



National  
Qualifications  
2015

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# 2015 Economics

## New Higher

### Finalised Marking Instructions

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## General Marking Principles for Higher Economics

*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 detailed marking instructions, which identify the key features required in candidate responses.*

- (a) Marks for each candidate response must always be assigned in line with these General Marking Principles and the Detailed Marking Instructions for this assessment.
- (b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.
- (c) 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.
- (d) For each candidate response, the following provides an overview of the marking principles. Refer to specific Marking Instructions for further guidance on how these principles should be applied.
- (i) Questions that ask candidates to Describe . . .  
Candidates must make a number of relevant, factual points which may be characteristics and/or features or a definition of an economic term, as appropriate to the question asked. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.  
Up to the total mark allocation for this question:
- **1 mark** should be given for each relevant, accurate factual point.
  - **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.
- (ii) Questions that ask candidates to Explain . . .  
Candidates must make a number of relevant points that relate cause and effect and/or make the relationships clear. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points of explanation or a smaller number of developed points, or a combination of these.  
Up to the total mark allocation for this question:
- **1 mark** should be given for each accurate relevant point of explanation.
  - **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.
- (iii) Questions that ask candidates to Analyse . . .  
Candidates must demonstrate their ability to identify/describe/explain relevant parts and the relationship between the parts and/or the whole. Candidates should be able to draw out and relate any implications and/or analyse data.  
Up to the total mark allocation for this question:
- **1 mark** should be given for each accurate point of analysis.
  - **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(iv) Questions that ask candidates to Discuss . . .

Candidates must make a number of points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. It is not always necessary to give both sides of the debate in responses.

Up to the total mark allocation for this question:

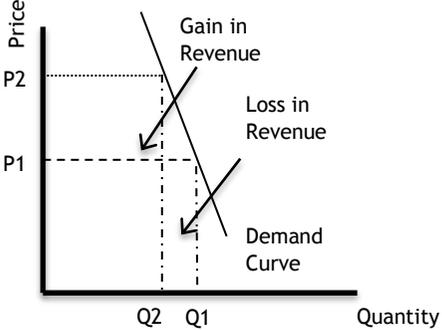
- **1 mark** should be given for each accurate point of knowledge that is clearly relevant.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

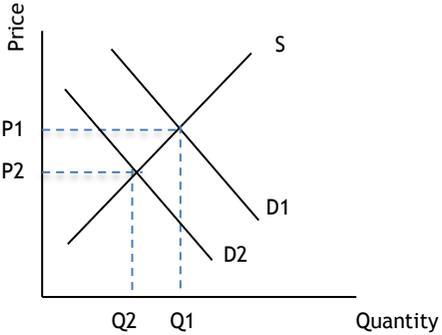
Detailed Marking Instructions for each question

SECTION 1

Question			Expected Answer(s)	Max Mark	Additional Guidance
1.	(a)	(i)	<p>Exports involve an inflow of money as a result of a UK sale of goods to customers abroad. <b>(1 mark)</b></p> <p>From passage:</p> <p>Exports of textiles reached nearly £9.7m in the first 9 months of 2013. <b>(1 mark)</b></p> <p>Or Scotland sells more than two and a half times more textiles to China than it did a decade ago. <b>(1 mark)</b></p>	2	<p>1 mark for definition. Award a maximum of 1 mark for referencing the information from the article.</p> <p>If no reference made to article, 1 mark only.</p>
		(ii)	<p>An increased sale of Scottish textiles to China would increase exports in Trade in Goods. <b>(1 mark)</b></p> <p>This would improve the UK's Balance of Payments / This would improve the Current Account in the Balance of Payments. <b>(1 mark)</b></p> <p>This would reduce the deficit on the UK's Balance of Payments. <b>(1 mark)</b></p>	2	
		(iii)	<p>A strengthening pound will worsen the UK's Balance of Payments. <b>(1 mark)</b></p> <p>The strengthening pound makes foreign goods and services more attractive to Scottish consumers/UK goods and services less attractive. <b>(1 mark)</b></p> <p>This results in an increase in imports/decrease in exports. <b>(1 mark)</b></p> <p>UK citizens receive more foreign currency for their sterling so can afford to buy more foreign products (and vice versa). <b>(1 mark)</b></p>	3	

