



2013 Economics

Higher

Finalised Marking Instructions

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Part One: General Marking Principles for Economics 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 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.

Part Two: Marking Instructions for each Question

SECTION A

Item A

Question		Expected Answer/s	Max Mark	Additional Guidance
a	i	<i>A recession is defined as two or more quarters of zero or negative economic growth (2). A fall in real GDP (1).</i>	2	
a	ii	<i>A floating exchange rate system occurs when the value of the currency concerned is allowed to find its own value determined by the market forces of demand for the currency and the supply of it. The government does not attempt to fix the rate of exchange but it is set by market forces of demand and supply.</i>	2	
b	i	<i>A weak pound will reduce the price of UK exports in terms of other currencies because fewer units of the foreign currency will be required to buy the pounds to pay for the UK exports. Thus UK exports will appear to be cheaper in the country than before the pound became weak and this should encourage overseas demand for UK exports.</i> <i>Credit numerical examples.</i>	2	
b	ii	<i>A weak pound will have the effect of increasing the price of goods and services imported into the UK and so might contribute to increasing the price level and thus inflation in the UK. However, because imports are now more expensive, less may now be imported so helping the balance of payments. Also a weak pound has the effect of reducing competition from foreign imports to UK firms who may take on workers leading to lower unemployment and higher rate of economic growth.</i>	4	
c		<i>Low interest rates in the UK may reduce the flow of overseas funds into the UK for investment purposes. This has the effect of reducing the demand for UK pounds into which the foreign currency has to be switched for investment in the UK. This fall in demand for pounds would contribute to reducing the exchange rate of sterling. Hot money flows into the UK will fall reducing demand for £ sterling. Credit rising supply of £'s as money flows out of UK etc.</i>	3	

Question		Expected Answer/s	Max Mark	Additional Guidance
d		<i>The Monetary Policy Committee of the Bank of England is responsible for managing monetary policy in the UK and principally setting interest rates. Its main aim in this regard is to ensure inflation is 2%. More recently it has become involved in increasing the money supply through quantitative easing which is aimed at increasing the ability of banks to lend to industry and commerce and so help the UK economy to move out of recession. Credit monthly meetings/9 members/etc.</i>	3	
e		<i>An increase in demand in the economy without a commensurate increase in supply would cause inflation, eg Demand pull inflation caused by too much money chasing too few goods. Also increases in costs either caused by rising wages without productivity increases or a falling exchange making imported resources for production more expensive, would result in cost – push inflation.</i>	4	

Question		Expected Answer/s	Max Mark	Additional Guidance
f	i	<i>A fixed exchange rate system. Managed.</i>	1	
f	ii	<p><i>A fixed exchange rate system brings certainty to international trading in that traders know what the exact cost of goods exported or imported is going to be because the exchange rate is fixed by the government and not allowed to appreciate or depreciate.</i></p> <p><i>Less speculation</i></p> <p><i>On the other hand, a fixed rate of exchange may require the government to intervene if there is a run on the pound (where its value is falling rapidly) and use the country's foreign exchange reserves to buy up pounds to maintain its value. No automatic adjustment of the Balance of Payments.</i></p>	4	
			(25)	

Section A

Item B

Question		Expected Answer/s	Max Mark	Additional Guidance
	a	<ul style="list-style-type: none"> • <i>Measure of rising inflation that excludes housing costs.</i> • <i>Measure of change in price level, excluding housing costs.</i> • <i>Weighted index of the goods on which most consumers spend.</i> • <i>Credit explanations of weighting eg gas prices will impact heavily on the index but items such as hamsters impact minimally.</i> 	2	
	b	i <i>Oligopoly</i>	1	
	b	ii <i>One mark per short description. Two ideas for full marks. Non-price competition – credit any two examples of this.</i> <ul style="list-style-type: none"> • <i>High advertising expenditure/level of promotional activity.</i> • <i>Branded products and attempts to differentiate from other brands.</i> • <i>Marketing offers such as loyalty cards.</i> • <i>Choice of location of outlets.</i> • <i>Development of methods of distribution eg internet shopping/catalogues.</i> • <i>Price leadership – shadowing the largest firm’s pricing policy.</i> • <i>Game theory.</i> • <i>Occasional short-lived price wars may break out.</i> <p><i>DO NOT ACCEPT price competition without a recognition that this is not typical.</i> <i>ACCEPT: phoney price wars, short-lived price wars or price competition based around a few well-known products.</i></p>	2	

