



# **2013 Economics**

## **Intermediate 2**

### **Finalised Marking Instructions**

© Scottish Qualifications Authority 2013

The information in this publication may be reproduced to support SQA qualifications only on a non-commercial basis. If it is to be used for any other purposes written permission must be obtained from SQA's NQ Assessment team.

Where the publication includes materials from sources other than SQA (secondary copyright), this material should only be reproduced for the purposes of examination or assessment. If it needs to be reproduced for any other purpose it is the centre's responsibility to obtain the necessary copyright clearance. SQA's NQ Assessment team may be able to direct you to the secondary sources.

These Marking Instructions have been prepared by Examination Teams for use by SQA Appointed Markers when marking External Course Assessments. This publication must not be reproduced for commercial or trade purposes.

## **Part One: General Marking Principles for Economics Intermediate 2**

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 Intermediate 2**

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**

**Item A**

Question			Expected Answer/s	Max Mark	Additional Guidance
			Fizzy Fizz is a manufacturer of soft drinks. The firm has experienced economies of scale and improved efficiency in the <b>long run</b> . The UK Government has, however, increased indirect taxation that has led to an increase in the <b>rate of inflation</b> in the economy. The following table shows the firm's short run costs.		

Fizzy Fizz output per day (barrels)	Total cost (£)	Average cost (£)	Marginal cost (£)
0	100	-	-
1	200	200	100
2	280	140	80
3	330	<b>A</b>	50
4	360	90	30
5	450	90	90
6	600	100	150
7	770	110	<b>B</b>

	<b>a</b>	<b>i</b>	<p>Explain what is meant by the following terms:</p> <p>"long run"</p> <p><i>In the long run, all factors of production are variable ie can change (2). In the long run, all costs of production are variable (1).</i></p>	<b>2</b>	
	<b>a</b>	<b>ii</b>	<p>"rate of inflation"</p> <p><i>Rate of increase/% increase (1 mark) in the general (average) price level (1 mark). Credit references to fall in the value of money. If a candidate says – an increase in prices – (1 mark). % increase in prices – (2 marks).</i></p>	<b>2</b>	

Question			Expected Answer/s	Max Mark	Additional Guidance
	<b>b</b>	<b>i</b>	Using the table, identify the amount of fixed costs for Fizzy Fizz.  <i>£100-100</i>	<b>1</b>	
	<b>b</b>	<b>ii</b>	Give <b>one</b> example of a variable cost for Fizzy Fizz.  <i>Wages of workers in Fizzy Fizz eg factory workers, cleaners, etc.</i> <i>Ingredients required for soft drinks eg carbonated water etc. Wages, transport costs.</i>	<b>1</b>	
	<b>c</b>	<b>i</b>	Using the table calculate:  the average cost at <b>A</b> ;  <i>£110 - 110</i>	<b>1</b>	
	<b>c</b>	<b>ii</b>	the marginal cost at <b>B</b> .  <i>£170 - 170</i>	<b>1</b>	
	<b>d</b>	<b>i</b>	Using a demand and supply diagram, explain the effect on the market for soft drinks if the UK government imposes an indirect tax.  <i>Candidates should explain how an indirect tax on a good increases the cost of producing the good (ie the producer receives the market price less the tax) and will induce the producer to produce less of it. This reduction in supply will increase the equilibrium price. Maximum of <b>2 marks</b> without a diagram.</i>  <i>The diagram should show a demand and supply curve and the equilibrium price, a correctly labelled axis, a decrease in supply, and an increase in the equilibrium price. Maximum of <b>(3 marks)</b> without an explanation.</i>	<b>4</b>	Clarify diagram  1. 1 mark for correct initial D & S and axes 2. 1 mark for shifting supply curve up 3. 1 mark for showing new equil-price and quantity No consequential error

