H

National
Qualifications
2017

X722/76/11 Economics

TUESDAY, 30 MAY

9:00 AM – 11:00 AM

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.

X7227611

A/HTP

SECTION 1 — 25 marks

Read the following source and attempt ALL questions that follow.

OF WHISKY, OIL AND BANKS

SCOTS have had plenty to think about since 2014. Oil prices have halved — bad news for a country where the oil and gas industry provided jobs for 200,000 people, about 10% of total employment. Meanwhile, following the Scottish independence referendum the pound had strengthened and world trade stumbled, both awkward for a country that depends on exports. Despite all this, Scotland's economy seemed to be coping. GDP growth was holding up, output having increased to £142 billion in 2015; the employment rate had risen to 74·1% and was higher than Britain's average of 73·4%; and by some measures wages had risen faster than south of the border, raising disposable incomes. Why?

Exports were doing better than many predicted. The Index of Manufactured Exports for Scotland showed that in the previous year manufacturing export volumes had risen by 2·7% in real terms. Some industries, like tourism, were doing particularly well. The publicity surrounding the referendum had lured foreigners to hike in Scotland's windswept mountains and taste its smoked salmon and whisky. Tourism revenues helped to offset the impact of rising imports, as Scots took advantage of the strong pound.

The Scottish government had boosted growth with various big spending schemes including a series of infrastructure projects, for example a railway from the Borders to Edinburgh. In 2014 public spending on housing rose by 45%. For the rest of the country, lower oil prices had acted like a tax cut for firms, boosting growth.

In 2014 Scotland received more foreign direct investment (FDI) than any British region apart from London. Small wonder: it had the highest productivity rate outside London and the South-East. Much of that FDI went to knowledge-intensive industries like financial services, which contributed roughly one-tenth of Scottish GDP.

All food for thought for the Scottish government.

Adapted from: www.economist.com 12/9/2015

Questions

1. (a) Describe what is meant by "GDP growth".

Your response must make reference to information provided in the article. **2**

(b) (i) Draw a diagram to show a possible effect of the falling price of oil on the market for labour in Scotland. **3**

(ii) Describe **one** method of calculating the unemployment rate in the UK. **2**

(iii) Describe ways a government can improve the geographical mobility of labour. **2**

(c) The article describes an increase in manufacturing exports.

(i) "Export volumes had risen by 2·7% in real terms."

Describe what is meant by "real terms". **2**

(ii) Explain factors that may have caused Scottish export volumes to rise. **4**

(d) Describe possible disadvantages of Foreign Direct Investments (FDI) to the Scottish Economy. **3**

(e) Draw a diagram to show the effect of a "tax cut for firms", combined with rising disposable incomes, on the market for UK exports. **4**

(f) Describe benefits "a series of infrastructure projects" may have on the Scottish economy. **3**

[Turn over

MARKS

SECTION 2 — 45 marks

Attempt ALL questions

2. (a) Explain, using examples, how the basic economic problem of scarcity leads to choices for firms. **3**

(b) Describe the characteristics of a perfectly competitive market. **4**

(c) Explain, using a diagram, the shape of a long run average cost curve. **8**

3. In 2014, Scotland's GDP ranked it as the 14th richest country in the world, which was above the UK as a whole, however in 2016 the Institute of Fiscal Studies suggested that Scotland's budget deficit was three times larger than that of the rest of the UK.

(a) (i) Describe what is meant by Scotland's budget deficit. **2**

(ii) Describe factors which may have caused Scotland's budget deficit to be higher than the rest of the UK. **3**

(b) Explain how fiscal policy could be used to stimulate economic growth. **7**

(c) Describe possible difficulties when using national income statistics to compare different countries. **3**

4. Less Developed Countries (LDCs) can be helped to become emerging economies.

(a) Explain ways in which developed economies can provide economic assistance to LDCs. **6**

(b) Describe ways in which the rapid growth rates in emerging economies might affect the UK economy. **4**

(c) Describe how demand and supply for sterling can automatically correct a deficit in the UK's Current Account of the Balance of Payments. **5**

[END OF QUESTION PAPER]

ACKNOWLEDGEMENTS

Section 1 – Article is adapted from “Of whisky, oil and banks” taken from *The Economist*, 12 September 2015.

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Section 1 – Jesus Cervantes/shutterstock.com