



# **2013 Economics**

## **Advanced Higher**

### **Finalised Marking Instructions**

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## **Part One: General Marking Principles for Economics Advanced Higher**

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this Paper. These principles must be read in conjunction with the specific Marking Instructions for each question.

- (a)** Marks for each candidate response must always be assigned in line with these general marking principles and the specific Marking Instructions for the relevant question. If a specific candidate response does not seem to be covered by either the principles or detailed Marking Instructions, and you are uncertain how to assess it, you must seek guidance from your Team Leader/Principal Assessor.
- (b)** Marking should always be positive ie, marks should be awarded for what is correct and not deducted for errors or omissions.

### **GENERAL MARKING ADVICE: Economics Advanced Higher**

The marking schemes are written to assist in determining the “minimal acceptable answer” rather than listing every possible correct and incorrect answer. The following notes are offered to support Markers in making judgements on candidates’ evidence, and apply to marking both end of unit assessments and course assessments.

These are not solutions

1. The appended marking instructions are guidelines only. Candidates will adopt different ways of tackling particular questions.
2. Differences of interpretation will be resolved at the Markers’ meetings in May and June.
3. In essay or extended answers it is not necessary for candidates to include all the points listed in the enclosed mark schemes.
4. Candidates are expected to demonstrate a full appreciation of the topic and a sound understanding of the economic issues under discussion.
5. Marks should not be allocated on a rigid points scoring basis, but on the overall quality of the answer.

**Part Two: Marking Instructions for each Question**

**SECTION A**

Question		Expected Answer/s	Max Mark	Additional Guidance
1	a	<p>Explain what is meant by the following terms as used in this passage.</p> <p>Emerging economies (line 3)</p> <ul style="list-style-type: none"> <li>Economies experiencing rapid rates of economic growth</li> <li>High % increase in GDP per capita</li> <li>Credit examples such as Brazil, India etc (1)</li> </ul>	2	
	b	<p>Market failure (line 25)</p> <ul style="list-style-type: none"> <li>The market system fails to produce an optimal allocation of resources</li> <li>Credit references to climate change and negative externalities (1)</li> </ul>	2	
2	a	<p>Explain why the demand <b>and</b> supply of food in the world market tends to be price-inelastic in the short-run.</p> <ul style="list-style-type: none"> <li>Inelastic demand – food is a staple good/necessity and therefore demand tends to be inelastic</li> <li>Supply is inelastic because there is a long lead time between price changes and increasing crops/food supply</li> <li>Inelastic supply of land</li> </ul>	2	
2	b	<p>Use a diagram to show the effects of market changes on world food prices.</p> <ul style="list-style-type: none"> <li>One mark for clearly shown inelastic demand and supply curves</li> <li>One mark for showing upward shift in demand and downward shift in supply</li> <li>One mark for showing new equilibrium price and quantity</li> </ul>	3	

Question		Expected Answer/s	Max Mark	Additional Guidance
3		<p>Explain the role of speculation in the world food market.</p> <ul style="list-style-type: none"> <li>• Speculation has led to food prices rising to high levels + explanation</li> <li>• Investors use Futures Contracts which they buy and sell like stocks and shares to make a profit</li> </ul>	2	1 reason well developed or 2 separate reasons
4		<p>Explain why rising food prices are most detrimental to the poorest consumers.</p> <ul style="list-style-type: none"> <li>• Food bills make up a large proportion of average household spending (from passage) and therefore as they rise, it has a negative impact on their real purchasing power</li> <li>• Opportunity cost</li> <li>• Much food is imported and given the low exchange rate of low income countries imported food is relatively expensive</li> </ul>	2	1 reason well developed or 2 separate reasons
5		<p>Explain why the imposition of a maximum price in the market for staple foods might do more harm than good. (Use a diagram to support your answer).</p> <ul style="list-style-type: none"> <li>• One mark for showing the maximum price below the equilibrium point</li> <li>• One mark for highlighting the shortage clearly</li> <li>• A shortage will result</li> <li>• Need for a rationing system</li> <li>• Shadow markets</li> <li>• Producers may leave the industry</li> <li>• Consumers who could previously purchase the product can no longer necessarily do so</li> </ul> <p><i>Max 2 marks for diagram and 2 marks for explanation</i></p>	4	

