of producing a greater value of consumer and capital goods (1).</li> <li>• Existing resources are being used more efficiently (1).</li> <li>• New resources have been discovered (1).</li> <li>• Advances in technology increase efficiency (1).</li> </ul>	3	<p>Award up to 2 marks for the diagram.</p> <p>Award up to 2 marks for the description.</p>

Question		Expected response	Max mark	Additional guidance
2.	(a)	<ul style="list-style-type: none"> <li>From 2000 to end 2007, both patterns are very similar (1).</li> <li>By 2016, Predicted Output per Hour reached 118 (1).</li> <li>By 2016, Actual Output per Hour reached 102 (1).</li> <li>From 2008, Predicted Output per Hour continued upwards consistently (1).</li> <li>Actual Output per Hour dipped sharply after 2008 and then remained relatively static (1).</li> </ul>	2	<p>Candidates must describe 2 trends to gain full marks.</p> <p>Award 1 mark for each valid description.</p> <p>Accept values plus or minus 2 from figures stated.</p>
	(b)	<ul style="list-style-type: none"> <li>Increasing the skills of the workforce/providing additional training (1).</li> <li>Increasing division of labour (1).</li> <li>Using new technology/capital (1).</li> <li>Improve management strategies/techniques (1).</li> <li>Minimising wastage (1).</li> <li>Financial motivations/performance related pay/bonuses (1).</li> </ul>	3	<p>Candidates must describe 3 ways to gain full marks.</p> <p>Award 1 mark for each valid description.</p>
	(c)	<ul style="list-style-type: none"> <li>Higher efficiency may lead to bonuses (ID), which leads to higher wages (EXP) (1).</li> <li>Higher wages result in more tax for the government (ID), which can be reinvested into public and merit goods (EXP) (1). Improved education and health care raise standards of living (Development = DEV) (1).</li> <li>Higher efficiency leads to lower unit costs (ID), which could lower prices (EXP) (1). This results in real income rising (DEV) (1).</li> <li>Firms can make and sell more (ID), so more profits may be reinvested into improving labour/working conditions (EXP) (1).</li> </ul>	2	<p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development.</p>

Question		Expected response	Max mark	Additional guidance
	(d)	<ul style="list-style-type: none"> <li>• Single market – free movement of goods and services between member states <b>(1)</b>.</li> <li>• Single market – any EU citizen can live and work in any member state/EU migrants may live and work in the UK <b>(1)</b>.</li> <li>• Single market – the free movement of capital resources between member states <b>(1)</b>.</li> <li>• Common external tariff placed on imports from non-member states <b>(1)</b>.</li> <li>• Customs union – tariff free trade in goods between union members <b>(1)</b>.</li> <li>• Harmonisation of standards/rules governing the quality of goods traded between member states <b>(1)</b>.</li> </ul>	<b>3</b>	<p>Candidates must describe 3 features to gain full mark</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Award marks for reference to specific aspects of the negotiations, for example, passporting for financial services, air traffic control, and the European Health Insurance Card.</p> <p>Do not award marks for reference to the euro and European Central Bank.</p>