Question		Expected Answer/s	Max Mark	Additional Guidance
	c	<i>Real incomes have fallen (1) because prices have risen faster than wages (1) or real incomes have fallen (1) by 3.4% (1) (5.2% less than 1.8%).</i>	2	
	d	<p><i>Accept an explanation based on a minimum of 2 internal economies of scale:</i></p> <p><i>Definition of economies of scale (2).</i></p> <p><i>Marketing (advertising), purchasing (often labelled "marketing" in economic texts), managerial, technical, transport, risk-bearing, research and development etc.</i></p> <p><i>Max of 2 marks for each explained economy of scale.</i></p>	4	
	e	<p><i>The question does say "ways" plural, so 2 ways required for full marks.</i></p> <p><i>By product: food and non-food products (1).</i> <i>By market: UK and many other countries (1).</i></p> <p><i>The advantage is summed up as "not having all their eggs in one basket" so that a dip in one area is usually balanced by progress in others, reducing risk (1).</i></p>	3	

Question		Expected Answer/s	Max Mark	Additional Guidance
f	i	<p><i>One mark for a basic explanation. Some development for 2 marks.</i></p> <p><i>The extent to which an increase in income leads to an increase in demand (1).</i></p> <p><i>The percentage change in demand divided by the percentage change in income (1).</i></p> <p><i>Credit an understanding of the difference between normal and inferior goods.</i></p>	2	
f	ii	<p><i>Food is a necessity and is generally consumed in adequate quantities before an increase in income, so only a small increase in food spending is likely and probably due to quality rather than quantity changes – therefore inelastic between zero and one. Purchases of food can be delayed.</i></p> <p><i>Non-food items represent discretionary spending (and sometime luxuries) to a greater extent and after an increase in income there is the scope to increase spending in these areas far more – therefore elastic, greater than one. Also when income falls these purchases can be delayed.</i></p> <p><i>Mark on overall quality.</i></p>	3	

Question		Expected Answer/s	Max Mark	Additional Guidance
	g	<ul style="list-style-type: none"> • 1 mark for correctly labelled axes and original supply and demand lines. • 1 mark for demand shift to left in mild weather. • 1 mark for supply shift to left as cost of production increases. • 1 mark for equilibrium price and quantity changes (which vary with gradient of lines and could be either up/down/same as appropriate). 	4	
	h	<ul style="list-style-type: none"> • Tax on plastic bags. • Changes in laws regarding lighting/insulation/waste disposal etc. • Increase tax on petrol/fuel. • Subsidies to rail freight. • Make buy one get one free offers illegal to cut down on waste. <p>Accept other sensible answers.</p>	2	
			(25)	

SECTION B

Question			Expected Answer/s	Max Mark	Additional Guidance
1	a		<p><i>Scarcity is a relative term and in economics it relates to an insufficiency of economic resources to meet the unlimited want for goods and services. A shortage however relates to a physical imbalance between what is supplied to a market and what is actually demanded where, for whatever reasons, the amount demanded is greater than the amount supplied.</i></p> <p><i>Scarcity can never be solved. A shortage is temporary, scarcity it universal and for all time.</i></p>	5	
1	b	i	<p><i>A free good does not require any economic resources to produce it and so it is abundantly supplied at no cost. Such goods are unlimited in supply and so have no opportunity cost. Examples of free goods would include air.</i></p> <p><i>Economic goods require the use of scarce resources to produce them and so their use does have an opportunity cost. Such goods also command a price in the market. Examples include motor cars.</i></p>	4	
1	b	ii	<p><i>Public goods are goods the consumption of which by one person does not exclude the consumption by another person and, once provided, no person can be excluded from benefitting from them. An example would be street lighting.</i></p> <p><i>A merit good is normally one that is underprovided by the market mechanism and, as a result the state steps in to provide this. Examples include health care and education.</i></p>	4	