Question	Expected Answer/s	Max Mark	Additional Guidance
6	<p>Describe the reasons why some economists believe that the production of biofuels is unjustifiable.</p> <ul style="list-style-type: none"> <li>• Opportunity costs in terms of other crops such as wheat, barley etc</li> <li>• Large subsidies</li> <li>• Food poverty and hunger</li> <li>• Greater inequality</li> <li>• Production of biofuels uses a disproportionate amount of resources such as water</li> <li>• Transport costs of biofuels</li> <li>• Other energy alternatives are available</li> </ul>	2	2 reasons needed
7	<p>Given the controversy surrounding biofuels, suggest and justify other economic measures which governments can introduce to reduce the effects of climate change.</p> <ul style="list-style-type: none"> <li>• Pollution targets</li> <li>• Pollution taxes</li> <li>• Carbon trading schemes</li> <li>• Legalisation</li> <li>• International agreements</li> <li>• Green technologies subsidies</li> <li>• Education</li> <li>• Planting trees</li> <li>• Carbon footprints</li> <li>• Local markets/food miles</li> <li>• Conservation</li> <li>• Recycling, reusing, reducing, repairing</li> <li>• Etc</li> </ul> <p><i>Maximum of 3 marks if no justification</i></p>	6	At least 2 measures must be well justified
		25	

## SECTION B

Question		Expected Answer/s	Max Mark	Additional Guidance
1	a	<p>In the UK, the market for gas and electricity is dominated by six major firms who have been criticised for all raising their prices in a short period of time.</p> <p>Describe why the market for gas and electricity is oligopolistic.</p> <ul style="list-style-type: none"> <li>• The market is dominated by a few large firms</li> <li>• There are high barriers to entry. (Credit examples relevant to the gas and electricity industry)</li> <li>• High concentration ratio</li> <li>• Interdependence</li> <li>• Price leadership</li> <li>• Tacit/Informal Collusion</li> <li>• High spending on advertising</li> </ul>	8	<p>Examples should be relevant to gas and electricity.</p> <p>Max 4 if no development.</p> <p>Max 3 per point.</p>
1	b	<p>Discuss measures the UK government could take to ensure that the gas and electricity market operates more in the interests of consumers.</p> <ul style="list-style-type: none"> <li>• Best information for consumers</li> <li>• Regulators</li> <li>• More transparency about charges</li> <li>• Contestability</li> <li>• Reducing barriers to entry</li> <li>• Maximum pricing</li> <li>• Subsidies for green technologies</li> <li>• Legislation eg Energy Bill</li> <li>• Investigation of anti-competitive behaviour/legal sanctions</li> <li>• More effective powers for the regulators</li> </ul> <p><i>At least 3 different well-discussed measures for full marks.</i></p>	9	<p>Discussion required.</p> <p>Max 6 if no discussion.</p>

Question		Expected Answer/s	Max Mark	Additional Guidance
1	c	<p>Explain why the existence of large firms may not always be detrimental to consumers.</p> <ul style="list-style-type: none"> <li>• Natural monopolies/economies of scale</li> <li>• Research and development</li> <li>• Innovation</li> <li>• Price discrimination</li> <li>• Minimum efficient scale in global markets</li> <li>• Creative destruction</li> <li>• Contestable market theory</li> </ul> <p><i>At least 2 well-explained reasons for full marks</i></p>	8	
			25	

