



National
Qualifications
2016

2016 Economics

Advanced Higher

Finalised Marking Instructions

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General Marking Principles for Advanced 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 the Detailed 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.

(v) Questions that ask candidates to **Compare** . . .

Candidates must demonstrate knowledge and understanding of the similarities and/or differences between things, methods or choices, for example. The relevant comparison points could include theoretical concepts.

Up to the total mark allocation for this question:

- 1 mark should be given for each accurate point of comparison

(vi) Questions that ask candidates to **Evaluate** . . .

Candidates must demonstrate the ability to make a reasoned judgement in terms of the effectiveness or usefulness of something based on criteria.

Candidates should be able to determine the value of something within context.

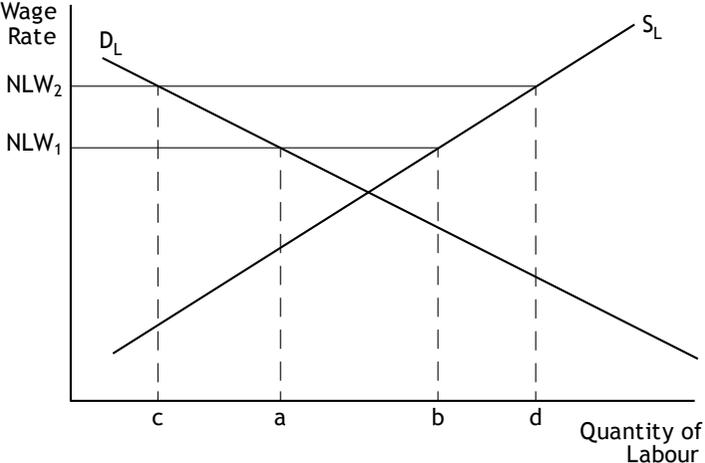
Up to total mark allocation for this question:

- 1 mark should be given for each accurate point of evaluation
- 1 mark should be given for any further development of a relevant point, including exemplification and/or a conclusion when appropriate.

Detailed Marking Instructions for each question

SECTION 1

Question		Expected Answer(s)	Max Mark	Additional Guidance
1.	(a)	<p>Additional income paid to workers by the government via the tax system to low-paid workers (1)</p> <p>Development marks:-</p> <ul style="list-style-type: none"> • means tested (1) • Government tax revenue is used to subsidise low incomes (1) • Voted down by the House of Lords (1) 	2	<p>Also accept child tax credits</p> <p>Accept any other development point</p>
	(b)	<p>Government policies used to improve output and productivity of economy (1)</p> <p>Credit examples (1)</p>	2	Accept any other development point
2.		<ul style="list-style-type: none"> • Current position is budget deficit plus explanation (1) • Lower payment in tax credits as Government will no longer need to subsidise lower income household (1) • Lower Government spending will improve the budget deficit (1) • Higher revenue from tax receipts on higher incomes and spending will reduce budget deficit (1) 	3	Accept any other reasonable answer
3.		<ul style="list-style-type: none"> • To reduce the burden of debt plus explanation (1) • To reduce intergenerational unfairness plus explanation (1) • To maintain the UK's credit rating plus explanation (1) • To reduce the risk of a sovereign debt crisis plus explanation (1) • To reduce the possibility of 'crowding out' plus explanation (1) 	4	<p>Credit development points</p> <p>Statistics (max 1 mark)</p> <p>Accept any other reasonable answer</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
4.	<ul style="list-style-type: none"> • Higher wages may lead to higher motivation and productivity (1) • Higher labour costs leading to falling profitability (1) • Cost cutting to restore profit margins (1) • Some business pay above the National Living Wage so there will be no impact (1) • Passing on higher costs to price of products to maintain profit margins may impact demand(1) • Impact of higher price depends on PED (1) • Impact on international competitiveness and international sales (1) 	3	Accept any other reasonable answer
5.	<p>One mark for showing a rise in the National Living Wage (1) One mark for showing a rise in the level of unemployment (1)</p> 	2	

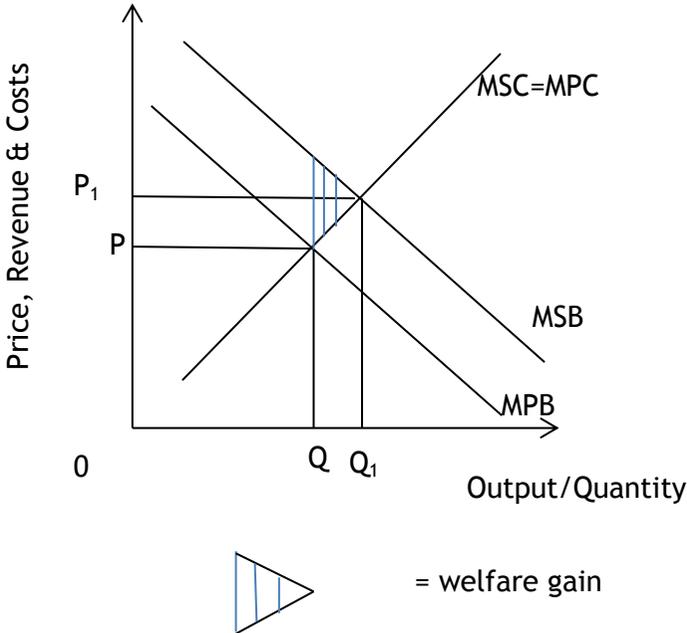
Question	Expected Answer(s)	Max Mark	Additional Guidance
6.	<p>Adequate descriptions of the following factors which cause low productivity in the UK:-</p> <ul style="list-style-type: none"> • Lower investment in capital/technology (1) • Lower investment in training and vocational education (1) • Poor management and/or industrial relations (1) • Labour hoarding during the recession (1) • Geographical immobility of labour due to house prices (1) • Occupational immobility of labour (1) • Poor infrastructure (1) 	4	<p>Accept any other reasonable answer</p> <p>Do not accept answers which relate to higher production costs unrelated to productivity</p>
7.	<p>Low UK productivity leads to higher unit costs which could lead to higher inflation if passed on (1). Higher unit costs might also lead to a loss of international competitiveness because UK exports could be relatively more expensive (1) and imports will be relatively cheaper than domestically produced goods (1). UK firms might have to accept lower profit margins. (1) Overall impact will depend on PED/exchange rate (1).</p> <p>OR</p> <p>Low productivity can lead to lower wages which is deflationary (1). Accept any other logical point following on from this.</p>	4	1 mark for relevant factual data

