



National
Qualifications
2015

X722/76/11

Economics

TUESDAY, 28 APRIL

1:00 PM – 3:00 PM

Total marks — 70

SECTION 1 — 25 marks

Attempt ALL questions

SECTION 2 — 45 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.



* X 7 2 2 7 6 1 1 *

SECTION 1 — 25 marks

Read the following Source and attempt ALL questions that follow.

Exports of Scottish textiles to China set for record high

Scots may be surprised to learn that fashion-conscious Chinese shoppers are buying more traditional Scottish clothing than ever before – from tweed suits to golfing trousers.

Despite a strengthening pound, estimates from *HM Revenue & Customs* indicate that **exports of textiles** from Scotland to China are about to hit a record high, after sales in the first nine months of 2013 reached nearly £9.7 m – outstripping the total for the previous year. Although prices have risen, Scotland sells more than two and a half times more textiles to China than it did a decade ago.

According to the tweedmakers from the Isle of Harris, the Chinese appear keen to wrap themselves in the history of the region.

“It’s about provenance, British identity and quality,” said Brian Wilson, chairman of Harris Tweed Hebrides, and a business ambassador for the UK government. “If you can tick these three boxes in China then you’ve got a good chance of success.”



Harris Tweed Hebrides is responsible for about 90 per cent of the handwoven tweed cloth made in the Outer Hebrides, and is about to secure its first Chinese fashion client, which will lead to increased employment in Scotland.

For newer manufacturers, however, the challenge is establishing their brands in the face of **competition from Chinese copycats**. On a trade visit to Beijing in March last year, Glasgow-based fashion designer Rebecca Torres found Chinese suppliers with names that sounded surprisingly Scottish.

One way Chinese fashionistas have ensured the authenticity of their clothes is by travelling closer to the source. Roubi L’Roubi, creative director of Huntsman of Savile Row has found that customers from Asia are visiting the London shop specifically to order tweed suits. “Some people want to get things from the origin,” he said.

Adapted from *The Financial Times*, 24 January 2014

Questions

1. (a) (i) Describe what is meant by “exports of textiles”.
Your response must make reference to information provided in the article. 2
- (ii) Describe the effect of increased sales of Scottish textiles to China on the UK’s Balance of Payments. 2
- (iii) Describe the likely impact on the UK’s Balance of Payments of a strengthening pound. 3
- (b) Explain 2 measures that Scottish manufacturers could take to maintain their profit margins without increasing retail prices. 2
- (c) (i) Describe what is meant by price elasticity of demand. 2
- (ii) Explain, using a diagram, how an increase in the price of textiles is likely to affect Scottish clothing manufacturers’ revenue if demand is price inelastic. 4
- (d) Discuss how an increase in employment in Scotland is likely to affect the UK government’s finances. 4
- (e) Describe how “competition from Chinese copycats” could affect the market for clothing made in Scotland. 2
- (f) Describe the ways in which the UK government could improve competitiveness for new Scottish clothing manufacturers. 4

[Turn over

SECTION 2 — 45 marks

Attempt ALL questions

2. The basic economic problem of scarcity leads to choices in resource allocation.
- (a) Using an example, describe what is meant by opportunity cost. 2
 - (b) (i) Explain how scarce resources are allocated by the price mechanism. 3
 - (ii) Explain, using examples, reasons for government intervention in mixed market economies to allocate resources. 6
 - (c) Describe the characteristics of a perfectly competitive market. 4
3. (a) Describe the role of the Monetary Policy Committee (MPC) of the Bank of England. 3
- (b) Explain the impact on the UK economy of an increase in interest rates. 4
- (c) Explain, using a circular flow diagram, what is meant by the multiplier effect. 8
4. (a) Describe the factors that a multinational organisation may consider prior to choosing a new location. 5
- (b) Discuss the implications for the Scottish economy of the UK joining the Eurozone. 6
- (c) Describe 2 advantages of a floating exchange rate. 4

[END OF QUESTION PAPER]