



2014 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

Question		Expected Answer(s)	Max Mark	Additional Guidance
1.	(a)	One off tax (one mark) levied on a particular industry or for a particular reason such as excessive profits (one mark for development).	2	
	(b)	Independent public body which investigates uncompetitive practices, market dominance, mergers and acquisitions. Ensures that behaviour is in the consumers' interest. Other bodies refer issues to it.	2	Credit 2 relevant points.
2.		<ul style="list-style-type: none"> • Income inequality will rise (one mark). • Those on low incomes will spend a greater proportion of their income on energy. Accept the flip on higher incomes. • Falling purchasing power/living standards for those on lower incomes. 	2	
3.		<ul style="list-style-type: none"> • Oligopolistic market structure plus relevant development. • Price makers plus relevant development. • Collusive theory plus development. • Barriers to entry plus development. • Price inelasticity 	2	

Question	Expected Answer(s)	Max Mark	Additional Guidance
4.	<ul style="list-style-type: none"> • Firms will bring forward their price rises. • Firms will cut costs and investment in order to maintain profits margins. • Illegal under EU law. • What level is the price freeze being set at? • Drawbacks of setting a maximum price. • Direct positive impact on consumers. • Benefits those on lower incomes. <p>At least one advantage and one disadvantage must be covered for full marks.</p>	3	
5.	<p>Advantages</p> <ul style="list-style-type: none"> • Expertise and efficiency • Extra supply capacity. • No cost to UK tax payer. • No impact on public finances because of no additional borrowing to build. • Employment. <p>Disadvantages</p> <ul style="list-style-type: none"> • Issues of foreign ownership. • High future energy prices. • Health and safety concerns. • Repatriation of profits etc. 	4	<p>2 x 2</p> <p>Max 2 if no explanation</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
6.	(a)	<ul style="list-style-type: none"> Negative externalities arise when there is a divergence between PMC and SMC. Negative externalities are imposed on third parties not involved in the production or consumption of the good or service. Negative externalities are an example of market failure (one mark). Credit examples of negative externalities (one mark). 	2	
	(b)	<ul style="list-style-type: none"> For divergence between PMC and SMC (one mark). For showing new equilibrium (one mark). 	2	
7.		<ul style="list-style-type: none"> One mark for relevant policy, Two fully justified policies for full marks. Up to 3 marks for one well developed policy measure. Regulation. Opening up the market to new entrants. Making it easier for consumers to switch suppliers. Additional winter fuel payments. Reduce taxes and tariffs to reduce industry costs. Renationalisation 	6	Maximum 4 marks if no justification.
			(25)	

Section B

Attempt TWO of the six questions set.

Each question carries 25 marks.

Question			Expected Answer(s)	Max Mark	Additional Guidance
1.	(a)	(i)	<ul style="list-style-type: none"> Up to 3 marks for the static diagram, up to 4 marks for dynamic diagram and up to 3 marks for accurate explanation. 	10	Marks can be split 6/4, 5/5 or 4/6.
		(ii)	<ul style="list-style-type: none"> Up to 3 marks for the correct diagram and up to 3 marks for accurate explanation. 		
	(b)		<ul style="list-style-type: none"> Full marks can be given for detailed explanation without diagrams. Maximum of one mark for showing productive efficiency and 1 mark for showing allocative efficiency on a monopoly diagram –the deadweight loss. (1 mark) No marks for monopoly diagram replicated from (a). Credit definitions for productive and allocative efficiency – up to 2 marks. Explanation of failure to achieve productive and allocative efficiency. For full marks the candidate must consider a reason for the monopoly being neither productively nor allocatively efficient. 	8	