Question		Expected Answer/s	Max Mark	Additional Guidance
1	c	<p><i>The price mechanism uses the forces of demand and supply to determine the price of a good or service. If demand for a good or service is rising, the price will initially tend to rise because there is a shortage. This will encourage existing and new suppliers to increase their supply by using more economic resources to make the good or service and provide it to the market. Thus the 'invisible hand' of the market determines how economic resources will be used (allocated) in an economy. Likewise, votes against a good or service by falling demand will result in falling prices for that good or service and so fewer resources will be employed to provide it. Thus the 'invisible hand' determines how resources will be used in an economy.</i></p> <p><i>Producers alter supply in response to changing levels of price and profit.</i></p>	6	
1	d	<p><i>Demand curves slope upwards from left to right occasionally indicating that more is demanded at a higher price. This could result from:</i></p> <ul style="list-style-type: none"> <i>• as the price of a product begins to rise, consumers may rush to buy more of it for fear of the price rising even further eg speculators.</i> <i>• to many consumers, rising prices may indicate enhanced quality in the good and feelings of ostentation from the consumption of expensive goods. Therefore more will be bought as the price rises (Veblen goods).</i> <i>• as the price of an essential basis product increases, eg bread, poor families with little income, may cancel consumption of other less essential goods and use the income saved from this postponed consumption to buy more bread. Such goods are known as Giffen goods.</i> 	6	
			(25)	

Question		Expected Answer/s	Max Mark	Additional Guidance
2	a	<p>One mark for the diagram and 3-3, 4-2, 2-4 for the explanations.</p> <ul style="list-style-type: none"> • 1 mark for a u-shaped average total cost curve with correct axes labels. • 1 mark for increasing returns to the fixed factor and up to 3 further marks for an explanation of this. • 1 mark for decreasing (or diminishing) returns to the fixed factor and up to 3 further marks for an explanation of this. • Credit full marks for referring to combination of $AFC+AVC=ATC$ and full explanation of the shapes of these added together. <p>Mark on overall quality of answer</p>	6	
2	b	<ul style="list-style-type: none"> • 1 mark for labelled diagram showing MC cutting ATC at the lowest point on ATC. • 1 mark for showing optimum output on graph. • 3 marks for a clear explanation of why it is inevitable that MC lower than ATC leads to a falling ATC, and why MC higher than ATC pulls the ATC curve upwards. 	5	

Question			Expected Answer/s	Max Mark	Additional Guidance
2	c	i	<ul style="list-style-type: none"> Productivity is output per input – accept output per worker/per worker hour/per machine etc. (2). <p>Only one mark for a general answer such as increasing efficiency.</p>	2	
2	c	ii	<p>Accept three developed explanations (max 2 each) based on:</p> <ul style="list-style-type: none"> Increasing the skills of the workforce (or additional training). Increased division of labour. Using new technology. Minimising wastage. <p>Accept answers that increase output per input etc but not those that increase output without reference to inputs.</p>	6	
2	d		<p>Accept three developed explanations (max 2 each) based on:</p> <ul style="list-style-type: none"> Membership of EU so not trade barriers to EU markets, non-membership of Euro may arguably be a plus point as appropriate/competitive currency level more likely to be achieved. Good standard of general education and skills in population so good productivity levels. “English” as the international business language, making dealing with local management and labour easier. Weak unions and low levels of industrial action so strikes unlikely. Presence of natural resources (eg oil) to be profitably exploited. Political and social stability making longer term investment a safe option. Attractive scenery/culture/sporting and leisure options making it easier to transfer and retain senior managers. Regional grants to subsidise the initial investment. Good transport (road/rail/air/deep water harbours) to facilitate links with major markets and with foreign headquarters. 	6	
				(25)	

