



2015 Economics

Intermediate 2

Finalised Marking Instructions

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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
	(a) (i)	European Union is a group of countries in Europe who have no trade barriers (1) A development point (1)	2	Credit answers that mention: <ul style="list-style-type: none"> started in 1957 as the European Economic Community (EEC) it has created a common economic area with Europe-wide laws allowing people to move and trade in other EU countries It has 28 members 17 of these countries also share the same type of money: the euro
	(a) (ii)	Period of time in which at least one of the factors of production is fixed (2)	2	Credit example (max 1)
	(b)	3 marks available for diagram – axes (1) shifting demand curve to the right (1) new equilibrium (1) Explanation of diagram (max 2)	4	3:1 2:2
	(c)	Value of exports would increase (1) Increase in exports means more money should flow into the UK (1) Current Account will improve (or deficit will improve) (1)	2	
	(d)	Any advantages of specialisation, for example increased output resulting in lower ATC, better quality, skilled staff, include output per worker (1) Development (1) Any disadvantage, for example workers more likely to make mistakes due to boredom etc/if specialise in one product, nothing to fall back on (1) Development point (1)	4	

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(e)	Characteristics of NICs include: high rates of economic growth (until recently), markets allowed to work freely, high spending on education and training, large volume of exports, large increases in investment, weak (pegged) currencies.	2	
	(f)	(i) $(6000 \times 125) - 6000 \times 140$ (1) = -90,000 – Loss (1)	2	
	(f)	(ii) 4000 (1) – point at which ATC is at its lowest (1)	2	

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Item B

Question		Expected Answer(s)	Max Mark	Additional Guidance
(a)	(i)	<p>An improvement in the trade cycle (1) Demand and output begin to grow from a previous low level (1) Investment and optimism should improve leading to increases in employment (1) GDP becomes positive (1) after a recession or economic downturn (1)</p>	2	<p>1 mark for notion of improvement in the economy</p> <p>1 mark for exemplification or development</p>
(a)	(ii)	<p>The exchange rate of currency is its price in terms of other currencies (2), eg £1 = \$1.5 (1)</p>	2	
(b)		<p>Running a budget deficit (1) $G > T$ (1) will increase demand (AMD) (1) and therefore reduce unemployment A cut in corporation tax would reduce costs increase revenue for producers which may be passed on to consumers and stimulate AMD</p> <p>The government could cut the rate of income tax/national insurance (1) which would reduce the amount of tax taken off workers' pay (1) and give them more money to spend stimulating demand (1)</p> <p>Expansionary fiscal policy (1)</p>	4	<p>One method well explained could attract 4 marks</p> <p>Candidates could gain marks by explaining 2 methods and gaining 2 marks for each method</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c) (i)	Scotopian exports should increase (1) as the price of exports will decrease because the pound is cheaper to buy/foreign currencies now buy more pounds (1) /foreigners have to give up less of their currency to buy a given amount of pounds (1)	2	
	(c) (ii)	Demand for domestic goods is likely to improve as imported goods will be dearer (1) this should lead to higher employment/growth (1) Imports are more expensive which could lead to cost-push inflation (1) Scotopian balance of payments should improve (1) as export prices are low and import prices are high stimulating demand for Scotopian produce (1)	2	
	(d)	The rate is the number unemployed/the unemployment level expressed as a percentage (1) of the working population (1)	2	
	(e)	<ul style="list-style-type: none"> • Recession • Wrong type of products produced (loss of comparative advantage) • Loss of competitiveness – prices too high • Seasonal unemployment • Cyclical unemployment • Technological unemployment • Structural unemployment 	2	Accept descriptions of unemployment or descriptions of causes. No ID marks

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(f)	(i) <ul style="list-style-type: none"> • Reduced income • Fall in real living standards; the longer each person is out of work • The greater the loss of skill and motivation • There is some relationship with crime, and other aspects associated with social dislocation (for example via increased divorce rates, worsening health and lower life expectancy) 	2	
	(f)	(ii) <ul style="list-style-type: none"> • Less income/profit as less individuals are earning which reduces consumption. • Could help businesses as there will be downward pressure on wages • Greater pool of possible employees 	2	Accept any plausible answer Marks split 2:2