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<p>Improve productivity - by increasing the skills of the workforce (1 mark) by increasing division of labour (1 mark) by using new technology (1 mark) by minimising wastage. (1 mark)</p> <p>Reduce production costs - by negotiating better deals/discounts for raw materials. (1 mark)</p> <p>Accept any suitable response.</p>	2	Do not award measures which increase demand unless explained in relation to increased revenue from such measures outweighing any increase in costs.
(c)	<p>(i) Elasticity of demand is the responsiveness of quantity demanded to a change in price. (1 mark) It can be measured by:</p> $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} \quad (1 \text{ mark})$ <p>Descriptions of inelastic or elastic price elasticity of demand. (1 mark)</p>	2	

Question	Expected Answer(s)	Max Mark	Additional Guidance
	<p>(ii) As the revenue gained from the new higher selling price is greater than the revenue lost from the fall in quantity demanded - an increase in price will result in an overall increase in revenue. (1 mark)</p> <p style="text-align: center;">Demand for Scottish Clothing</p>  <p>The increase in price will lead to a proportionately smaller decrease in quantity demanded. (1 dev mark)</p>	4	<p>Maximum 3 marks for diagram. Fully labelled <b>diagram (1 mark)</b>; showing inelastic demand curve (1 mark). Clear identification/labelling of lost and gained revenue (1 mark), accept if no graph title.</p> <p>Only award 1 dev if diagram and/or initial explanation are present.</p> <p>Max 3 marks for explanations.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(d)	<p>With more workers in paid employment there will be more people paying income tax. <b>(1 mark)</b></p> <p>As more people are employed they will be buying more goods and services and so VAT revenue will increase. <b>(1 mark)</b>.</p> <p>With more workers in paid employment, there will be less people claiming unemployment benefit/reduces the amount of benefits that the government has to pay out. <b>(1 mark)</b></p> <p>This leads to more revenue being available for other expenditure. <b>(1 mark)</b></p> <p>Accept any other suitable response eg corporation tax.</p>	4	It is not necessary to discuss both positives and negatives for full marks.
(e)	<p>“Competition from Chinese copycats” could affect the market for Scottish clothing by reducing demand for it. <b>(1 mark)</b></p> <p>This has the overall effect of reducing price <b>(1 mark)</b> and ultimately reducing supply. <b>(1 mark)</b></p>	2	<p>Credit 1 mark for appropriate diagram if provided. For example:</p>  <p>The diagram is a standard supply and demand graph. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. An upward-sloping supply curve 'S' intersects two downward-sloping demand curves, 'D1' and 'D2'. 'D2' is to the left of 'D1', indicating a decrease in demand. Dashed lines show the initial equilibrium at the intersection of S and D1, corresponding to price P1 and quantity Q1. The new equilibrium is at the intersection of S and D2, corresponding to a lower price P2 and a lower quantity Q2.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(f)	<p>Subsidies may be offered to reduce the unit cost of production. <b>(1 mark)</b></p> <p>Grants may be awarded which could be used to invest in capital, improving productivity. <b>(1 mark)</b> Resultant reduction in average costs per unit will reduce prices. <b>(1 dev mark)</b></p> <p>Tax breaks may be awarded to new firms, which would have the effect of reducing costs. <b>(1 mark)</b></p> <p>(Any other appropriate supply-side policy). <b>(1 mark)</b></p> <p>Recommending a decrease in interest rates (or any other form of currency control). <b>(1 mark)</b></p> <p>or</p> <p>Decreasing interest rates (or any other form of currency control) will reduce the exchange rate <b>(1 mark)</b> as demand for our currency falls <b>(1 mark)</b>, making the price of goods and services generally cheaper to foreign consumers <b>(1 mark)</b>, and so more competitive.</p> <p>Accept any other suitable response.</p>	4	<p>Maximum 3 marks per description.</p> <p>Do not award marks which simply describe subsidies/tariffs etc. Do award descriptions of <b>the way</b> each factor improves competitiveness.</p>

