



**2012 Economics**

**Intermediate 2**

**Finalised Marking Instructions**

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## ECONOMICS INTERMEDIATE 2

### 2012 Marking Scheme

#### PART 1

#### ITEM A

	Marks
(a) (i) Output per unit of resource or input (2); accept output per worker (2). It is a measure of efficiency (1).	2
(ii) In the long run all factors of production are variable (2). In the long run, all costs are variable (1). (1 mark for an example)	2
(b) Equilibrium quantity is 750 i-teddy bears at a price of £25. No £ sign = 0	1
(c) (i) Look for an understanding of how an increase in price increases the profit on a good (1) and therefore producers are willing (and able) to supply more (1). Alternatively, new producers might now enter the market (1) because the product is more profitable than the product they were supplying (1). (1 mark for law of supply).	2
(ii) The factors include: an increase in costs of production (1); an increase in taxation (1) eg VAT or business rates (1); a reduction in productivity (1) lack of available resources (1)	2
(iii) Total revenue was $750 \times 25 = \text{£}18,750$ at initial equilibrium of D1 and S1 but following shift in supply total revenue is now at $500 \times 40 = \text{£}20,000$ (1). This is an <u>increase</u> of $\text{£}1,250$ (1).	2
(d) (i) Look for an understanding of how division of labour can lead to more efficient use of resources because practice makes perfect; less time is wasted moving between processes; easier to mechanise; less training time required (2).	2
(ii) Geographical mobility of workers could be improved through: national advertising of vacancies (1) that allow vacancies to be shared with a larger pool of workers (1); Housing market reform (1) designed to improve the supply of housing eg availability and affordability (1); and specific grants for workers prepared to move (1) eg teaching in the North of Scotland (1). Council Housing/Affordable Housing (1). Improved transport (1).	2
(iii) Difficult for labour to be substituted in the provision of certain personal services such as health care, teaching, hairdressing, joinery, plumbing, etc. In addition, creative industries might find it difficult to substitute labour because technical expertise and input is required (2). Either point explained should be fully credited. Up to 1 mark for substitution of labour with labour.	2
(e) Fall in the exchange rate of sterling means that Europeans can get more sterling for Euros (1). This means that i-teddy bears become cheaper in the Eurozone so more will be demanded (1). Bear Music will therefore increase profit as more i-teddy bears are exported (1). Imported raw materials become more expensive Up to 2 marks). Bear music will be relatively cheap in the UK and more competitive in the UK market.	3

**ITEM B**

Marks

- 1 (a) Although the 'official' answer is 'two successive quarters of negative growth' (2), accept any answer which refers to the economy slowing down, total demand GDP falling and unemployment rising.(1 mark only) **2**
- (b) (i) A straightforward question which simply requires an understanding of the fact that AMD will be increasing. However, credit any other plausible explanations.
- The rate should increase as an increase in NY implies an increase in the level of total demand and therefore lead to demand – pull inflation. **2**
- 1 mark for the effect and 1 mark for the explanation.
- (ii) The volume should increase as the increase in demand will apply to our demand for imports.
- 1 mark for the effect and 1 mark for the explanation. **2**
- (c) Look for a simple description of either the claimant count or the LFS.
- Claimant Count – the government counts the number of people eligible to claim the Job Seekers Allowance (JSA).
- Labour Force Survey – surveys a sample of 150,000 people each quarter and counts as unemployed those who were unemployed and those who:
- were available to start work in the next two weeks, and
  - had actively looked for work in the last four weeks, or
  - had found a job and were waiting to start.
- 1 mark for naming, 1 mark for explanation **2**
- (d) An increase in spending (G) – 1 mark, because of an increase in JSA – 1 mark.  
A reduction in taxation revenue (T) – 1 mark, because of a reduction in income/spending/profits – 1 mark.  
Candidates may also mention: lost output – real GDP will fall – economy will be operating well within its production possibility curve or increased burden on taxpayers to fund benefits and training measures, opportunity cost, social costs of unemployment – if related to cost to the economy.  
1 mark for point, 1 mark for explanation **4**
- (e) (i) Reduction in taxation (+) reduce both income tax and corporation tax – this should stimulate private spending – both consumption and investment. Can also increase incentives to work.
- 1 mark for explanation, 1 mark for effects. **2**

- (ii) Increase in Government spending – on goods and services (eg) health, education, housing – this will lead to a direct increase in employment.

Government could also increase pensions and social security payments – this will increase demand as people receiving such payments have a high marginal propensity to consume (MPC).

Government could also give investment grant to private business to encourage investment. Can also target specific industries or regions.