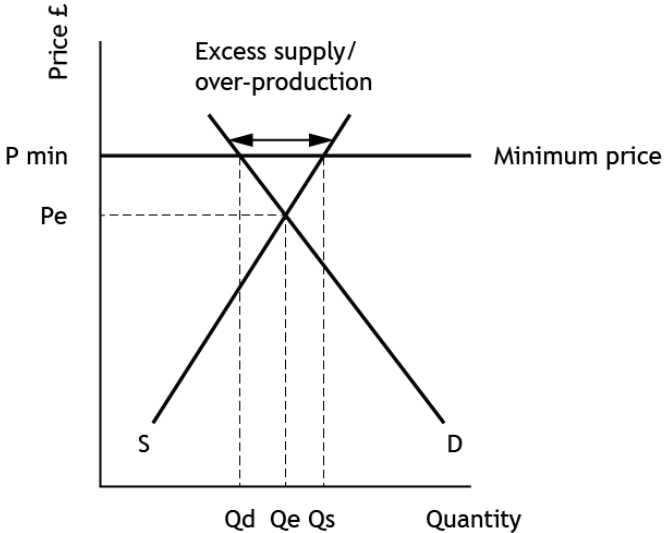
Question		Expected response	Max mark	Additional guidance
	(e)	<ul style="list-style-type: none"> <li>The process of integration of markets in the world economy (1). It is facilitated by a telecommunications network/infrastructure and/or fewer restrictions on the movement of labour (DEV) (1). Goods and services, social, economic and cultural influences becoming similar in all parts of the works (DEV) (1).</li> <li>The ability to produce any good or service anywhere in the world (1). This involves using raw materials, capital and technology from anywhere in the world (DEV) (1). It involves selling the resulting output anywhere in the world (DEV) (1). Profits may be declared anywhere in the world (DEV) (1).</li> </ul>	2	<p>Award 1 mark for each valid definition.</p> <p>Award 1 mark for a valid development.</p>
	(f)	<ul style="list-style-type: none"> <li>Total revenue covers total variable costs (1). As long as price per unit is greater than or equal to average variable cost (DEV) (1).</li> <li>Revenue is greater than variable costs (1).</li> <li>Anticipation of an increase in demand (1).</li> <li>If shutting down risks losing customer loyalty (1).</li> <li>If shutting down might jeopardise the efficient working of machinery (1).</li> <li>If shutting down might result in the loss of skilled staff/costs of redundancy/recruitment (1).</li> </ul>	3	<p>Award 1 mark for each valid description.</p> <p>Award up to 2 marks for any one description.</p>

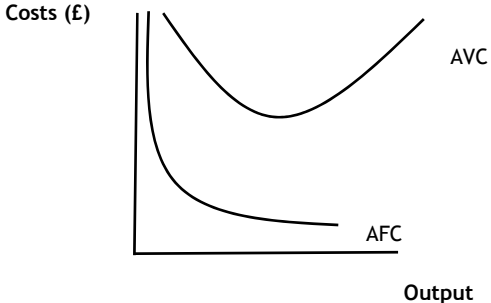
Question		Expected response	Max mark	Additional guidance
3.	(a)	<p><b>Normal</b></p> <ul style="list-style-type: none"> <li>• The income effect (ID) causes demand for a product to fall when price rises, because it becomes less affordable (EXP) (1).</li> <li>• The substitution effect (ID) causes consumers to switch to cheaper substitutes as price rises (EXP) (1).</li> <li>• The Law of Diminishing Marginal Utility (ID) states that as more of a good is consumed, the marginal utility gained from the consumption of an additional unit decreases (EXP) (1). A consumer will only demand additional units if price is lowered (DEV) (1), this is because the lower price reflects the lower satisfaction gained from consuming one more unit of the product (DEV) (1).</li> </ul>	7	<p>Candidates must explain both normal and abnormal demand curves to gain full marks.</p> <p>Award 1 mark for each valid explanation.</p> <p>Award up to 3 marks for any one explanation.</p> <p>Award a maximum of 5 marks for explanations of either normal or abnormal curves.</p> <p>Only award marks for examples as part of an explanation (maximum 1 mark per explanation).</p>

Question	Expected response	Max mark	Additional guidance
	<p><b>Abnormal</b></p> <ul style="list-style-type: none"> <li>• As the price of an essential/Giffen good increases (ID), low income consumers may cancel consumption of other goods and use their income to buy more of these essential goods (EXP) (1). For example, if the price of potatoes goes up, demand for potatoes may rise as consumers stop buying other products (for example, meat), as their income does not allow them to buy both (DEV) (1).</li> <li>• As the price of a luxury/Veblen good increases (ID), some consumers will demand more as they wish to demonstrate their wealth (EXP) (1).</li> <li>• Higher prices may indicate better quality (ID), so some consumers may buy more of the good (EXP) (1).</li> <li>• Rising prices of a product encourages consumers to buy more of it in anticipation (ID), for example, motorists buying petrol as they think the price may rise in the Budget (EXP) (1).</li> <li>• Rising prices of a product encourages consumers to buy more of it in speculation (ID), for example, consumers may purchase a house as an investment as they expect house prices to keep rising (EXP) (1).</li> </ul>		