Question			Expected Answer/s	Max Mark	Additional Guidance
3	a	i	<i>Economic growth occurs when the productive potential of a country is increased by either an improvement in quality or quantity of economic resources available for production. More commonly the term is associated with increases in the annual Gross National product or total output of an economy.</i>	2	
3	a	ii	<i>Economic growth brings prosperity to a country through greater levels of production and thus greater levels of employment resulting in higher incomes earned. Thus, individuals are able to consume more goods and services and have a higher standard of living and also the increased taxation resulting from higher incomes earned in the country enables the government to provide more public and merit goods for everyone's advantage. More leisure.</i>	4	
3	b		<i>Fiscal measures involve the government adjusting the tax system and its own spending plans. By reducing taxation and increasing its spending the government can stimulate overall spending by consumers and itself in the economy which results in more goods and services being produced and output rising – economic growth. Similarly by using Monetary measures to adjust interest rates downwards and increase the money supply more borrowing and spending in the economy should occur which will result in increased output and economic growth. Hopefully such measures will not result in inflation which is always a danger when economic growth takes place.</i> <i>Credit examples; positive multiplier effect etc.</i>	10	

Question		Expected Answer/s	Max Mark	Additional Guidance
3	c	<p><i>Governments aim to reduce the level of unemployment, have a stable and low level of inflation and seek to ensure income is distributed relatively evenly across the population. A balanced Balance of Payments, a balanced Budget</i></p>	3	
3	d	<p><i>National income measurement can encounter the following difficulties:</i></p> <ul style="list-style-type: none"> • <i>because it is such a comprehensive and complicated process, the final figure arrived at for a country's national income is not likely to be that accurate</i> • <i>issues of double counting may also occur. This happens when the output of one process is included in the output of the next process. Eg the output of the steel for cars is added on to the value of cars coming off the assembly line rather than simply adding the value added at each stage</i> • <i>much output in the economy does not reach the market and so is not counted. DIY activities, food grown at home, etc would not be included in the calculation and so the overall value of national income may be understated</i> • <i>if a country is experiencing inflation of say 5% and national income is calculated to be growing at 5%, then there is no real growth at all. Adjustments have to be made for a constant value of money to make the calculation realistic and accurate.</i> • <i>quality improvements are not recorded.</i> • <i>problems of measuring the output of the public sector.</i> 	6	
			(25)	

Question			Expected Answer/s	Max Mark	Additional Guidance
4	a	i	<ul style="list-style-type: none"> • 1-2 marks for explanation of claimant count • 2-3 marks for explanation of labour force survey which offers more scope for development 		
4	a	ii	<p>2 marks for each developed point (x3)</p> <ul style="list-style-type: none"> • Structural – long term decline of older industries • Technological – new technology replacing workers • Cyclical – due to low growth or recession • Seasonal – due to seasonal factors such as a harsh winter • International – due to increased competitiveness of low-wage economies abroad • Frictional – longer delays in finding new jobs <p>Accept also an approach that refers to cuts in Government spending, increases in taxes, strong £ or recessions in overseas markets etc.</p>	6	

