



2015 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)	<ul style="list-style-type: none"> Economic growth can be defined a rising GDP or increase in the productive potential of an economy (one mark). For the second mark reference must be made to the worldwide nature of economic growth ie not confined to one country or area of the world (one mark). Credit statistics (one mark). 	2	
1.	(b)	<ul style="list-style-type: none"> A fall in the general level of prices (one mark). 	1	
2.	(a) (i)	<p>Candidates may answer this question in a general or specific fashion.</p> <p>Demand:</p> <ul style="list-style-type: none"> Incomes/Prosperity Level of output Impact of emerging economies eg China Car ownership <p>Credit any other relevant points and examples.</p>	2	No marks for ID
2.	(a) (ii)	<p>Supply:</p> <ul style="list-style-type: none"> New discoveries New extraction technologies Feasibility of new investment Political conflicts OPEC <p>Credit any other relevant points and examples.</p>	2	No marks for ID
2.	(b)	<ul style="list-style-type: none"> One mark for clearly shown inelastic demand and supply curves. One mark for showing a fall in demand and an increase in supply. One mark for showing the new equilibrium price and quantity. 	3	

Question		Expected Answer(s)	Max Mark	Additional Guidance
3.		<ul style="list-style-type: none"> • Value of imported oil will fall/Value of imports will fall (one mark). • Improvement to the balance of trade in goods (one mark). • Current account will improve (one mark). • Credit reference to the import elasticity of demand or impact on export earnings in future. 	3	
4.		<ul style="list-style-type: none"> • Lower output • Lower productivity • Lower employment • Negative multiplier effects • Impact on government tax revenues • Future impact on profitability <p>Candidates may also discuss positive consequences – these should be credited. Candidates must explain at least two consequences.</p>	3	
5.		<ul style="list-style-type: none"> • Market failure occurs when a market fails to produce an optimal allocation of resources (one mark for any acceptable definition). • Climate change is an example of a negative externality in production (one mark). • A negative externality occurs when the price mechanism fails to take into account negative impacts on third parties arising from the production (one mark). • In this example, producers of CO₂ emissions, overproduce because the full cost to society is not included in the price (one mark). • 1 mark for correct diagram. <p>For full marks, answers must refer to climate change.</p>	3	

Question		Expected Answer(s)	Max Mark	Additional Guidance
6.		<p>One mark for relevant policy. Two fully justified policies for full marks. Up to 3 marks for one well developed policy measure. Maximum of 4 marks if no justification.</p> <ul style="list-style-type: none"> • Pollution targets or limits • Pollution taxes • Carbon trading schemes • Subsidising green technologies • Subsidising nuclear energy • Education • Planting trees • Carbon footprints • Local markets/food miles • Conservation • Recycling, reusing, reducing, repairing. 	6	3:3
			(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)	<p>Maximum 4 if no attempt at comparison. Maximum 3 if only one market correctly described.</p> <ul style="list-style-type: none"> • Number of firms in the market • Barriers to entry • Control over price • Shape of demand curve • Product and differentiation • Number of closeness of substitutes • Short run and long run profits • Economies of scale. <p>Maximum of two marks per point if not just flipped. Credit relevant examples (maximum of two marks).</p>	6	<p>No marks for ID</p> <p>No marks for examples of eg hairdressing/post office</p>
1.	(b)	(i)	10	5:5
1.	(b)	(ii)		
		<p>Up to 3 marks for the correct diagram and up to 3 marks for accurate explanation. In diagram:</p> <ul style="list-style-type: none"> • One mark for curves and labels • One mark for profit maximising output • One mark for abnormal profit clearly shown. 		
		<p>Up to 3 marks for the correct diagram and up to 3 marks for accurate explanation.</p> <p>No marks given for a short run diagram. In diagram:</p> <ul style="list-style-type: none"> • One mark for curves and labels • One mark for profit maximising output • One mark for clearly showing tangential $AR=AC$. 		

Question		Expected Answer(s)	Max Mark	Additional Guidance
1.	(c)	<p>Maximum 6 marks if only large or small tackled. Maximum 3 marks for examples. Minimum of 2 examples required for full marks.</p> <p>Credit large firms dominate because:</p> <ul style="list-style-type: none"> • Barriers to entry which may include legal, marketing, financial, technology, economies of scale, high entry and exit costs • Natural monopolies. <p>Small firms may thrive because:</p> <ul style="list-style-type: none"> • Personal service • Family run businesses • Niche markets • Innovation • Infant firms • Geographical position. <p>Accept any other relevant answer and examples.</p>	9	
			(25)	