Question		Expected Answer/s	Max Mark	Additional Guidance
2	a	<p>In Africa, some countries have recently experienced higher rates of economic growth than others.</p> <p>Discuss reasons why some countries in Africa have experienced higher rates of economic growth than others.</p> <p><i>A discussion of the reasons for higher and lower rates of economic growth is required for full marks.</i></p> <p>Higher rates of economic growth:</p> <ul style="list-style-type: none"> <li>• Rising commodity prices</li> <li>• Extraction of commodities</li> <li>• Rising agricultural prices</li> <li>• Rising investment from countries such as China</li> <li>• Better focussed aid</li> <li>• Better governance</li> <li>• Ending of civil wars</li> <li>• Micro-finance</li> <li>• Better education for women</li> <li>• Rising productivity</li> <li>• FDI</li> </ul>	9	<p>Relevant examples to be credited eg Mozambique and Bangladesh</p> <p>Lack of the above and other relevant factors, such as corruption, can be used to explain lower rates of economic growth but the marks will not be allocated twice unless appropriate development or example.</p>



Question		Expected Answer/s	Max Mark	Additional Guidance
2	b	<p>Many African countries still receive foreign aid, although its effectiveness has been questioned. Discuss the effectiveness of foreign aid.</p> <p><i>Both the advantages and disadvantages of foreign aid must be discussed for full marks.</i></p> <ul style="list-style-type: none"> <li>• Prestige projects</li> <li>• Lack of sustainability</li> <li>• Misappropriation of aid</li> <li>• Aims of donor countries/groups eg political rather than economic</li> <li>• Donor countries – “value for money” given austerity measures</li> <li>• Corruption</li> <li>• Dependency culture</li> <li>• Exploitation of natural resources</li> <li>• Role of emergency aid</li> <li>• Issues of dumping</li> <li>• Second-hand markets eg clothing</li> </ul> <p><i>Relevant examples to be credited.</i></p> <p><i>Mark according to the overall quality of the discussion.</i></p>	8	No marks for types of aid unless linked to effectiveness. Max 5 if no discussion. Max 5 if only advantages or disadvantages are discussed.
2	c	<p>Apart from foreign aid, describe other measures that could be taken to raise economic growth rates in low income countries.</p> <ul style="list-style-type: none"> <li>• Trade liberalisation</li> <li>• Capital investment</li> <li>• Education/training</li> <li>• Debt relief</li> <li>• FDI</li> <li>• Ending of agricultural subsidies</li> <li>• Better governance</li> <li>• Population controls</li> </ul> <p><i>At least 3 measures should be described for full marks.</i></p>	8	Award marks for ID.
			25	

Question		Expected Answer/s	Max Mark	Additional Guidance
3	a	<p>Some commentators are more optimistic than others about the survival of the Eurozone.</p> <p>Explain measures that have been taken, or could be taken, to ensure the survival of the Eurozone.</p> <ul style="list-style-type: none"> <li>• Writing-off debt “haircuts”</li> <li>• Two-tier Euro</li> <li>• Bailout funds</li> <li>• ECB bond purchases</li> <li>• Support to the banking sector</li> <li>• Austerity programmes</li> <li>• Fiscal management and monitoring</li> <li>• Eurobonds</li> <li>• Fiscal union</li> <li>• Unified banking regulation</li> <li>• Grexit</li> </ul> <p><i>At least 3 measures should be described for full marks.</i></p>	9	Max 3 per measure.
3	b	<p>Some economists believe that the Eurozone remains fundamentally flawed. Discuss this view.</p> <p><i>A discussion of the reasons is required for full marks.</i></p> <ul style="list-style-type: none"> <li>• Is the Eurozone an optimal currency area?</li> <li>• Different productivity rates</li> <li>• Different balance of sectors</li> <li>• One size fits all interest rates</li> <li>• Asymmetric shocks</li> <li>• Lack of international competitiveness if Euro too high</li> <li>• Painful internal devaluation rather than external devaluation of currency</li> <li>• The extent and length of austerity programmes</li> <li>• Social and political tensions – internally and between countries</li> <li>• Lack of institutional frameworks</li> <li>• Ad hoc short-term solutions</li> <li>• Individual interests of nation states as opposed to the United States of Europe</li> </ul>	8	