Question		Expected response			Max mark	Additional guidance													
	(b)	(i)	<table border="1"> <thead> <tr> <th>Scarcity</th> <th rowspan="3">whereas</th> <th>Shortage</th> <th></th> </tr> </thead> <tbody> <tr> <td>unlimited wants and limited resources</td> <td>when demand exceeds supply</td> <td>(1)</td> </tr> <tr> <td>can never be solved</td> <td>can be solved by an increase in price or supply</td> <td>(1)</td> </tr> <tr> <td>is universal and applies in all economies</td> <td></td> <td>may only apply in certain markets</td> <td>(1)</td> </tr> </tbody> </table>	Scarcity	whereas	Shortage		unlimited wants and limited resources	when demand exceeds supply	(1)	can never be solved	can be solved by an increase in price or supply	(1)	is universal and applies in all economies		may only apply in certain markets	(1)	2	<p>Candidates must make 2 comparisons to gain full marks.</p> <p>Award 1 mark for each valid comparison.</p> <p>Do not accept examples as comparisons.</p>
Scarcity	whereas	Shortage																	
unlimited wants and limited resources		when demand exceeds supply	(1)																
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		(ii)	<table border="1"> <thead> <tr> <th>Joint demand</th> <th rowspan="3">whereas</th> <th>Competitive demand</th> <th></th> </tr> </thead> <tbody> <tr> <td>consumers require a combination of 2 or more products for maximum consumer satisfaction</td> <td>means consumers can derive equal satisfaction from substitute products</td> <td>(1)</td> </tr> <tr> <td>these are complementary goods</td> <td>these are substitute goods</td> <td>(1)</td> </tr> <tr> <td>for example, smartphones and apps</td> <td></td> <td>for example, O<sub>2</sub> and Vodafone</td> <td>(1)</td> </tr> </tbody> </table>	Joint demand	whereas	Competitive demand		consumers require a combination of 2 or more products for maximum consumer satisfaction	means consumers can derive equal satisfaction from substitute products	(1)	these are complementary goods	these are substitute goods	(1)	for example, smartphones and apps		for example, O <sub>2</sub> and Vodafone	(1)	2	<p>Candidates must make 2 comparisons to gain full marks.</p> <p>Award 1 mark for each valid comparison.</p>
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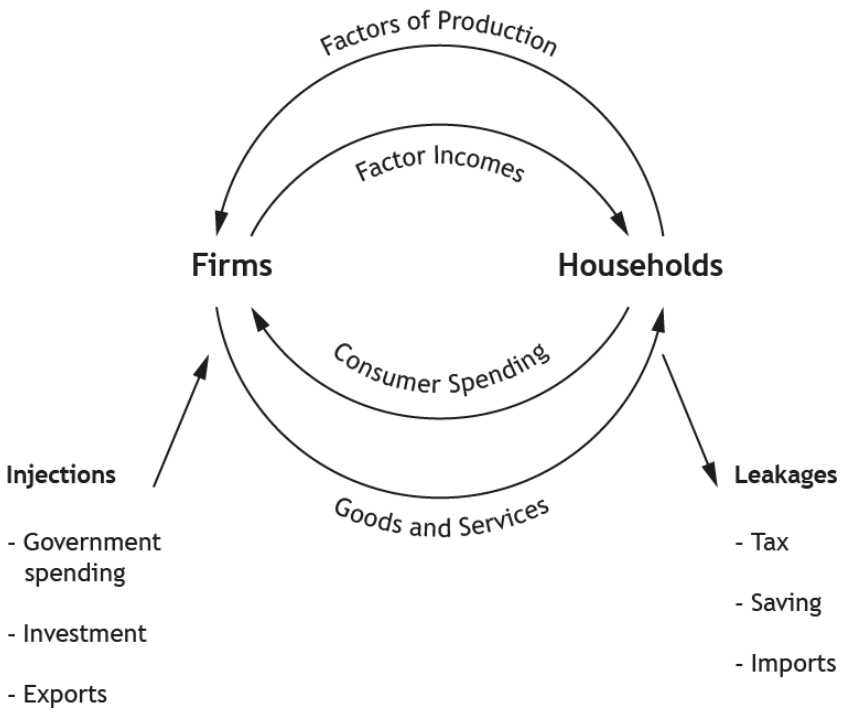
Question	Expected response	Max mark	Additional guidance
(c)	<p><b>Diagram</b></p> <ul style="list-style-type: none"> <li>• Correctly labelled market diagram (axes, D, S, <math>P_e</math>, <math>Q_e</math>) (1).</li> <li>• Minimum price indicated above equilibrium price (1).</li> <li>• Excess supply indicated (1).</li> </ul> 	3	<p>Award 3 marks for the diagram.</p> <p>Do not award a mark for 'excess supply' if it is indicated by shading the entire triangle directly below minimum price.</p>