Question		Expected Answer/s	Max Mark	Additional Guidance
d	ii	<p><b>Other</b> than an increase in <u>indirect taxation</u>, describe another cause of inflation.</p> <p><i>Look for a straightforward description of a cause of inflation eg demand pull inflation, monetarist. Mark according to the quality of the description</i>  <i>Expectations of inflation, lower interest rates.</i></p>	2	1 mark for naming demand-pull/other cost push factors/monetary Up to 2 marks for a full description of either.
e	i	<p><u>Suggest</u> and <u>explain</u> 2 economies of scale Fizzy Fizz might achieve as it expands its scale of production in the long run.</p> <p><i>Look for a straightforward explanation of any 2 internal economies of scale eg bulk buying, increasing dimensions, technical, financial, managerial, etc.</i></p> <p><i>Mark according to the quality of the explanation.</i></p>	4	1 mark for naming 1 mark for explanation
e	ii	<p><u>Identify</u> 2 benefits to Fizzy Fizz of improving its efficiency in the long run.</p> <p><i>Benefits include increases in profit margins as unit costs of production are lower; potential cheaper prices for consumers of their soft drink</i></p>	2	Increased sales (1) Increased profit (1) Lower unit costs (1) Lower prices for consumers (1) Better quality (1) Less wasted resources (1)
			(20)	

Item B

Question		Expected Answer/s	Max Mark	Additional Guidance
		<p><b>Read the following and answer the questions below.</b></p> <p>In recent years, there has been an increase in international trade which has led to a rise in the volume of imported goods into the UK which has impacted on <b>national income</b>. Many of these goods originate from the countries within the European Union (EU). The <b>exchange rate</b> value of sterling has fallen against the Euro which influences import and export prices.</p>		
a	i	<p>Explain what is meant by the following terms:</p> <p>“national income”;</p> <p><i>National income measures the total value of all goods and services produced (<b>economy activity</b>) within the economy over a year (2). It is a measure of a country’s economic performance (1).</i></p>	2	
a	ii	<p>“exchange rate”.</p> <p><i>The exchange rate of currency is its price in terms of other currencies (2). It may be expressed as a value against another currency, eg £1 = \$1.5 (2).</i></p>	2	
b		<p>Explain why most of the UK’s trade is with other EU countries.</p> <p><i>Reasons include: our trade with the EU countries is ‘free’ – credit reference to the single market and no barriers to trade within the EU; the EU produces the type of consumer goods that we want (credit examples); we produce the type of goods the EU wants; proximity ie we are close to each other therefore transport costs are relatively low.</i></p>	2	

Question		Expected Answer/s	Max Mark	Additional Guidance
c	i	<p>Suggest <b>2</b> benefits of international trade for the UK economy.</p> <p><i>Look for 2 benefits for full marks eg</i></p> <ul style="list-style-type: none"> <li>• <i>Greater choice/variety as not all countries produce the same goods;</i></li> <li>• <i>Lower prices because some countries can produce goods more cheaply than others (credit references to comparative advantage);</i></li> <li>• <i>Augments home supplies – shortages can be met by imports;</i></li> <li>• <i>Increases world competition which could lead to reduced prices;</i></li> <li>• <i>Companies can benefit from greater economies of scale because of bigger markets.</i></li> </ul>	2	
c	ii	<p>Explain <b>2</b> reasons why some countries impose barriers to international trade.</p> <p><i>Look for an explanation eg</i></p> <ul style="list-style-type: none"> <li>• <i>To reduce imports to improve balance to trade deficit;</i></li> <li>• <i>Raise revenue eg tariff;</i></li> <li>• <i>Protect infant industry – to raise the price of imports so that domestic firms can compete in the home market;</i></li> <li>• <i>To prevent harmful or unsafe products entering a country;</i></li> <li>• <i>To protect jobs;</i></li> <li>• <i>To protect strategic industries.</i></li> </ul>	4	

Question		Expected Answer/s	Max Mark	Additional Guidance
	<b>d</b>	<p>Explain how the recent <b>decrease</b> in the value of sterling against the euro affects the price of UK imports from eurozone countries.</p> <p><i>The price of imports will rise (1) as each pound is now buying less Euros (1).</i></p>	<b>2</b>	
	<b>e</b>	<p>Draw a fully labelled diagram to show the basic circular flow of income.</p> <div style="text-align: center;"> <pre> graph TD     H[Households]     BF[Business Firms]     H -- "Income (1)" --&gt; BF     BF -- "Expenditures (1)" --&gt; H     H -.- "Resources (1)" -.-&gt; BF     BF -.- "Goods and Service (1)" -.-&gt; H </pre> </div>	<b>4</b>	<p>1 mark for Firm 1 mark for household 1 mark for income / wages / profit 1 mark for expenditure</p>
	<b>f</b>	<p>Explain the likely effect of an <b>increase</b> in the value of imports on the level of national income.</p> <p><i>An increase in imports will reduce national income (1) because imports represent a withdrawal from the circular flow of income (1).</i></p>	<b>2</b>	
			<b>(20)</b>	