Question			Expected Answer(s)	Max Mark	Additional Guidance
2.	(a)		<ul style="list-style-type: none"> • Falling oil prices • Falling real wages • Supermarket prices wars • Lack of confidence/uncertainty • Tight credit conditions • New banking regulations • Lower exports • Eurozone deflation. <p>Maximum of 3 marks for one well developed point. Maximum of 2 marks for statistics.</p>	6	
2.	(b)	(i)	<ul style="list-style-type: none"> • Rapidly falling unemployment • Lack of spare capacity in the economy • Time lags • Faster recovery than in other countries • No need for emergency rate • Better to do it slowly and gradually • To help savers • Core inflation rate. <p>Maximum of 3 marks for one well developed point.</p>		5:5 6:4 4:6
2.	(b)	(ii)	<ul style="list-style-type: none"> • Fragile recovery • Eurozone uncertainty • More spare capacity than thought • Falling real wages • Inflation below target. <p>Maximum of 3 marks for one well developed point. Maximum of 2 marks for different statistics in (b).</p>	10	

Question		Expected Answer(s)	Max Mark	Additional Guidance
2.	(c)	<ul style="list-style-type: none"> • It is impossible to tell the impact of QE – counter-factual • Asset bubbles • Impact on the real economy • Consequences of reversing • Negative impact of asset bubbles in emerging economies • Risk of hyperinflation • Banks hoard the cash • Negative impact on savers and annuities • Long time lags. <p>BUT</p> <ul style="list-style-type: none"> • UK has avoided deflation • UK is experiencing economic growth. <p>Maximum of 3 marks for any well developed point. Maximum of 2 marks for statistics. Credit any other relevant explanation.</p>	9	1 mark for definition
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
3.	(a)	<ul style="list-style-type: none"> • Austerity measures • Spillover from sovereign debt • High general unemployment and high youth unemployment. • Lack of QE • Residual banking issues • Structural issues with major Eurozone economies eg France and Italy • Lack of export-led growth eg Germany • Falling demand from emerging economies eg China • Lack of international competitiveness and currency issues • Low productivity in some member states • Ageing population. <p>Maximum of 3 marks for any well developed point. Maximum of 2 marks for statistics. Credit any other relevant explanation. Credit general Eurozone and specific country details.</p>	8	
3.	(b)	<p>ECB:</p> <ul style="list-style-type: none"> • Negative interest rates • Interest rates reduced to near zero • QE • Corporate easing • Exchange rate policy • Sell reserves to lower the Euro. <p>Governments:</p> <ul style="list-style-type: none"> • Fiscal stimuli • Eurozone rules limit budget deficits and national debt ratios • Consider leaving the Eurozone • Fiscal transfers <p>Maximum of 3 marks for any well developed point. Maximum of 2 marks for statistics. Credit any other relevant explanation. Credit general Eurozone and specific country details.</p>	9	

Question		Expected Answer(s)	Max Mark	Additional Guidance
3.	(c)	<ul style="list-style-type: none"> • It leads to a negative spiral of falling prices, output and incomes. • This can lead to a deep recession which can be difficult to cure and to low economic growth which leads to rising unemployment. • Conventional monetary policy can be ineffective when trying to reverse deflation because interest rates cannot fall below 0% and it is impossible to achieve negative real interest rates. • Deflation can be 'benign' and improve living standards if it is caused by technological progress which lowers production costs and leads to better quality goods at lower prices. • Hyperinflation can be as damaging as deflation if it totally debases the currency. • Credit knowledge of Japan's lost decade. <p>Maximum of 3 marks for any well developed point. Maximum of 2 marks for statistics. Maximum of 6 marks if no discussion. Credit any other relevant explanation.</p>	8	No marks for definitions of deflation/inflation
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
4.	(a)	<ul style="list-style-type: none"> • Tax revenues are lower than anticipated, for example, income tax and corporation tax receipts are lower than forecast • Personal allowances have been increased • Cut the top band of income tax from 50% to 45% • Many new jobs created are low-paid • Cuts in government spending are still being implemented with the biggest cuts still to come • Pressure to retain spending on services such as the NHS • Changes and cuts to, for example, benefits are behind schedule • Structural deficit rather than cyclical. <p>Maximum of 3 marks for any well developed point. Maximum of 2 marks for statistics. Credit any other relevant explanation.</p>	7	
4.	(b)	<p>Negative:</p> <ul style="list-style-type: none"> • Burden of debt and interest payments • Intergenerational unfairness • Negative impact on credit rating • Crowding out • Impact on confidence • Risk of sovereign debt crisis • Dangers of external ownership of bonds. <p>Positive:</p> <ul style="list-style-type: none"> • Raises economic growth rate • Positive multiplier effect • Investment in infrastructure • Reduces poverty and inequality • Environmental agenda can be addressed. <p>Maximum of 3 marks for any well developed point. Maximum of 2 marks for statistics. Credit any other relevant explanation. Maximum of 6 marks if only one side described.</p>	9	