Question	Expected response	Max mark	Additional guidance
(d)	<p><b>Diagram</b></p> <ul style="list-style-type: none"> <li>• Correctly labelled axes (1).</li> <li>• Correctly drawn average variable cost (AVC) curve (1).</li> <li>• Correctly drawn average fixed cost (AFC) curve (1).</li> </ul>  <p><b>AVC explanation</b></p> <ul style="list-style-type: none"> <li>• Variable costs change with output (ID) – therefore as output increases AVC falls due to increasing returns (EXP) (1).</li> <li>• After the optimum point, diminishing/decreasing returns set in (ID) causing the AVC curve to rise (EXP) (1).</li> <li>• Diminishing returns set in due to overworking of the fixed factor/declining productivity of extra labour (DEV) (1).</li> </ul> <p><b>AFC explanation</b></p> <ul style="list-style-type: none"> <li>• Fixed costs do not change with output (ID) – as output increases, fixed cost is divided by an increasing output (EXP) (1).</li> <li>• AFC therefore falls rapidly at first, but can never quite reach the x-axis (DEV) (1).</li> </ul>	6	<p>Award up to 3 marks for the diagram.</p> <p>Award up to 4 marks for the explanation.</p>

Question		Expected response	Max mark	Additional guidance
4.	(a)	<p>If the government:</p> <ul style="list-style-type: none"> <li>• Cuts spending (ID), this reduces injections into the circular flow of income (EXP) (1).</li> <li>• Reduces capital spending (ID), this may lead to a fall in infrastructure investment (EXP) (1) and may limit productivity in the long-run (DEV) (1).</li> <li>• Reduces education spending (ID), this may reduce the productive potential of the human resources in an economy (EXP) (1).</li> <li>• Increases income tax (ID), this decreases disposable income (EXP) (1), leading to lower spending and firms reducing output (DEV) (1) and may increase unemployment (DEV) (1).</li> <li>• Increases income tax (ID), this may reduce the incentive for individuals to work additional hours/overtime (EXP) (1) and this may reduce potential to increase growth (DEV) (1).</li> <li>• Increases corporation tax (ID), firms may delay expansion/R&amp;D (EXP) (1), which limits the potential for discovering new ways of increasing output (DEV) (1).</li> </ul>	6	<p>Candidates must explain at least 2 impacts to gain full marks.</p> <p>Award <b>1 mark</b> for each valid explanation.</p> <p>Award up to <b>3 marks</b> for any one impact.</p>

Question			Expected response	Max mark	Additional guidance
			<ul style="list-style-type: none"> <li>Increases VAT (ID), this increases costs for firms and may restrict supply (EXP) (1). An increase in VAT (for example on gas and electricity bills) reduces discretionary income for consumers, which may result in less spending (DEV) (1).</li> <li>Increases VAT (ID), this may increase prices for goods and services (EXP) (1), reducing standard of living (DEV) (1).</li> <li>Increases corporation tax (ID), this may encourage businesses to relocate abroad leaving idle/unproductive resources (EXP) (1).</li> </ul>		