1 mark for explanation, 1 mark for effect.

2

- (f) Regressive tax – a tax where the proportion of income paid in tax falls as the income of the taxpayer rises. Lower income earners pay a higher percentage of their income in tax. With a regressive tax, the poor pay proportionately more than the rich. Regressive taxes benefit high income earners. VAT; Excise Duties

Most indirect taxes are regressive eg duties on alcohol, petrol, road tax are fixed amounts of money which are the same for everybody.

Fixed amount taxes are regressive, fixed percentages are proportional.

Progressive tax – a tax where the proportion of income paid in tax rises as the income of the taxpayer rises. With progressive tax the rich pay proportionately more than the poor. Most direct taxes are of this type (e.g. income tax) that benefit low income earners.

2 differences must be identified (2 marks) with 2 examples (2 marks).

4

- 1 (a) Although the wants for goods and services are unlimited (credit reasons) (1) the resources required to produce the goods and services are limited. (1) This means that no country in the world has enough resources to produce enough goods to completely satisfy all the wants of its people. (1) Credit reference to the fact that scarcity is the basic economic problem and is the reason why we all have to make choices. (1).
- Also credit candidates who explain how scarcity leads to choice and that the basic aim of economics is to show how we can make the best (ie most efficient) use of our limited resources (1).  
Credit examples of scarce resources (1). 4
- (b) Candidates should describe how (in market economy) changes in demand bring about changes in supply. Resources are allocated in a market economy through the price mechanism (1).
- Price acts as a signal to producers. An increase in the demand for a good will cause a shortage of it in the market. This shortage will push up its price. The increase in price will increase the profit the producer is making on the good and, as the producer is motivated by profit, he/she will produce more of it by re-allocating resources from another good. If customer demand for a good falls, the resultant glut/surplus will cause its price to fall resulting in a fall in the profit made on the good. Producers will then move resources out of the production of that good and use them to produce those goods that are now relatively more profitable.
- Candidates need only describe the increase in demand or the decrease, for full marks. 6
- (c) Diagram should show an original demand and supply curves plus correctly labelled axes (1). An increase in supply (1). A fall in equilibrium price and increase in equilibrium quantity (1). The subsidy reduces the supplier's costs (1) which will cause them to increase the supply (1). The increase in supply will reduce the equilibrium price and increase the equilibrium quantity (1). Three marks for the diagram and 3 marks for the explanation. 6
- (d) Look for a straightforward description of how 4 of the following could increase the demand for agricultural products.
- Price.
  - An increase in income allowing consumers to purchase vegetables.
  - Successful advertising campaign on the nutritional value of rice.
  - Changes in the price of complementary goods such as milk thereby encouraging consumers to purchase cereal.
  - Changes in the price of substitute goods such as melons.
  - Higher population.
  - Derived demand.
  - Tastes & Fashions – Awareness of health issues.
  - Season.
- 4

- 2 (a) Look for an explanation of at least 3 benefits for full marks eg
- greater choice/variety as not all countries produce the same goods;
  - lower prices because some countries can produce goods more cheaply than others (credit references to comparative advantage);
  - augments home suppliers – shortages can be met by imports;
  - increases world competition which could lead to reduced prices;
  - companies can benefit from greater economies of scale because of bigger markets.

If no explanation, maximum of 3 marks. Mark to overall quality of answer.

6

- (b) Look for an explanation eg

- To prevent dumping
- To protect strategic industries.
- To reduce imports to improve balance of trade deficit.
- To raise the price of imports so that domestic firms can compete in the home market.
- To prevent harmful or unsafe products entering a country.
- To protect infant industries.
- To reduce unemployment.

Award marks for examples

If the candidate does not explain why barriers are introduced but lists barriers instead then 0 marks should be awarded. If no explanation max 3 marks.

6

- (c) (i) Characteristics of NICs include:

- Specialisation in the production of manufactured goods.
- High rates of economic growth (BRIC).
- High spending on education and training.
- Large volume of exports.
- Large increases in investment.
- Pegged currencies.
- High spending on infrastructure.
- High savings ratio.

2

- (ii) Advantages may include:

Answers must focus on benefits to the county not the firm

- Provides employment.
- Provides training.
- Brings technology/capital.
- Higher living standards.
- Better working conditions.
- Exporting industries.