## ESSAY QUESTIONS

Candidates should attempt **ONE** essay question

Question		Expected Answer/s	Max Mark	Additional Guidance
1	a	<p>All countries are faced with the basic economic problem of scarcity. Governments can intervene in their economies through the use of budgets.</p> <p>Explain why all countries face the basic economic problem of scarcity.</p> <p><i>Look for a simple explanation of scarcity eg although our wants for goods and services are unlimited (credit reasons) (2) the resources (land, labour, capital and enterprise) needed to produce the goods and services are limited (credit reasons) (2). This is true in all countries – rich and poor. If no reference to all countries, the maximum is 4.</i></p>	5	
1	b	<p>Explain why governments have to make choices, and give an example of <b>one</b> choice they might face.</p> <p><i>Governments do not have enough taxation revenue (1) to do all they would wish to do (1) or therefore they have to choose how to spend/use it (1). Credit any logical example (1).</i></p>	3	
1	c	<p>Explain the term “labour mobility” and describe <b>2</b> measures that the government could introduce to improve it.</p> <p><i>The methods could relate to either geographical or occupational mobility, a variety of answers is possible. Either identification could gain one mark and either explanations one mark (maximum of 2 marks).</i></p> <ul style="list-style-type: none"> <li><i>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);</i></li> <li><i>Housing market reforms (1) designed to improve the supply of housing eg availability and affordability (1);</i></li> <li><i>Specific grants for workers prepared to move (1) eg teaching in the North of Scotland (1).</i></li> </ul>	6	

Question			Expected Answer/s	Max Mark	Additional Guidance
1	d		<p>Explain how the UK government can use the Budget to:</p>	6	(i) <b>One</b> mark for examples of direct tax (ii) Credit <u>increase</u> benefits
1	d	i	<p>increase the disposable income of consumers;</p> <p><i>The government could cut the rate of income(s) tax/national insurance (1) which would reduce the amount of tax taken off workers' pay (1) and give them more money to spend (1). Credit definitions of disposable income.</i></p>		
1	d	ii	<p>reduce the income gap between rich and poor.</p> <p><i>The government could make taxes more progressive (1) so that the rich pay proportionately more tax than the poor (1) which will reduce income inequality (1). Alternatively, the government could increase welfare benefits (1) – credit examples – which tend to be given to the poorest in society (1) and will therefore make incomes more equal (1).</i></p> <p><b>Split can be 3:3, 2:4, 4:2</b></p>		
				(20)	

Question		Expected Answer/s	Max Mark	Additional Guidance
2	a	<p>Smart phones have become increasingly popular. Some UK manufacturing firms have relocated their production process to newly industrialised countries.</p> <p>Identify and explain <b>3</b> factors which could increase the demand for smart phones.</p> <p><i>Look for a straightforward description of how 3 of the following could increase the demand for smart phones.</i></p> <ul style="list-style-type: none"> <li>• <i>An increase in income</i></li> <li>• <i>A media advertising campaign</i></li> <li>• <i>An increase in the cost of conventional mobile phones</i></li> <li>• <i>A decrease in the price of apps for smart phones</i></li> <li>• <i>A fall in price</i></li> </ul> <p><i>Credit any other plausible reason.</i></p>	6	
2	b	<p>Using a diagram, explain how the market for basic mobile phones will be affected by an increase in <u>demand</u> for smart phones.</p> <p><i>Smart phones are a substitute for basic mobile phones (1). The demand for basic mobile phones will fall and supply will contract (1). The quantity demanded and supplied will fall.</i></p> <p><i>4 marks available for diagram – 1 mark for axes, 1 mark for shifting demand curve, 1 mark for original equilibrium, 1 mark for new equilibrium.</i></p>	6	Other reasonable interpretations of this question were credited.
2	c	<p>Explain <b>2</b> reasons why a UK manufacturer may wish to relocate production to a newly industrialised country.</p> <p><i>Advantages centres around a reduction in production costs. The lower wages rates in these countries will reduce the UK company's production costs which will make them more competitive. This could result in greater sales and higher profits. UK manufacturers may wish to take advantage of new markets.</i></p>	4	