SECTION 2

Question	Expected Answer(s)	Max Mark	Additional Guidance
2. (a)	<p>Opportunity cost is the cost of one thing in terms of the value of the next best thing sacrificed/given up. (1 mark)</p> <p>An appropriate example of opportunity cost related to an individual, a firm or a government. (1 mark)</p> <p>eg for an individual:</p> <p>The opportunity cost of buying an economics textbook is giving up buying an accounting textbook.</p> <p>eg for a firm:</p> <p>The opportunity cost of spending £50,000 on new computers is giving up spending £50,000 on staff training.</p> <p>eg for a government:</p> <p>The opportunity cost of increasing spending on education is giving up spending on healthcare.</p> <p>Accept any other suitable response.</p>	2	<p>A maximum of 1 mark to be allocated to the description of opportunity cost if no example is given.</p> <p>A maximum of 1 mark to be allocated if no example.</p>

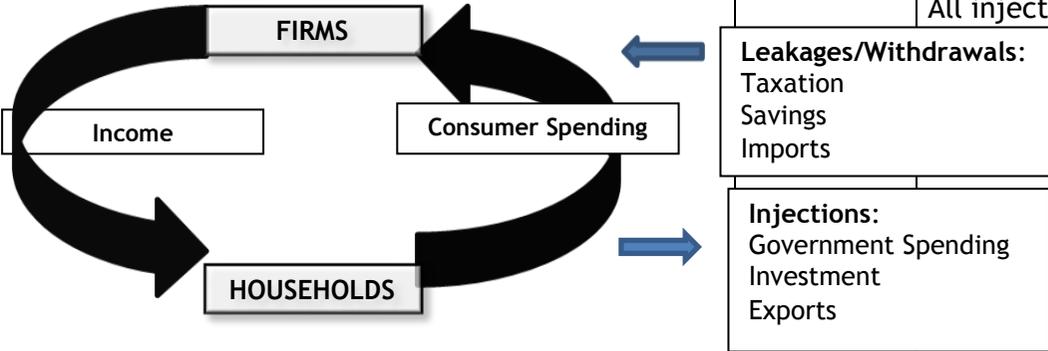
Question	Expected Answer(s)	Max Mark	Additional Guidance
(b) (i)	<p>If demand for a good/service increases, there will be a shortage and this will cause the market price to rise. <b>(1 mark)</b></p> <p>The market price acts as a signal to producer who is motivated by profit. <b>(1 dev mark)</b></p> <p>If the market price rises the good will become more profitable to supply than other goods. This will encourage existing and new suppliers to increase their supply. <b>(1 mark)</b></p> <p>More resources are required to make the good/service to increase supply. Therefore resources are reallocated to the production of the more profitable good and away from other (less profitable) goods. <b>(1 mark)</b></p> <p><i>Alternatively, accept explanations relating to a fall in demand - for example:</i></p> <p>If consumer demand for a good falls, there will be a surplus <b>(1 mark)</b> and this will result in a fall in price. <b>(1 mark)</b></p> <p>Market price acts a signal to the producer who is motivated by profit. This fall in market price means the good will be less profitable than other goods to supply. <b>(1 mark)</b></p> <p>In order to decrease supply, fewer resources are needed to make the good/service. Producers will then move resources out of the production of that good and so reduce supply. <b>(1 mark)</b></p> <p>Accept any other suitable response.</p>	3	