Question		Expected Answer(s)	Max Mark	Additional Guidance
1.	(c)	<p>1 mark for definition of price discrimination.</p> <p>Monopoly:</p> <p>Higher revenues.</p> <p>Reduce consumer surplus.</p> <p>Increase market share.</p> <p>Economies of scale.</p> <p>Improve capacity utilisation.</p> <p>Higher profits.</p> <p>Cross subsidisation of different products or markets.</p> <p>Consumers:</p> <p>Some can afford products that were previously unaffordable.</p> <p>Those with most inelastic PEDs pay more.</p> <p>Advantages for both could gain full marks.</p> <p>To gain full marks, both monopoly and consumers must be covered.</p> <p>Maximum 5 marks if only one side covered.</p>	7	
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
2.	(a)	<ul style="list-style-type: none"> • Government policies. • QE. • Upturn in the housing market and construction. • Increased bank lending. • Rising consumer debt. • Depreciation of the £. • Signs of global recovery. • Increased business and consumer confidence. • Falling unemployment. <p>Credit relevant statistics (maximum 2 marks).</p> <p>Maximum 3 marks per point.</p> <p>Maximum 2 marks for statistics.</p>	9	
	(b)	<ul style="list-style-type: none"> • Squeeze on real wages. • Fear of housing “bubble”. • Ongoing Government austerity measures. • Ongoing Eurozone uncertainty. • Uncertainty over exchange rate. • Ongoing lack of investment. • Tight credit conditions for SMEs. • Fundamental imbalances in the UK economy eg balance of payments. • Threat of inflation and associated tightening of monetary policy. • Reversal of QE – tapering. • End of labour hoarding and associated rising unemployment. <p>Maximum of 3 marks per point.</p> <p>Maximum 2 marks for statistics.</p>	9	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<ul style="list-style-type: none"> • Investment in infrastructure. • HS2. • Training and education. • Lower business taxes. • Incentives for R & D. • Support for SMEs. • Reduction in trade union power. • Abolition/reduction in National zero hours contracts. • Reduction in employment protection legislation. <p>Maximum of 3 marks per point.</p> <p>No marks for identification.</p>	7	
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
3.	(a)	<ul style="list-style-type: none"> • 5% deposit which will be accompanied by a 20% Government equity loan (Phase 1). • Only require 75% mortgage. • Mortgage guarantee – eligible buyers have access to 95% mortgages (Phase 2). • Provides a guarantee to mortgage lenders for up to 15% of the mortgage in the event of repossession. • Mortgage lenders can provide 95% mortgages with lower interest rates because risk is less. • Shared ownership scheme. 	4	Full marks available for one accurately described phase.
	(b)	<ul style="list-style-type: none"> • Improved economic conditions. • Greater confidence in the UK economy. • Rising UK employment. • Funding for lending scheme. • Demand continuing to outstrip supply. Credit examples of demand and supply factors. • Continued planning permission constraints. • Credit understanding that most house price rises are in the SE. • Continued low interest rates – role of QE. • Higher demand in rental market fuelling buy to let purchases. • Low returns on other assets encouraging buy to let purchases. • Demand from foreign purchasers particularly in London. <p>A maximum of 3 marks per point.</p> <p>Maximum 2 marks for statistics.</p>	8	

Question		Expected Answer(s)	Max Mark	Additional Guidance
3.	(c)	<p>Credit definition of the term “asset bubble.”</p> <ul style="list-style-type: none"> • Negative equity issues. • Impact on bank balance sheets – bad debts. • Negative consumer and business confidence. • Lower economic growth/recession. • Impact on associated industries eg estate agents, construction, etc. • Negative multiplier effects. <p>Maximum of 3 marks per point.</p>	6	
3.	(d)	<p>For:</p> <ul style="list-style-type: none"> • Better to prevent a bubble than to have the bubble burst. • The significance of the housing market to the UK economy. • Rising inequality and issues for those unable to get onto the housing ladder. • Proportion of income spent on rental properties. • Negative impact of a housing bubble bursting – deflationary, recession, etc. • Pressure on monetary policy and impact on B of E. • Sub-prime in the US leading to a credit crunch. <p>Against:</p> <ul style="list-style-type: none"> • Do we know when it is a bubble? • Asset prices are not included in CPI calculations. • Are house prices rising due to economic fundamentals? • Carney has argued that it’s not a bubble. • Threat to recovery. <p>Maximum of 3 marks per point.</p> <p>Both sides for full marks. Maximum 5 marks if only one side covered.</p>	7	Mark overall quality of the answer.
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
4.	(a)	<ul style="list-style-type: none"> • Policy signal whereby the MPC has announced that it will not raise base rate until the unemployment rate has fallen to 7% or below. • Credit new conditions for Forward Guidance. • To improve investor confidence/certainty. • To encourage borrowing by firms. • To increase investment. • To anchor long term interest rates at a lower level. • To encourage lending to individuals and consumer spending. 	6	<p>Maximum 2 marks for statistics.</p> <p>1:5, 2:4, 3:3</p>
	(b)	<ul style="list-style-type: none"> • If inflationary pressures or a wage-price spiral became embedded, it will be ignored. • 7% is notional figure and not a trigger for action. • Markets wanted action and are sceptical. • If want lower long term interest rates need more QE. • If recovery continues and unemployment continues to fall 7% is an irrelevance. • Poor reaction in UK as has no teeth. • Moves away from a clear inflation targeting remit. • It has had to be changed. <p>Maximum 3 marks per point.</p>	6	