Essays

Question			Expected Answer(s)	Max Mark	Additional Guidance
1.	(a)		Look for a simple explanation of scarcity eg although our wants for goods and services are unlimited (credit reasons) the resources (land, labour, capital and enterprise) needed to produce the goods and services are limited (credit reasons). This is true in all countries – rich and poor.	4	If no reference to all countries, the maximum is 3 Mark overall quality
1.	(b)	(i)	The next best alternative forgone or sacrificed	2	
1.	(b)	(ii)	Credit any logical example (1)	1	
1.	(b)	(iii)	Credit any logical example (1)	1	
1.	(c)		<p>Geographical mobility of workers could be improved through:</p> <ul style="list-style-type: none"> • National advertising of vacancies (1) that allow vacancies to be shared with a larger pool of workers (1) • Housing market reforms (1) designed to improve the supply of housing eg availability and affordability (1) • Specific grants for workers prepared to move eg teaching in the North of Scotland • Transport <p>Occupational mobility:</p> <ul style="list-style-type: none"> • Training and education (1) • Development (1) 	4	
1.	(d)	(i)	Look for a straightforward explanation of any 2 internal economies of scale eg bulk buying, increasing dimensions, technical, financial, managerial, etc	4	
1.	(d)	(ii)	1 mark for each correctly labelled curve and 1 mark for axes correctly labelled	4	

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Question			Expected Answer(s)	Max Mark	Additional Guidance
2.	(a)		The economics aims include: low inflation; low unemployment; steady growth; greater income equality; balanced payments; sustainable development	4	
2.	(b)		<ul style="list-style-type: none"> • Inflation is measured in the UK using the CPI (1) • It is measured monthly (1) using an index of the price of a basket of goods and services which are collected at various locations around the UK (1) • The items are chosen to reflect the spending of the average household (1) • The items are weighted to reflect their significance as a proportion of total household spending (1) • The index starts at a Base Year from which changes in the price level are compared (1) • Comparison to RPI (1) 	4	Credit explanations of RPI
2.	(c)	(i)	<p>Dependent on the rate of interest, savers could be worse off (1) if the rate of inflation is rising faster than the rate of interest (1)</p> <p>OR</p> <p>They lose purchasing power (1) as it is becoming less valuable with the passage of time (1)</p>	6	3x2
2.	(c)	(ii)	<p>The demand for loans may fall (1) because people are concerned that they may not have enough money to pay the loan back if their wages do not go up in line with inflation and they are worse off in real terms (1)</p> <p>OR</p> <p>Borrowers are better off (1) as can pay their debts with money that is less valuable (1)</p>		

Question			Expected Answer(s)	Max Mark	Additional Guidance
2.	(c)	(iii)	Uncertainty, lower investment, lower profits, high wage demands, lower international competitiveness.		
2.	(d)	(i)	Features may include: <ul style="list-style-type: none"> • low GDP per capita • lack of human capital • lack of investment in infrastructure • lack of education and training • dependency on agricultural products • unemployment 	2	
2.	(d)	(ii)	Look for a simple description of 2 of the following (1 mark for the form of aid and 1 mark for the description or development): <ul style="list-style-type: none"> • food aid • grants/loans • technical aid • help with education/training • medical aid • military aid • debt relief • free/fair trade etc 	4	

Question		Expected Answer(s)	Max Mark	Additional Guidance
3.	(a)	<p>Law of diminishing marginal utility – 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.</p> <p>(Income effect) 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)</p> <p>(Substitution effect) the price may fall below that of a substitute (1) good, therefore some consumers might switch (1) to the cheaper substitute (1)</p>	4	No ID marks
3.	(b)	<p>Look for a straightforward description of how 3 of the following could increase the demand for a product</p> <ul style="list-style-type: none"> • An increase in income • A media advertising campaign • An increase in the cost of a substitute good • A decrease in the price of a complementary good • A fall in price 	6	

