

X038/11/01

NATIONAL
QUALIFICATIONS
2015

TUESDAY, 28 APRIL
1.00 PM – 2.45 PM

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.

Comfort Skin, a multinational business, specialises in the production of footwear using environmentally-friendly materials. The firm exports most of its output to the **European Union** but has also entered new markets. A recent economic boom in newly industrialised countries has resulted in a large increase in demand for Comfort Skin footwear. The firm is finding it difficult to increase output in the **short run**.

The table below shows the firm's short run average total cost and average revenue at various output levels.

Output /Sales (per week)	Average Total Cost (£)	Average Revenue (£)
0		0
1000	180	200
2000	140	185
3000	130	170
4000	125	155
5000	130	130
6000	140	125

- (a) Explain what is meant by the following terms as used in the passage:
- (i) European Union; 2
 - (ii) short run. 2
- (b) Using a demand and supply diagram, explain the effect of an increase in demand on the market for Comfort Skin footwear. 4
- (c) Explain in what way an increase in exports would affect the UK's Current Account of the Balance of Payments. 2
- (d) Describe **one** advantage and **one** disadvantage for Comfort Skin of specialising in the production of one product. 4
- (e) Identify **2** economic characteristics of a newly industrialised country. 2
- (f) Using the table above:
- (i) calculate the **total** profit/loss at an output level of 6000 shoes per week; 2
 - (ii) identify Comfort Skin's optimum output level. Explain your answer. 2

(20)

ITEM B

Read the following and answer the questions below.

The economy of Scotopia recently entered the **recovery phase** of its trade cycle. This has occurred because the Government has used its Budget to help economic recovery.

The **exchange rate** has decreased in value against other major currencies and the rate of unemployment in Scotopia has fallen from 8% to 6%.

- (a) Explain what is meant by the following terms as used in the passage:
- (i) recovery phase; 2
 - (ii) exchange rate. 2
- (b) Explain in what ways the Government could use its Budget to help economic recovery. 4
- (c) Explain the impact of a decrease in the value of the Scotopian pound on:
- (i) Scotopian exports; 2
 - (ii) the Scotopian economy. 2
- (d) Explain what is meant by the rate of unemployment. 2
- (e) Describe 2 possible causes of unemployment. 2
- (f) Explain the impact of a high rate of unemployment on each of the following:
- (i) individuals;
 - (ii) businesses. 4
- (20)**

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PART 2—Essay Questions

Candidates should attempt ONE essay question.

1. All countries face the basic economic problem of scarcity.
- (a) Explain why all countries face the basic economic problem of scarcity. 4
- (b) (i) Explain what is meant by the term “opportunity cost”. 2
(ii) Give an example of an opportunity cost for an individual. 1
(iii) Give an example of an opportunity cost for a business. 1
- (c) Identify 2 methods of improving labour mobility and explain how each would work. 4
- (d) (i) Identify and describe 2 economies of scale a firm might achieve as it increases its output in the long run. 4
(ii) Draw a diagram showing the relationship between total fixed cost, total variable cost and total cost. 4
(20)
2. (a) Identify 4 economic objectives of the UK Government. 4
- (b) Explain in what way inflation is measured in the UK. 4
- (c) Explain how an increase in the rate of inflation may affect:
(i) savers;
(ii) borrowers;
(iii) businesses. 6
- (d) (i) Suggest 2 economic characteristics of developing countries. 2
(ii) Describe 2 forms of aid given to developing countries. 4
(20)

3. The demand for petrol has continued to increase throughout the world.
- (a) Explain why demand curves normally slope downwards from left to right. 4
- (b) Identify and explain **3** factors which could increase the demand for a product. 6
- (c) (i) Using a diagram, explain the effect an increased tax on petrol would have on the market for petrol. 6
- (ii) Explain **one** advantage and **one** disadvantage of an increased tax on petrol. 4
- (20)
4. (a) Explain what is meant by the term “National Income”. 2
- (b) Explain **3** reasons why governments calculate National Income. 6
- (c) (i) Draw a diagram to show the basic circular flow of income. 4
- (ii) Using examples, explain the terms “injections” and “leakages” as they relate to the circular flow of income. 4
- (d) Explain, using examples, what is meant by:
- (i) government current spending;
- (ii) government capital spending. 4
- (20)
5. International trade has both benefits and costs to the UK economy.
- (a) Explain **3** benefits of international trade to the UK economy. 6
- (b) (i) Explain **2** reasons why some countries may wish to introduce barriers to international trade. 4
- (ii) Describe **2** barriers to international trade. 4
- (c) Explain **3** factors that would decrease the supply of a product. 6
- (20)

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