Question		Expected Answer/s	Max Mark	Additional Guidance
3	c	<p>Describe the possible consequences for a country leaving the Eurozone.</p> <ul style="list-style-type: none"> <li>• No mechanism to leave</li> <li>• Contagion</li> <li>• Capital flight</li> <li>• Devaluation of new currency</li> <li>• Costs and timing involved in issuing a new currency</li> <li>• Inflation</li> <li>• Debts denominated in Euros would soar</li> <li>• Default issues</li> <li>• Bank failures</li> <li>• IMF bailouts</li> <li>• More austerity measures</li> <li>• Greater social tension</li> <li>• Devalued currency could lead to export-led growth</li> <li>• Control over monetary policy</li> <li>• Examples eg Argentina</li> </ul> <p><i>At least 3 consequences should be described for full marks.</i></p>	8	
			25	

Question		Expected Answer/s	Max Mark	Additional Guidance
4	a	<p>Some economists believe that the UK government's deficit reduction policy is misguided.</p> <p>Explain why reducing the budget deficit is a key economic objective of the UK government.</p> <ul style="list-style-type: none"> <li>• To reduce national debt as a % of GDP</li> <li>• To reduce the interest burden</li> <li>• Intergenerational unfairness</li> <li>• AAA rating</li> <li>• Ideology – reducing the size of the state</li> <li>• Improving investor confidence</li> <li>• Avoiding a sovereign debt crisis</li> </ul> <p><i>At least 3 points should be explained for full marks.</i></p>	8	
4	b	<p>Explain the negative impacts of the deficit reduction policy on the UK economy.</p> <ul style="list-style-type: none"> <li>• Lack of economic growth</li> <li>• Rising unemployment – particularly in the public sector</li> <li>• Underemployment</li> <li>• Negative multiplier effect</li> <li>• Cuts in benefits and welfare service – greater inequality</li> <li>• Lack of investment</li> <li>• Lower standards of living</li> <li>• Cuts in services that are state funded eg Legal Aid, EMAs</li> <li>• Higher student tuition fees</li> <li>• Cuts in local government budgets eg policing</li> </ul> <p><i>At least 4 points should be explained for full marks.</i></p>	10	No mark for ID if negative multiplier effect.

Question		Expected Answer/s	Max Mark	Additional Guidance
4	c	<p>Given the UK government's determination to reduce the budget deficit, describe measures it can take to encourage economic growth.</p> <ul style="list-style-type: none"> <li>• Encouraging bank lending</li> <li>• Supply-side policies eg modern apprenticeships, training, reducing benefits etc</li> <li>• Infrastructure spending</li> <li>• Employment schemes</li> <li>• Helicopter money</li> </ul>	7	No credit to monetary policy.
			25	

Question		Expected Answer/s	Max Mark	Additional Guidance
5	a	<p>The effectiveness of quantitative easing and inflation targeting has been questioned by some economists.</p> <p>Explain how quantitative easing is supposed to affect an economy.</p> <p><i>Up to 2 marks for definition of QE. +/- or figures</i></p> <ul style="list-style-type: none"> <li>• Reduces long-run interest rates</li> <li>• Improves the availability of credit</li> <li>• Increases confidence</li> <li>• Encourages investment in other assets with higher returns – portfolio rebalancing</li> <li>• Lower the value of the £</li> <li>• Increase inflationary pressures</li> <li>• Increase AMD</li> </ul>	8	
5	b	<p>Discuss reasons why some economists believe that quantitative easing has winners and losers.</p> <p><i>Both winner and losers must be considered for full marks.</i></p> <ul style="list-style-type: none"> <li>• The banks – cash injection</li> <li>• The government – lower borrowing costs</li> <li>• People who own financial assets whose value has risen</li> <li>• Borrowers – lower long-term interest rates</li> <li>• Savers – lower long-term interest rates</li> <li>• Pensioners – annuities</li> <li>• Falling real wages as a result of inflation caused by QE</li> <li>• Exporting firms due to a lower exchange rate</li> <li>• Shareholders – top 5%</li> </ul>	7	