6

- 3**
- (a)** Look for a straightforward description of any 3 internal (no need to mention the difference) economies of scale eg bulk buying, increasing dimensions, lower interest rates etc.
- Mark according to the quality of the description.  
1 mark for naming the economy of scale + 1 mark for describing it. **6**
- (b)** 1 mark for the labels and 1 mark for each correctly drawn cost curve. **4**
- (c)** Look for a simple explanation of how the RPI is constructed. Credit reference to: basket of goods; FES; prices from retailers around the country; index numbers; weights; base year.
- Also credit explanations of the RPIX and the CPI. **4**
- (d)** Mark according to the quality of the description.
- Effects of inflation on individuals include:
- Fall in real income if wages rise more slowly than inflation
  - Rise in real income if wages rise faster than inflation
  - Redistribution of income
- Effects of inflation on the economy include:
- Increased price of exports – less competitive
  - Decrease price (relatively) of imports – more competitive
  - Increased unemployment – credit reasons
  - Worsening deficit on Trade in Goods
- Must mention both for full marks. Max 5 if only one area is covered. **6**

4 (a) Advantages

- Larger market for UK goods.
- Increased competition.
- Increased trade – greater opportunities for firms to benefit from economies of scale and specialisation.
- Greater source of skilled, well educated workers who are prepared to work in low wage occupations.
- Free movement of capital and labour throughout.
- A reduction in trade barriers – quotas, exchange control, tariffs, subsidies.
- Better co-operation and co-ordination with other members.

Disadvantage

- Unemployment – jobs may be lost if firms relocate to take advantage of the lower wage costs in the new entrants countries.
- Increased labour from Eastern Europe could dampen wage growth for existing workers.
- Possible diseconomies of scale.
- UK export markets might start to import from newer nations instead if they produce similar goods and services like the UK.
- Many Eastern European countries are able to manufacture goods more cheaply than the UK – entry to the EU would restrict the use to block imports or make them less competitive.
- Administrative costs: of running EU institutions.
- Impact of EU policy, eg social policy.

2 marks for each advantage and each disadvantage.

8

- (b) Look for a simple description of 3 of the following (1 mark for the form of aid and 1 for the description or development): food aid; grants/loans; technical aid; help with education/training; medical aid; military aid; debt relief; free/fair trade etc.

6

- (c) (i) Exports > imports (1) plus development eg value of goods (1). The value of exports (of goods) is greater than the value of imports (of goods) (1).

2

- (ii) Description of:

(Balance of) Trade in services i.e. export of services/imports of services eg financial services, tourism  
Interest, profit and dividends + description or example (Net Investment Income)  
Transfers + example or description

1 mark for identification + 1 mark for explanation

4

- 5      (a)      (i)      The factors include:
- foreign demand for our exports
  - the level of foreign direct investment in the UK
  - the amount of tourists visiting the UK
  - hot money inflows
  - speculators wishing to take advantage of a future rise in the value of the £
  - government wishing to add £s to their reserves to increase the value of the £
  - foreign governments wanting to lower the value of their currencies.
- 1 mark per influence and one for the description eg an increase in our exports will increase the demand for sterling needed to buy our exports. Also credit references to our inflation and interest rates. 2
- (ii)      The factors include:
- our demand for imports
  - the level of UK overseas investment
  - the amount of UK tourists abroad
  - hot money outflows
  - speculation from UK companies and the government wishing to hold surplus funds in foreign currencies, replace reserves of £s with other assets or lower the value of the £
  - foreign governments wishing to raise the value of their currencies.
- 1 mark per influence and one for the description eg we sell sterling to buy the currency we need to buy the imports. 2
- (b)      An increase – 1 mark, if the explanation is correct. Each yen will now ‘buy’ more pounds (1 mark) therefore their money will now go further (1 mark) and her holiday will be effectively cheaper (1 mark). If yen decreases, the opposite will happen (1 mark). 4
- (c)      Saving will decrease because it is not so rewarding – credit explanation. Also credit candidates who explain that savings might fall because higher interest rates reduce real incomes.
- Borrowing will increase because it is cheaper now to take loans – credit explanation. It will also encourage businesses to borrow – increase investment – as it will also be cheaper to do so. It should also encourage people to take out mortgages and/or move house.
- 1 mark for effect and explanation of each. 4

- (d) The diagram should show income (1 mark), flowing from firms to households (1 mark) and back again in the form of expenditure (1 mark). The diagram should also show the 3 injections (1 mark) and the 3 withdrawals (1 mark). Candidates should explain that NY equilibrium occurs when the level of injections equals the level of withdrawals (1 mark) and as money from UK investment flows into the UK (ie it is an injection) (1 mark), it will increase the level of NY (1 mark).

Max 5 for diagram

Marks can be split 5:3, 4:4, 2:6

**8**

[END OF MARKING INSTRUCTIONS]