Question			Expected Answer/s	Max Mark	Additional Guidance
4	b	i	<ul style="list-style-type: none"> • <i>Loss of output which cannot be made back as no return to past is possible</i> • <i>Low or negative economic growth because of negative multiplier as unemployed spend less creating further unemployment</i> • <i>Tax revenues reduce – income tax, corporation tax, VAT (and explain)</i> • <i>Government expenditure increases as unemployment benefits grow, and spending on re-training etc.</i> • <i>Increasing budget deficit (borrowing) and growing national debt (interest payments)</i> • <i>Increasing risk of social unrest and social problems</i> • <i>Balance of trade may improve as less demand for imports</i> 	6	
4	b	ii	<ul style="list-style-type: none"> • <i>Reduced sales as consumer confidence affected</i> • <i>Unemployed have far less income to spend</i> • <i>Leading to reduced profits</i> • <i>And reluctance to invest</i> • <i>Need to be more efficient to survive recession and avoid bankruptcy</i> • <i>More applications for any jobs and no pressure to increase wages</i> <p><i>Accept marks 2-4 and 4-2 as well as 3-3. Up to 2 marks for developed points or a greater number of less developed explanations may be accepted.</i></p>		

Question			Expected Answer/s	Max Mark	Additional Guidance
4	c	i	<p><i>Up to 2 marks per characteristic well described, but accept 5 shorter distinct points:</i></p> <ul style="list-style-type: none"> • <i>Unskilled, poorly educated labour force (low literacy rates)</i> • <i>Lack of capital invest – subsistence economies with no surplus to invest</i> • <i>Poor infrastructure – lack of social capital – roads, rail, harbours, hospitals etc.</i> • <i>Corruption of Government and officials – money hived off</i> • <i>Lack of foreign investment other than in mining and primary production</i> • <i>Reliance on market price of one export, usually a primary product</i> • <i>Weak tax base so little Government revenue</i> • <i>Political instability and military conflicts divert resources</i> • <i>Inadequate health services, high HIV rates, low life expectancy, high infant mortality</i> • <i>Dependent population high relative to working population</i> • <i>Attitudes to women working in some cultures will limit economic progress etc.</i> 	5	
4	c	ii	<p><i>Accept 2 developed points:</i></p> <ul style="list-style-type: none"> • <i>Tied aid has restricted effectiveness as can only be spent with donor nation</i> • <i>Food aid may ruin local farmers who have no incentive to plant for next year</i> • <i>Financial aid may be ineffective because of corrupt politicians stealing it</i> • <i>Aid may be less effective than allowing free trade with EU or USA, which would encourage entrepreneurs and economic growth</i> • <i>Dependence encouraged rather than the improvement of local economy.</i> • <i>Aid may be used for prestige projects with no lasting benefit.</i> 	4	
				(25)	

Question		Expected Answer/s	Max Mark	Additional Guidance
5	a	<p><i>Free trade offers consumers the benefits of variety in the types of goods and services they can consume. Instead of relying entirely on domestic production, they can enjoy the choices involved in consuming products from other countries. Also free trade allows goods to enter the country without any tariffs an so the goods are likely to be relatively cheaper than home produced equivalents. Both of the factors help to increase the standard of living of the population. Also free trade provides competition to domestic firms who have to ensure that they are efficient and producing goods of at least the same quality and cheaper than the foreign produced goods. This is good for domestic consumers and for the economy as a whole since firms have to become more competitive and efficient.</i></p> <p><i>Free trade allows countries to benefit from specialisation.</i></p>	5	
5	b	<p><i>Countries may impose trade restrictions to:</i></p> <ul style="list-style-type: none"> <i>• protect their own domestic industries from foreign competition thus safeguarding domestic output and employment.</i> <i>• correct a significant deficit on the Balance on Current Account.</i> <i>• to protect infant industries</i> <i>• to protect strategic industries</i> <i>• Health & Safety/environmental reasons</i> 	8	