Question		Expected response	Max mark	Additional guidance
	(b)	<ul style="list-style-type: none"> <li>• Research and development incentives (ID), to help bring down costs of production (EXP) (1).</li> <li>• Training allowances/greater education spending (ID), to help firms improve the efficiency/productivity (EXP) (1).</li> <li>• Labour market reforms/control Trade Union power (ID), to reduce labour costs for firms (EXP) (1).</li> <li>• Subsidies (ID), to help firms lower prices (EXP) (1)</li> <li>• Control public sector pay (ID) to reduce aggregate demand (EXP) (1).</li> <li>• Investment grants (ID), to help businesses expand to achieve economies of scale (EXP) (1).</li> <li>• Tax breaks (ID), to encourage innovation in new technologies (EXP) (1).</li> <li>• Deregulation (ID), to increase competition (EXP) (1), which may reduce the monopoly power of firms, leading to lower prices (DEV) (1).</li> </ul>	4	<p>Candidates must explain at least 2 measures to gain full marks.</p> <p>Award <b>1 mark</b> for each valid explanation.</p> <p>Award up to <b>3 marks</b> for any one measure.</p>

Question	Expected response	Max mark	Additional guidance
(c)	 <p><b>Injections</b></p> <ul style="list-style-type: none"> <li>- Government spending</li> <li>- Investment</li> <li>- Exports</li> </ul> <p><b>Diagram</b></p> <ul style="list-style-type: none"> <li>• All arrows between firms/households (1).</li> <li>• Factors of production, factor incomes, consumer spending, goods and services/output (1).</li> <li>• All injections (1).</li> <li>• All leakages (1).</li> </ul>	6	<p>Award up to 4 marks for the diagram.</p> <p>Award up to 3 marks for the description.</p> <p>Accept any other recognised terms.</p> <p>Households/firms can be left, right, top or bottom.</p> <p>For factors of production and factor incomes, accept either as a heading or named individually.</p>

Question			Expected response	Max mark	Additional guidance
			<p><b>Description</b></p> <ul style="list-style-type: none"> <li>When total injections equal total withdrawals, the level of national income is in equilibrium <b>(1)</b>. If the value of injections is greater than the value of withdrawals, the economy will grow <b>(1)</b>. If the value of withdrawals is greater than injections, the economy will shrink <b>(1)</b>.</li> </ul>		



Question		Expected response	Max mark	Additional guidance
	(d)	<ul style="list-style-type: none"> <li>• An increase in an injection leads to a more than proportionate increase in national income (1).</li> <li>• This is because the initial injection will circulate creating additional spending (1). ‘One person’s spending becomes another person’s income’ (1). For example, a £5 m government investment into a new hospital ward requires workmen who are paid an income, who can then spend it on a variety of goods and services, increasing demand for firms’ output (1).</li> <li>• The size of the final impact can be calculated by using a formula – <math>1/1-MPC</math> (Marginal Propensity to Consume) or <math>1/MPS</math> (Marginal Propensity to Save) (1).</li> <li>• The extent of the multiplier is determined by the MPC or MPS (1).</li> <li>• Credit a numerical example – for example, if the MPC is 0.8 then the multiplier will be 5; if there is an increase in investment of £1 bn then the increase in national income will be £5 bn (<math>£1 \text{ bn} \times 5</math>) (1).</li> <li>• The process continues round the circular flow until a new higher equilibrium level is reached (1).</li> </ul>	4	Award 1 mark for each valid description.
5.	(a)	<ul style="list-style-type: none"> <li>• This is when a country is more efficient at producing some good/services than another country (1), for example, by having access to natural resources/a cheap labour force/a skilled labour force/sophisticated capital goods (1).</li> <li>• A country should specialise and trade in the good/service in which it has the absolute advantage (1).</li> </ul>	2	<p>Award 1 mark for each valid description.</p> <p>Award a maximum of 1 mark for an example.</p>

