

# X038/11/01

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NATIONAL WEDNESDAY, 28 MAY  
QUALIFICATIONS 9.00 AM – 10.45 AM  
2014

ECONOMICS  
INTERMEDIATE 2

60 marks are allocated to this paper.

Part 1 (40 marks) Candidates should attempt **both** items.

Part 2 (20 marks) Candidates should attempt **one** question.

All answers are to be written in the answer book provided.



## PART 1

Candidates should attempt BOTH items.

## ITEM A

Read the following and answer the questions below.

The basic economic problem of scarcity means that producers are faced with choices. As most resources are scarce, decisions need to be taken carefully about how they are used. Producers prefer to supply goods and services at higher prices in order to maximise profit. This has been the case in the market for tablet computers. New firms, attracted by high profits, have entered the **market for tablet computers**. By locating in the UK, some of these firms hope to benefit from **free trade** with other European Union members.

- (a) Explain what is meant by the following terms as used in the passage:
- (i) Market for tablet computers; 2
  - (ii) Free trade. 2
- (b) Explain the basic economic problem of scarcity. 4
- (c) (i) Define opportunity cost. 1
- (ii) Suggest **one** possible opportunity cost for firms of producing tablet computers. 1
- (d) Describe **one** factor which could increase the supply of tablet computers. 2
- (e) Describe **2** factors which could increase the demand for tablet computers. 4
- (f) Explain **one** economic advantage and **one** economic disadvantage to the UK of being a member of the European Union. 4
- (20)**

**ITEM B**

**Read the following and answer the questions below.**

The country of Scotopia experienced a boom in recent years. This brought many benefits to the economy. The country transformed its economy from previous years when unemployment was high, businesses were failing to export and economic growth was low.

The Government of Scotopia increased spending on education and health care. To pay for this, it increased **indirect taxation**. This caused prices to rise and some people experienced a fall in their **real income**.

The following table shows the economic performance for Scotopia.

| <b>Economic Indicator</b>              | <b>2011–2012</b> | <b>2012–2013</b> |
|--|------------------|------------------|
| Unemployment                           | 5%               | 4.2%             |
| Inflation                              | 2%               | 3.5%             |
| Economic Growth                        | 0.8%             | 3.0%             |
| Balance of Payments on Current Account | –£30bn           | –£34bn           |

- (a) Explain what is meant by the following terms as used in the passage:
- (i) Indirect Taxation; 2
  - (ii) Real Income. 2
- (b) Using evidence from the table above, describe **one** factor that suggests that Scotopia is experiencing a boom. 2
- (c) (i) Describe **one** method of measuring unemployment. 2
- (ii) Explain **2** benefits to the Government of a decrease in the level of unemployment. 4
- (d) (i) Name **one** component of the Current Account of the Balance of Payments. 1
- (ii) Identify **one** method of reducing a deficit on the Current Account of the Balance of Payments. 1
- (iii) Explain how the method identified in (d)(ii) would work. 2
- (e) Explain, using a diagram, the effect of an increase in an indirect tax on the market for a good. 4
- (20)**

**[Turn over**

## PART 2—Essay Questions

Candidates should attempt ONE essay question.

1. Costs of production in the UK manufacturing sector have increased over recent years. Many UK firms have relocated to Newly Industrialised Countries (NICs) in order to lower their total cost of production.
  - (a) Explain, using examples, the difference between fixed costs and variable costs. 4
  - (b) Using a diagram, show the relationship between Total Fixed Costs, Total Variable Cost and Total Costs. 4
  - (c) Explain, using examples, what is meant by economies of scale. 4
  - (d) Explain **2** benefits **and** **2** costs to a Newly Industrialised Country (NIC) of a foreign firm locating there. 8

**(20)**
  
2. The demand for and supply of Sterling have an impact on exports and imports. The value of exports and imports is needed to calculate national income statistics.
  - (a) Describe **one** factor that influences the demand for Sterling **and** **one** factor that influences the supply of Sterling. 4
  - (b) Explain the effect of a decrease in the exchange rate of Sterling on demand for UK exports. 2
  - (c) Explain in what way an increase in UK exports will affect the equilibrium level of national income. A circular flow of income diagram must be included in your explanation. 8
  - (d) Describe **3** uses of National Income statistics. 6

**(20)**

3. Government economic policies can change the rate of inflation and economic growth in the economy.
- (a) Describe how the rate of inflation is measured in the UK. 4
- (b) Describe **2** possible causes of inflation. 4
- (c) Explain the effect of an increase in the rate of interest on:
- (i) individuals;
- (ii) firms;
- (iii) the rate of inflation. 6
- (d) Describe how the UK Government uses its spending and taxation to increase the rate of economic growth. 6
- (20)**
4. The UK Government intervenes in the UK economy to influence markets.
- (a) Explain **2** reasons why the UK Government might provide a subsidy on a good. 4
- (b) Explain, using examples, the difference between government capital spending and government current spending. 4
- (c) (i) Identify **one** of the main items of government spending. 1
- (ii) Explain why the UK Government spends large sums of money on this. 3
- (d) Describe **4** causes of unemployment. 8
- (20)**
5. Some forms of aid are designed to increase productivity in developing countries.
- (a) Outline **4** characteristics of a developing country. 4
- (b) Describe **3** forms of aid given to developing countries. 6
- (c) (i) Define the term “productivity”. 2
- (ii) Explain measures a firm might take to improve its productivity. 4
- (iii) Explain the benefits to a firm of improving its productivity. 4
- (20)**

[END OF QUESTION PAPER]

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