Question		Expected Answer/s	Max Mark	Additional Guidance
5	c	<p><i>The government will tend to impose indirect taxes on goods that are essential or habit forming and so have an inelastic demand. This means that any increase in the price of the good (caused by the increase in the indirect tax) will result in a smaller decline in the demand for the good and so the revenue for the government from the tax will increase. Credit diagrams if included.</i></p>	6	
5	d	<p><i>By moving the balance of taxation from direct to indirect taxation will have the following effects:</i></p> <ul style="list-style-type: none"> • <i>It will tend to be regressive and adversely affect poorer people who have to pay the indirect spending tax when they buy goods and services irrespective of their income. However, more affluent people will be less affected by the increase, and, since direct tax is being reduced, they will be better off.</i> • <i>Because an increase in indirect tax has the effect of increasing the price of the goods and services on which it is levied, it is likely that the rate of inflation in the economy will increase due to an overall rise in retail prices.</i> • <i>Lower rates of direct tax, eg income tax and corporation may increase the incentives of people to work and enter the labour market while any reduction in corporation tax may encourage more entrepreneurs to set up in business. Both of these aspects should encourage economic growth.</i> 	6	
			(25)	

Question			Expected Answer/s	Max Mark	Additional Guidance
6	a		<p>Budget deficit: Government spending more than Government revenue, increasing public sector borrowing and the national debt.</p> <p>Trade in goods deficit: Value of imported goods exceeds value of exported goods.</p>	4	
6	b	i	<p>Up to 2 marks for each developed point:</p> <ul style="list-style-type: none"> • Low levels of investment • Low levels of productivity • Loss of comparative advantage, especially in manufacturing • Lower wage costs – for example in Asia • UK now specialising in service sector where there is comparative advantage eg In banking and financial services • £ can be high and at competitive disadvantage eg with Chinese renminbi • UK has enjoyed oil self-sufficiency which helps maintain strong £ • Long term trend of low investment in secondary industry • UK banks less willing to lend long-term eg compared to Germany • Historically weaker on reliability (eg to Germany/Japan) and design (eg to Sweden/Italy). 	5	

Question			Expected Answer/s	Max Mark	Additional Guidance
6	b	ii	<p><i>Current Account/Financial Account, Capital Account and Balancing Item can all be referred to:</i></p> <ul style="list-style-type: none"> • <u><i>Other Components of the Current Account</i></u> (maximum 4 marks) • <i>Trade in services such as financial services</i> • <i>(Net) investment income – the difference between inward and outward profit flows and interest payments</i> • <i>(Net) transfers – foreign aid, contributions to EU budget, income sent overseas by foreign workers</i> • <i>(Net) capital flows – investment in fixed assets overseas</i> • <i>Financial Account – FDI portfolio, bank deposits, hot money flows</i> • <i>Capital Account – asset purchases</i> • <i>Balancing Item – statistical error</i> <p><i>3 described points for full marks.</i></p>	6	
6	c	i	<p><i>Mark 4-2, 3-3 or 2-4</i></p> <ul style="list-style-type: none"> • <i>Encourages free trade by reducing tariffs and non-tariff barriers</i> • <i>Mediates in trade disputes</i> • <i>Enforces members' adherence to agreements – can impose penalties</i> <p><i>Credit references to trade talks (Uruguay or Doha round).</i></p>	6	
6	c	ii	<ul style="list-style-type: none"> • <i>Promotes international economic cooperation especially on currencies</i> • <i>Makes funds available to member countries to meet balance of payments needs</i> • <i>Promotes stability in exchange rates and organised re-alignments</i> • <i>Assists countries in switching to more market-based economic systems</i> • <i>Assists economic development but usually requires firm control of money supply, cuts in Government spending (austerity) and market-based solutions</i> <p><i>Credit references to Eurozone bail-outs – Greece etc.</i></p>		

Question		Expected Answer/s	Max Mark	Additional Guidance
6	d	<p><i>Credit a definition of negative externalities – Difference between price that reflects the money costs of production and the real costs including those that fall on third parties (externalities)</i></p> <p><i>Pollution – eg smoke from chimneys, acid rain, noise or visual pollution</i></p> <p><i>Congestion – in local area from workers, transport of materials and finished goods</i></p> <p><i>Mark on overall quality of answer.</i></p>	4	
			(25)	

[END OF MARKING INSTRUCTIONS]