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b) (ii)	<p>Governments provide merit goods eg education because they are deemed to benefit society <b>(1 mark)</b> and/or because markets sometimes fail to produce enough of these. <b>(1 mark)</b></p> <p>Governments regulate de-merit goods eg alcohol because they are deemed to be bad for society <b>(1 mark)</b> and/or because markets sometimes produce too many of these/may be over consumed. <b>(1 mark)</b></p> <p>Governments provide public goods eg street lighting because these are goods that wouldn't be provided at all in a free market <b>(1 mark)</b> and/or because they carry a free-rider problem <b>(1 mark)</b> because people won't pay for the goods as they are non-excludable in use <b>(1 dev mark)</b> and because they are non-rivalled in use. <b>(1 dev mark)</b></p> <p>Governments regulate negative externalities eg markets which may produce pollution because they are a cost to a third person out with the consumption or production process <b>(1 mark)</b> and/or because the market may over produce these. <b>(1 mark)</b></p> <p>Governments promote positive externalities eg vaccinations because they are a benefit to a third person out with the consumption or production process <b>(1 mark)</b> because the market may not produce enough of these. <b>(1 mark)</b></p> <p>Governments attempt to address inequality because markets result in unequal distribution of income and wealth eg markets may fail to provide the basic needs of some members of society. <b>(1 mark)</b></p>	6	<p>Maximum 3 marks per explanation of market failure.</p> <p>No marks to be allocated for identification/description of different types of market failure.</p> <p>Accept examples to be either the economic term (public goods) or the practical example (street lighting).</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
		<p>Governments may intervene to stabilise economic performance in eg employment or inflation because of extremes like booms or busts. <b>(1 mark)</b></p> <p>Governments regulate competition eg monopoly because markets may result in anti-competitive practices. <b>(1 mark)</b></p> <p>Accept any other suitable response eg tax/subsidy/max/min prices.</p>		
	(c)	<p>Perfectly competitive markets:</p> <p>Have many buyers and sellers. <b>(1 mark)</b></p> <p>No barriers to entry or exit. <b>(1 mark)</b></p> <p>Firms take their price from the market (price takers). <b>(1 mark)</b></p> <p>Firms are attracted by abnormal profits which are made in the short run only/normal profits are made in the long run. <b>(1 mark)</b></p> <p>Firms produce homogeneous products (products which are exactly the same). <b>(1 mark)</b></p> <p>Demand for each firm's goods is perfectly elastic. <b>(1 mark)</b></p> <p>Perfect knowledge is available in the market. <b>(1 mark)</b></p> <p>Accept any other suitable response.</p>	4	

Question		Expected Answer(s)	Max Mark	Additional Guidance
3.	(a)	<p>The Monetary Policy Committee MPC is responsible for price stability in the economy. <b>(1 mark)</b></p> <p>They are responsible for setting interest rates. <b>(1 mark)</b></p> <p>They attempt to keep inflation within the target rate (2%). <b>(1 mark)</b></p> <p>The MPC meets to review the current rate of inflation, market conditions, etc. <b>(1 mark)</b></p> <p>They must take into account what is happening to economic growth and unemployment in the economy when making their decision. <b>(1 mark)</b></p> <p>They are responsible for administering quantitative easing. <b>(1 mark)</b></p>	3	<p>No marks for describing the composition of the MPC.</p> <p>“Role” must be described.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<p>If interest rates increase this will make it expensive to borrow which will lead to aggregate demand in the UK economy falling. <b>(1 mark)</b> This is because their purchasing power will be reduced. <b>(1 dev mark)</b></p> <p>Savers are more likely to save which will increase withdrawals from the circular flow <b>(1 mark)</b> this is because they will gain a higher return on their savings. <b>(1 dev mark)</b></p> <p>This means that consumers will spend less on goods and services <b>(1 dev mark)</b> which may lead to increased unemployment. <b>(1 dev mark)</b></p> <p>Increased unemployment may lead to lower economic growth. <b>(1 dev mark)</b></p> <p>Accept any other suitable response eg mortgage holders, foreign investment attached, etc.</p>	4	Do not credit any references to the multiplier, as it is the focus of the next part of the question.