Question			Expected Answer(s)	Max Mark	Additional Guidance
3.	(c)	(i)	<ul style="list-style-type: none"> • Correctly labelled diagram (1) • Original equilibrium price and quantity (1) • Fall in supply indicated by supply curve moving left (1) • New equilibrium price and quantity (1) <p>Explanation should demonstrate that as tax imposed price will increase as production costs more, so new equilibrium price occurs, less is likely to be supplied at each and every price. Demand contracts</p>	6	<p>Mark on overall quality.</p> <p>Max 4 for diagram.</p> <p>Max 4 for explanation.</p>
3.	(c)	(ii)	<ul style="list-style-type: none"> • Discourage consumption – reduce pollution • Raise revenue – government receive more revenue to spend on other areas eg education • Increases costs for many firms - may force them to make redundancies creating unemployment. • Reduces individuals disposable income which may lead to a fall in demand in the economy 	4	

Question			Expected Answer(s)	Max Mark	Additional Guidance
4.	(a)		<p>National income measures the total value of all goods and services produced (economy activity) within the economy (1) over a year (1)</p> <p>It is a measure of a country's economic performance (1)</p> <p>Rising GDP (1)</p>	2	
4.	(b)		<p>Look for a simple explanation of three uses of National Income figures eg:</p> <ul style="list-style-type: none"> • to measure a country's rate of economic growth and standard of living • to compare a country's growth rate with that of other countries • to compare growth rates over time • to help the government plan future economic policies etc. 	6	Credit any plausible answer.
4.	(c)	(i)	Households (1) firms (1) consumer spending (1) factor incomes (1) or any other recognised terms	4	
4.	(c)	(ii)	<p>Injections are money flowing into the circular flow (1) credit any examples (1)</p> <p>Leakages of money out of the circular flow (1) credit any examples (1)</p>	4	2x2

Question			Expected Answer(s)	Max Mark	Additional Guidance
4.	(d)	(i)	<p>Spending by the government on items that are consumed and only last a limited period of time They are items that are used up in the process of providing a good or service (1)</p> <p>Examples include wages and salaries and expenditure on consumables - school stationery, medicine for health service (1)</p>	4	<p>2x2</p> <p>1 mark for correct description of each type of spending</p> <p>1 mark for relevant example of each type of spending</p>
4.	(d)	(ii)	<p>Spending on assets. It is the purchase of items that will last and will be used time and time again in the provision of a good or service (1)</p> <p>Examples would be the building of a new hospital, the purchase of new computer equipment or networks, building new roads (1)</p>		

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Question			Expected Answer(s)	Max Mark	Additional Guidance
5.	(a)		<ul style="list-style-type: none"> • greater choice/variety as not all countries produce the same goods; • lower prices because some countries can produce goods more cheaply than others (credit references to comparative advantage); • augments home suppliers – shortages can be met by imports; • increases world competition which could lead to reduced prices; • companies can benefit from greater economies of scale because of bigger markets. • Higher output • Lower unemployment 	6	<p>If no explanation, maximum of 3 marks</p> <p>Mark on overall quality of answer</p>
5.	(b)	(i)	<p>Look for an explanation eg:</p> <ul style="list-style-type: none"> • To reduce imports to improve balance to trade deficit; • Raise revenue eg tariff; • Protect infant industry – to raise the price of imports so that domestic firms can compete in the home market; • To prevent harmful or unsafe products entering a country; • To protect jobs; • To protect strategic industries. 	4	2x2
5.	(b)	(ii)	<p>Tariffs - a tax is put on to imports entering a country artificially raising their price</p> <p>Quotas - a limit is put on the amount of a product permitted to enter a country in a given time period</p> <p>Embargo - A complete ban on a particular commodity</p>	4	<p>1 mark for ID and 1 mark for description</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
5.	(c)	<p>The factors include:</p> <ul style="list-style-type: none"> • an increase in costs • a decrease in, or the granting of, a subsidy • an increase in VAT • a decrease in productivity • an increase in the price of another good (that the producer is making) 	6	<p>1 mark for factor 1 mark for explanation</p>

[END OF MARKING INSTRUCTIONS]