Question		Expected Answer(s)	Max Mark	Additional Guidance
4.	(c)	<p>Helps:</p> <ul style="list-style-type: none"> • Used to prevent deflation. • Continued monetary policy target. • B of E credibility. • Attempting to show action. <p>Hinders:</p> <ul style="list-style-type: none"> • Not really action. • Confusing as seems to suggest that economic growth is the primary objective. • Ignores the fact that inflation has been above target for a considerable period of time – although now below. • Damages the credibility of monetary policy. • Derided in markets. 	5	
	(d)	<p>Explain how Quantitative Easing has affected the UK economy.</p> <ul style="list-style-type: none"> • Impact on markets. • Impact on the currency. • Inflationary consequences of money being injected into the economy. • Effects on banking systems. • Positive multiplier. • Falling long-term interest rates and knock-on effects. • Asset bubbles. • Negative consequences for savers and pensioners. • Impact on economic growth. • Portfolio rebalancing. <p>Maximum 3 marks per point. Up to 3 marks for statistics and definition.</p>	8	
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
5.	(a)	<ul style="list-style-type: none"> • Lower starting point so easier to achieve – diminishing marginal returns and investment. • Rising commodity prices. • Growing domestic markets. • Investment in technology and capital. • Natural resources (Russia). • Global trade. • High savings ratios. • Rising productivity. • FDI. • Education and training. • Infrastructure spending. • Less effected by credit crunch and financial crisis. • Credit points which explain why developed economics have low rates of economic growth, which are not the reverse of previously stated points. 	9	

Question		Expected Answer(s)	Max Mark	Additional Guidance
5.	(b)	<ul style="list-style-type: none"> • Lack of resources. • Natural disasters. • Poor human capital. • Poor infrastructure. • Trade barriers. • Corruption. • Dependant on agricultural production. • Wars. • Lack of developed financial systems/legal institutions. • Burden of debt. • Low productivity. • Poverty cycle. <p>Maximum 5 marks if no examples.</p>	8	Maximum 3 marks for relevant examples.
	(c)	<p>Help:</p> <ul style="list-style-type: none"> • Infant industry argument. • Import substitution policies. • Retaliation. • Job protection. <p>Hinder:</p> <ul style="list-style-type: none"> • Lower exports. • Dumping. • Lower world trade volumes. • Trade distortion eg comparative advantage. 	8	<p>Maximum 5 marks if only one side covered.</p> <p>Maximum 2 marks for relevant examples.</p>
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
6.	(a)	<p>Positive:</p> <ul style="list-style-type: none"> • Cheap labour. • Higher productivity. • Downward pressure on inflation. • Easing labour shortages in particular industries. • Higher output. • Positive impact on UK public finances. • New related business start-ups. <p>Negative:</p> <ul style="list-style-type: none"> • Higher domestic unemployment rates. • Pressure on resources – health, education benefits, housing, crime. • Depress wages for UK workers. • Bulgaria and Romania have a lower income GDP per capita. • Numbers are uncertain. • Repatriation of earnings and reduced spending in UK. <p>Maximum 6 marks if only one side considered.</p>	10	

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<p>Advantages:</p> <ul style="list-style-type: none"> • Single market and trade. • UK's largest export market. • Employment. • Inward investment. • Capital flows in London. • Statements by companies as Nissan/CBI. • Additional consumers and markets. • Increased competition may encourage greater efficiency. • Economies of scale. • Influence on economic decision making on the EU. • CAP. <p>Disadvantages:</p> <ul style="list-style-type: none"> • Budget implications – positive net contribution. • Loss of rebate. • Red tape/bureaucracy. • CAP – subsidising less efficient farmers. • CFP – impact on Scottish fishermen. <p>Maximum 2 marks per point.</p> <p>Maximum 4 marks if only advantages or disadvantages given.</p>	8	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<ul style="list-style-type: none"> • Greater certainly/less volatility. • Less speculation. • Greater trade. • Inward investment. • Final stage in the single market. <p>Maximum 3 marks per point fully explained.</p>	7	
			(25)	

[END OF MARKING INSTRUCTIONS]