Question		Expected response	Max mark	Additional guidance
	(b)	(i)	4	Candidates must describe 4 items to gain full marks.  Award 1 mark for each valid description.
		<p><b>Current account</b></p> <ul style="list-style-type: none"> <li>• Trade in goods, which is the value of exports minus the value of imports of goods (1).</li> <li>• Trade in services, which is the value of exports minus the value of imports of services (1).</li> <li>• Investment income/net primary income, for example, interest/profits/dividends (1).</li> <li>• Transfers/net secondary income, for example, overseas development aid (1).</li> </ul> <p><b>Capital/Financial Account</b></p> <ul style="list-style-type: none"> <li>• This is the transfer of ownership of fixed assets (1).</li> <li>• Foreign direct investment, for example, land and capital (1).</li> <li>• Portfolio investment in stocks and shares (1).</li> <li>• Other investment, for example, 'hot money' (1).</li> <li>• Reserve assets, for example, foreign currency managed by the Bank of England (1).</li> <li>• Balancing item – net errors and omissions (1).</li> </ul>		

Question		Expected response	Max mark	Additional guidance
	(ii)	<ul style="list-style-type: none"> <li>• Multinationals (MNEs) represent an increase in foreign direct investment (FDI) (ID), which boosts flows into the financial account (EXP) (1).</li> <li>• MNEs produce goods for export (ID), improving current account balance (EXP) (1) and may also produce goods domestically that no longer need to be imported (DEV) (1).</li> <li>• MNEs import raw materials (ID) worsening current account balance (EXP) (1).</li> <li>• MNEs may repatriate profits (ID), worsening the investment account/current account balance (EXP) (1).</li> <li>• MNEs may relocate workers who send remittances home (ID), which reduces net primary income (EXP) (1).</li> </ul>	2	<p>Award 1 mark for each valid explanation.</p> <p>Award 1 mark for a valid development.</p>

Question	Expected response	Max mark	Additional guidance
(c)	<p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Infant industries can be protected (1).</li> <li>• Domestic employment can be safeguarded (1).</li> <li>• Strategic industries can be kept under domestic control (1).</li> <li>• Balance of payments will improve with less imports (1).</li> <li>• Can be used to highlight political disagreements (1).</li> <li>• Can be used to retaliate against other nations (1).</li> <li>• Can be used to prevent ‘dumping’/flooding the market (1).</li> <li>• Can be used to protect the environment/reduce social costs eg by using fewer air miles (1).</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Reduces free trade, so consumers have less choice (1).</li> <li>• Imported goods with tariffs are likely to be more expensive for consumers (1), which may be inflationary (DEV) (1), which may result in standards of living deteriorating (DEV) (1).</li> <li>• Less competition for domestic firms, who may therefore not seek efficiency (1), which may result in goods/services of poorer quality (DEV) (1).</li> </ul>	8	<p>Candidates must discuss at least 1 advantage and 1 disadvantage to gain full marks.</p> <p>Award <b>1 mark</b> for each valid discussion point.</p> <p>Award up to <b>6 marks</b> for advantages or disadvantages.</p> <p>Do not award marks for descriptions of trade barriers.</p>

Question		Expected response	Max mark	Additional guidance
	(d) (i)	<b>World Trade Organisation</b> <ul style="list-style-type: none"> <li>• Encourages free trade (1) by reducing tariffs and non-tariff barriers (DEV) (1).</li> <li>• Mediates in trade disputes (1). Enforces members' adherence to agreements/can impose penalties (DEV) (1).</li> </ul>	2	Award 1 mark for each valid description.
	(ii)	<b>International Monetary Fund</b> <ul style="list-style-type: none"> <li>• Promotes international economic cooperation/assists economic development (1).</li> <li>• Makes funds available to member countries to meet balance of payments needs/provides loans to prevent government debt default (1).</li> <li>• Promotes stability in exchange rates and organised realignments (1).</li> <li>• Assists countries to switch to more market-based economic systems (1).</li> </ul>	2	Award 1 mark for each valid description.

[END OF SPECIMEN MARKING INSTRUCTIONS]