Question		Expected Answer(s)	Max Mark	Additional Guidance
4.	(c)	<p><u>Immigration</u></p> <p>Good:</p> <ul style="list-style-type: none"> • Cheap labour • Eases labour shortages • Fills skills gaps • Higher productivity • Downward pressure on inflation • Positive impact on UK public finances • New related business start-ups • Higher output/economic growth. <p>Bad:</p> <ul style="list-style-type: none"> • Potentially higher domestic unemployment • Depress wages for UK workers • Pressure on resources – health, education, benefits, housing, crime • Numbers are uncertain • Repatriation of earnings and reduced spending in the UK. <p><u>Emigration</u></p> <p>Good:</p> <ul style="list-style-type: none"> • Reduces UK unemployment • Improves skills base if migrants return • Cultural awareness/improves language skills. <p>Bad:</p> <ul style="list-style-type: none"> • “Brain drain” • Loss of skilled • Loss of tax revenues • Lower potential output. <p>Maximum of 3 marks for any well developed point. Maximum of 2 marks for statistics. Maximum of 7 marks if only immigration considered. Credit any other relevant explanations. Maximum of 5 if one side of one aspect covered.</p>	9	
			(25)	

Question		Expected Answer(s)	Max Mark	Additional Guidance
5.	(a)	<ul style="list-style-type: none"> • Falling worldwide demand • Lower exports • Rising wages • Footloose industries relocating • Falling commodity prices • Rising cost base – pollution, legislation, etc • Banking issues • Inequality – no ‘trickle down’. <p>Maximum of 3 marks for any well developed point. Maximum of 6 if no examples. Credit any other relevant explanation.</p>	9	
5.	(b)	<ul style="list-style-type: none"> • Poor human capital • Dependency on primary production • Corruption • Low productivity • Lack of capital/technology • Poverty cycle • Lack of natural resources • Poor infrastructure • Lack of developed banking system • Lack of property rights • War/conflict • Burden of debt • Trade barriers. <p>Maximum of 3 marks for any well developed point. Maximum of 5 if no examples. Credit any other relevant explanation.</p>	7	No marks for ID
5.	(c)	<ul style="list-style-type: none"> • Debt forgiveness • Aid • Trade • Technology transfer • Trade barriers • Microfinance. <p>Maximum of 3 marks for any well developed point. Maximum of 6 if no discussion. Credit any other relevant explanation.</p>	9	
			(25)	

Question			Expected Answer(s)	Max Mark	Additional Guidance
6.	(a)		<ul style="list-style-type: none"> • Cuts to government spending • Reductions in benefits • New jobs on low incomes • Zero hour contracts • Top earners such as bankers retaining bonuses • Minimum wage is not a living wage. <p>Maximum of 3 marks for any well developed point. Credit any other relevant explanation.</p>	5	
6.	(b)	(i)	<ul style="list-style-type: none"> • Credit explanation of mansion tax (up to 2 marks) • Those in high value properties are likely to have higher incomes • In London, many high value properties are in foreign ownership • Progressive tax • If not this tax, what is the alternative if the government is to reduce the budget deficit? • There is not necessarily a correlation between high value properties and earning eg retirees • Distortion of housing market. <p>Maximum of 3 marks for any well developed point. Credit any other relevant points.</p>	5	
6.	(b)	(ii)	<ul style="list-style-type: none"> • Increase the national minimum wage • Raise benefits • Changes to income tax structure to make it more progressive • Better quality of merit goods • Subsidised public transport • Reforms to the labour market to give greater protection to employees • Build more affordable housing • Rent controls • Measure to improve social equality eg issues of nepotism. <p>Maximum of 3 marks for any well developed point. Maximum of 5 if no discussion. Credit any other relevant point.</p>	9	

Question		Expected Answer(s)	Max Mark	Additional Guidance
6.	(c)	<p>Negatives:</p> <ul style="list-style-type: none"> • Poverty • Social deprivation/social problems • Social exclusion • Poor human capital • Low productivity • Intergenerational cycles • Lack of social mobility • Waste of human potential. <p>Positives:</p> <ul style="list-style-type: none"> • Incentives to hard work • Benefits to the UK economy – tax revenues, innovation etc • ‘Trickle down’ effect • Social responsibility eg philanthropy • Potential for social mobility. <p>Maximum of 3 marks for any well developed point. Maximum of 4 if no discussion. Credit any other relevant point.</p>	6	
			(25)	

[END OF MARKING INSTRUCTIONS]