Question	Expected Answer(s)	Max Mark	Additional Guidance
(c)	<p>The circular flow of income diagram demonstrates why this happens:</p>  <p>An increased injection into the circular flow leads to increased aggregate demand. <b>(1 mark)</b>  Because AD increased, firms may increase their output. <b>(1 mark)</b>  To increase output, firms will need to employ and pay more resource increasing income into the circular flow. <b>(1 mark)</b>  Some of this will be spent thereby increasing aggregate demand further <b>(1 dev mark)</b> and this process continues round the circular flow until a new higher equilibrium level is reached. <b>(1 dev mark)</b></p> <p>The formula is <math>1/1-MPC</math> or <math>1/MPS</math>. <b>(1 dev mark)</b></p> <p>Credit a numerical example - eg if the mpc is 0.8 then the multiplier will be 5; if there is an increase in investment of £1 bn then the increase in national income will be £5 bn (£1 bn x 5). <b>(1 dev mark)</b></p>	8	<p>Maximum 4 marks for diagram.  1 mark for arrows between firms/households.  1 mark for income/consumer spending (factors and/or factor incomes need not be included to gain the mark).  All injections - 1 mark (lose if all 3 not present).  All leakages - 1 mark (lose if all 3 not present).</p> <p><b>Leverages/Withdrawals:</b>  Taxation  Savings  Imports</p> <p><b>Injections:</b>  Government Spending  Investment  Exports</p> <p>Maximum 6 marks if no diagram.  It is possible to attain 6 marks with clear explanations embedded in a numerical example.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
4.	(a)	<p>Multinational organisations may consider locations which reduce costs:</p> <ul style="list-style-type: none"> <li>• Those which charge lower rates for labour. <b>(1 mark)</b></li> <li>• Those which are closer to the market. <b>(1 mark)</b></li> <li>• Those which have proximity to raw materials. <b>(1 mark)</b></li> <li>• Those which have lower costs due to more lenient legislative restrictions (eg H &amp; S). <b>(1 mark)</b></li> <li>• Those which have lower taxations rates. <b>(1 mark)</b></li> <li>• Help avoid transaction costs in exchange rate conversion. <b>(1 mark)</b></li> </ul> <p>Other factors could include:</p> <ul style="list-style-type: none"> <li>• Attraction of certain/stable exchange rates. <b>(1 mark)</b></li> <li>• Access to skilled, educated labour force. <b>(1 mark)</b></li> <li>• Culture transfer. <b>(1 mark)</b></li> <li>• Access to subsidies/grants. <b>(1 mark)</b></li> <li>• Good/developed infrastructure. <b>(1 mark)</b></li> </ul> <p>Accept any other suitable response.</p>	5	Max 2 for relevant examples.

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<ul style="list-style-type: none"> <li>• The stability of exchange rate (within the Eurozone) will increase certainty <b>(1 mark)</b> of trade and thereby potentially increasing the volume of trade. <b>(1 mark)</b></li> <li>• No transactions costs (must have explanation) <b>(1 mark)</b> reduces the costs in trading and investment. <b>(1 mark)</b></li> <li>• Price transparency - easier to compare Scottish prices with those in the rest of the Eurozone <b>(1 mark)</b> - credit consequences eg lower average costs through sourcing of cheaper materials. <b>(1 mark)</b>.</li> <li>• Could increase, or at least protect, FDI in Scotland credit reasons eg firms attracted to single currencies. <b>(1 mark)</b></li>   <li>• Loss of monetary policy control and interest rates set through the ECB. <b>(1 mark)</b>. One size fits all development/example. <b>(1 dev mark)</b></li> <li>• Implications for fiscal policy, restrictions set by ECB. <b>(1 mark)</b></li> <li>• Convergence criteria must be met <b>(1 mark)</b> - growth, inflation, interest rates, debt, exchange rates have to be in line. <b>(1 dev mark)</b></li> <li>• Costs of changing over equipment/menu costs during transition.</li> </ul> <p>Accept any other suitable response.</p>	<b>6</b>	<p>It is not necessary to discuss both for and against for full marks.</p> <p>Be aware of repetition.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<ul style="list-style-type: none"> <li>• A floating exchange rate can eliminate a trade deficit <b>(1 mark)</b>, as the deficit causes the currency to lose value, UK price competitiveness improves and X increases and m falls. <b>(1 mark)</b></li> <li>• Pressure on reserves is lifted <b>(1 mark)</b> as the government does not need to defend an exchange rate. <b>(1 mark)</b></li> <li>• Exchange rates can remain as part of monetary policy <b>(1 mark)</b> which might be useful when looking at macro objectives eg growth might be achieved by a lower value of the £ triggering export led growth or inflation might be countered by a higher exchange rate calming cost push pressures. <b>(1 mark)</b></li> </ul>	4	Max 3 marks for each point described.

[END OF MARKING INSTRUCTIONS]