Question		Expected Answer/s	Max Mark	Additional Guidance
2	d	<p>Explain why demand curves usually slope downwards from left to right.</p> <p><i>Law of diminishing marginal utility (1) – the more we have of a good the less we want one more (1) therefore the less willing we are to pay for one more (1) so, when a good falls in price it gives consumers more value (utility) for their money (1) ie it becomes a better buy (1), so they will buy more.</i></p> <p><i>(Income effect) (1) price changes affect the real income of consumers (1) so when price falls existing consumers of the good will experience a rise in their income (1) enabling them to buy more (1). The good becomes more affordable (1).</i></p> <p><i>(Substitution effect) (1) the price may fall below that of a substitute (1) good, therefore some consumers might switch (1) to the cheaper substitute (1).</i></p>	4	
			(20)	

Question		Expected Answer/s	Max Mark	Additional Guidance
3	a	<p>National Income statistics are used by governments of developing countries.</p> <p>Explain <b>2</b> uses of National Income statistics.</p> <p><b>Uses:</b></p> <ul style="list-style-type: none"> <li>• <i>Measure economic growth and standard of living</i></li> <li>• <i>Compare growth levels in different years</i></li> <li>• <i>Compare growth levels in other countries</i></li> <li>• <i>Help the government plan future economic strategy</i></li> <li>• <i>Calculate contributions to international organisations</i></li> <li>• <i>To see which countries need aid.</i></li> </ul> <p><b>Mark of 2 for each use.</b></p>	4	
3	b	<p>Describe <b>3</b> difficulties of calculating National Income.</p> <p><b>Difficulties:</b></p> <ul style="list-style-type: none"> <li>• <i>Complexity</i></li> <li>• <i>Double counting</i></li> <li>• <i>Transfer incomes</i></li> <li>• <i>Shadow economy</i></li> <li>• <i>Inflation</i></li> <li>• <i>Population changes</i></li> <li>• <i>DIY</i></li> <li>• <i>Quality changes</i></li> </ul> <p><b>One mark for identification and one mark for the description.</b></p>	6	
3	c	<p>Describe <b>3</b> economic features of developing countries.</p> <p><b>Features may include:</b></p> <ul style="list-style-type: none"> <li>• <i>low GDP per capita,</i></li> <li>• <i>lack of human capital,</i></li> <li>• <i>lack of investment in infrastructure,</i></li> <li>• <i>lack of education and training,</i></li> <li>• <i>dependency on agricultural products.</i></li> <li>• <i>unemployment</i></li> </ul>	6	

Question		Expected Answer/s	Max Mark	Additional Guidance
3	d	<p>Explain <b>2</b> ways developed countries can help increase the national income of developing countries.</p> <p><i>Look for an explanation of at least 2 forms of effective aid eg</i></p> <ul style="list-style-type: none"> <li>• <i>Provision of capital equipment</i></li> <li>• <i>Technical assistance</i></li> <li>• <i>Educational help</i></li> <li>• <i>Free trade (fair trade)</i></li> <li>• <i>Debt relief</i></li> <li>• <i>Medicines – accept only one health issue</i></li> </ul> <p><i>The explanations should show how the aid would help increase growth in the LDC.</i></p> <p>OR</p> <ul style="list-style-type: none"> <li>• <i>Trade.</i></li> <li>• <i>Foreign direct investment.</i></li> </ul>	4	
			(20)	

Question			Expected Answer/s	Max Mark	Additional Guidance
4			The rate of interest and government spending influence the UK economy.	6	Max 2- savers Max 2 - borrowers
4	a		Explain how an increase in the rate of interest is likely to affect:		
4	a	i	<p>savers and borrowers;</p> <p><i>Saving will increase because it is more rewarding – credit explanation. Also credit candidates who explain that savings might increase because higher interest rates increase real incomes.</i></p> <p><i>Borrowing will decrease because it is dearer now to take out loans – credit explanation. It will also discourage businesses to borrow – reduce investment – as it will also be dearer to do so. It should also discourage people to take out mortgages and/or move house.</i></p> <p><b>1 mark</b> for effect and explanation of each.</p>		
4	a	ii	<p>the rate of inflation.</p> <p><i>The rate of inflation is likely to fall given the reduction in spending for both consumers and firms (less pressure on demand pull inflation).</i></p> <p><i>An increase in interest rates in the UK will increase the exchange rate and therefore lower the price of imported goods thus reducing cost push inflation.</i></p> <p><b>3:3 4:2 2:4</b></p>		