Question		Expected Answer/s	Max Mark	Additional Guidance
5	c	<p>Explain the advantages and disadvantages of inflation targeting.</p> <p><i>Both advantages and disadvantages must be explained for full marks.</i></p> <ul style="list-style-type: none"> <li>• Embeds lower inflationary expectations</li> <li>• Prevents deflation</li> <li>• Creates an environment for investment</li> <li>• Lower wage demands – less chance of a wage-price spiral</li> <li>• Avoids intermediate targets such as money supply or the exchange rate</li> <li>• Credibility of monetary policy</li> <li>• Blunt policy instrument</li> <li>• Ignores asset bubbles</li> <li>• Ignores the banking sector</li> <li>• Ignores other imbalances such as the balance of payments</li> <li>• When target is ignored, monetary policy loses credibility</li> <li>• Meeting the target does not ensure economic stability</li> <li>• Conflict with other policy objective</li> <li>• Federal reserve now has Unemployment Target</li> <li>• New Governor of the Bank of England has suggested targeting Nominal GNP</li> </ul> <p><i>At least 4 well explained points for full marks. 6:4 4:6 5:5</i></p>	10	
			25	

Question		Expected Answer/s	Max Mark	Additional Guidance
<b>6</b>	<b>a</b>	<p>Excessive alcohol consumption leads to high negative externalities in consumption. Therefore, the Scottish Government is intending to introduce minimum pricing for alcohol.</p> <p>Draw a diagram to show the effects of negative externalities resulting from the excessive consumption of alcohol.</p> <ul style="list-style-type: none"> <li>• Two marks for correctly labelled curves – private marginal benefit, private marginal cost, social marginal benefit</li> <li>• One mark for highlighting the negative externality</li> <li>• One mark for highlighting the over-consumption</li> </ul>	<b>4</b>	
<b>6</b>	<b>b</b>	<p>Explain the negative impacts of excessive alcohol consumption on the Scottish economy.</p> <ul style="list-style-type: none"> <li>• Healthcare costs</li> <li>• Policing costs</li> <li>• Other welfare costs eg treatment programmes</li> <li>• Loss of productivity/output</li> <li>• Lower employability</li> <li>• Higher benefit payments</li> <li>• Opportunity costs</li> </ul>	<b>6</b>	



Question		Expected Answer/s	Max Mark	Additional Guidance
6	c	<p>Some economists believe that minimum pricing for alcohol will be inefficient and ineffective. Discuss this view.</p> <ul style="list-style-type: none"> <li>• PED for alcohol is inelastic, particularly amongst heavy drinkers</li> <li>• Moderate drinkers are going to be penalised</li> <li>• Concern about impact on some key Scottish industries eg whiskey</li> <li>• Cross-border trade is impossible to prevent</li> <li>• Supermarkets will have higher profit margins</li> <li>• Untargeted – blunt instrument</li> <li>• People’s drinking patterns will change eg to higher strength alcohols</li> <li>• Unless the minimum is raised in line with inflation, the price rise is reduced in real terms</li> <li>• Hidden economy in alcohol</li> </ul>	8	
6	d	<p>Describe and justify other measures which have been, or could be taken to reduce alcohol consumption in Scotland.</p> <ul style="list-style-type: none"> <li>• Education</li> <li>• Increasing drinking age</li> <li>• Cultural changes</li> <li>• Legislation eg happy hours, purchasing hours, etc</li> <li>• Taxation</li> </ul> <p><i>At least 2 measures should be considered. Maximum 4 marks if no justification.</i></p>	7	
			25	

[END OF MARKING INSTRUCTIONS]