Question		Expected Answer/s	Max Mark	Additional Guidance
4	b	<p>Describe the advantages and disadvantages of increased government spending on education for the UK economy.</p> <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Higher output/productivity</li> <li>• Lower unemployment</li> <li>• Economic growth</li> <li>• International competitiveness</li> <li>• Higher skills</li> </ul> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Opportunity cost</li> <li>• Worsening public finances</li> </ul> <p><b>3:3 4:2 2:4</b></p>	6	
4	c	<p>Explain 2 effects of unemployment on:</p>	4	
4	c	<p>i individuals;</p> <p><i>Effects of unemployment on individuals include:</i></p> <ul style="list-style-type: none"> <li>• Reduced income while major spending commitments continue (mortgage, credit agreements etc.);</li> <li>• Fall in real living standards; the longer each person is out of work, the greater the loss of skill and motivation;</li> <li>• There is some relationship with <b>crime</b>, and other aspects associated with <b>social dislocation</b> (for example via increased divorce rates, worsening health and lower life expectancy).</li> </ul>		
4	c	<p>ii the economy.</p> <p><i>Effects of unemployment on the economy include:</i></p> <ul style="list-style-type: none"> <li>• Increase in government spending (1) eg on JSA (1)</li> <li>• Reduction in tax revenue (1) because of a reduction in income/spending/profits (1)</li> <li>• Increasing business failure (1) due to lack of demand (1)</li> <li>• Reduction in economic growth (1) plus reason (1).</li> </ul> <p>Accept any plausible answer.</p>	4	
			(20)	

Question		Expected Answer/s	Max Mark	Additional Guidance
5		UK unemployment rates and levels of unemployment have an effect on the Current Account of the UK Balance of Payments.		Rate of unemployment- No.- unemployed Rate of unemployment – percentage of labour force which is unemployed
5	a	Explain the difference between the rate of unemployment and the level of unemployment.	2	
5	b	<p>Explain <b>4</b> reasons why there may be an increase in the level of unemployment.</p> <p><i>People made jobless because of capital</i></p> <ul style="list-style-type: none"> <li>• <i>labour substitution which reduces the demand for labour in an industry;</i></li> <li>• <i>seasonal unemployment affecting certain industries eg catering;</i></li> <li>• <i>falling demand; increased costs of production;</i></li> <li>• <i>slowdown in our major export markets.</i></li> </ul> <p><i>Mark according to explanation. 4 × 2</i></p>	8	
5	c	<p>Explain <b>one</b> reason for the UK Trade in Services being in surplus and <b>one</b> reason for the UK Trade in Goods being in deficit.</p> <p><i>Look for a straightforward explanation (3 marks) of 1 of the following for the trade in goods being in deficit:</i></p> <ul style="list-style-type: none"> <li>• <i>the UK's loss of comparative advantage in some goods;</i></li> <li>• <i>the increase in foreign competition;</i></li> <li>• <i>the strong pound;</i></li> <li>• <i>the decline of our manufacturing industries etc</i></li> </ul> <p><i>Look for a straightforward explanation (3 marks) of 1 of the following for the trade in services being in surplus:</i></p> <ul style="list-style-type: none"> <li>• <i>the UK's comparative advantage in financial services given expertise and experience in the city of London;</i></li> <li>• <i>rapid expansion of creative industries.</i></li> </ul> <p><i>Mark according to overall quality.</i></p>	6	

Question			Expected Answer/s	Max Mark	Additional Guidance
5	d		<p><b>Other</b> than the Trade in Goods and Trade in Services, describe the components of the UK Current Account.</p> <p><i>Transfers, net investment income. 1 mark for term and 1 mark for description.</i></p>	4	
				(20)	

[END OF MARKING INSTRUCTIONS]