Question	Expected Answer(s)	Max Mark	Additional Guidance
8.	<p>Below are possible areas of evaluation:-</p> <p>Possible Negatives:</p> <ul style="list-style-type: none"> • Rising relative poverty • Increasing social deprivation/social problems • Social exclusion • Intergenerational cycles • Lack of social mobility • Waste of human potential • Lower economic growth - due to high MPS amongst high earners <p>Possible Positives:</p> <ul style="list-style-type: none"> • Incentives to hard work/A reward for responsibility • Benefits to the UK economy - tax benefits, innovation etc • 'Trickle down' effect • Social responsibility eg philanthropy • Potential for social mobility • Personal responsibility <p>Note: Income inequality is not the same as poverty -credit distinction - up to 2 marks. Credit a distinction between absolute and relative poverty - up to 2 marks</p>	6	<p>Max of 3 marks per point</p> <p>Max 3 marks for description</p>

SECTION 2

Question		Expected Answer(s)	Max Mark	Additional Guidance
9.	(a)	<p>Reasons could include:</p> <ul style="list-style-type: none"> • Kinked demand curve • To increase market share • To drive out competitors • Pricing strategies such as predatory pricing, entry limit pricing, price leadership • Breakdown in a cartel - prisoners dilemma <p>When one firm in oligopoly lowers its prices this usually leads its competitors to lower their prices too (ID cause) because of interdependence in the market (1). Interdependence leads firms to react to the behaviour or actions of others (1). Thus oligopolistic firms follow their rivals (ID cause) because they want to maintain their market share (1). This interdependence (ID cause) means that the firms face a price inelastic demand curve when prices are lowered (1), which means that a price reduction will lead to a less than proportionate increase in quantity demanded (1), which leads to lower total revenue for all the firms (1). The lower revenue (ID cause) then leads to firms trying to undercut each other again to gain more market share once more, this process continues until which leads to the whole process occurring again (1).</p> <p>Accept any other suitable response</p>	6	<p>Credit use of examples to aid description</p> <p>1 mark for a correct kinked demand curve diagram</p> <p>Any other relevant examples</p> <p>Max 3 marks per point</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(b)	Price wars can be good for consumers as they are paying a lower price for individual products which has an income effect of allowing them to buy more goods/services with the same amount of money (1). This means that more producers benefit from the spending of the consumer resources (1). Consumers lose if firms shut down and there is less choice (1). If the market is less competitive in the long run then quality may fall (1) and prices may rise (1).	6	<p>Credit use of examples to aid explanation.</p> <p>At least one cost and one benefit must be mentioned for full marks.</p> <p>Accept any other suitable response</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(c) (i)	 <p data-bbox="360 898 1115 1102"> Clearly showing that $MPC=MSC$ (1 mark) Clearly showing that MSB is higher than MPB (1) Clearly showing output and price for both private and social benefits. (1) Clearly identifying positive externality (1) Clearly showing welfare loss (1) </p> <p data-bbox="360 1121 1115 1390"> As the market only takes private benefits into account this leads to the positive externalities not being gained (1). From the diagram we can see that the market only produces at Q at a price P, which results in a lower output and a lower price (1) than the optimum output at Q_1 and P_1 (1). This results in a net welfare loss (1). Consumption of public transport results in external benefits such as less congestion (1) and less pollution (1) </p>	7	4 maximum if no diagram 4 maximum if no explanation 1 mark for definition of positive externalities in consumption

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(ii)	<p>Laws can be passed that make the consumption of the good or service mandatory (1). This is a bit extreme in the case of public transport and is not likely to be introduced (1). Governments can provide help with the costs of public transport (1). They can give subsidies to the firms to enable them to lower their prices (1) or they can provide the transport free for certain days (1) as happens in French cities from time to time (1). Government can improve the public transport infrastructure (1), thereby making it more efficient and thus encouraging consumers to use it (1). Governments can initiate campaigns to raise the awareness of the external benefits of consuming the service to try to encourage consumers to use it (1).</p>	6	<p>Accept any other suitable response such as congestion charging, bus lanes, off peak pricing, park and ride, increased parking charges, reducing parking availability.</p> <p>Max 3 marks per fully developed point</p> <p>No marks for ID</p>

SECTION 3

Question	Expected Answer(s)	Max Mark	Additional Guidance
10. (a)	<ul style="list-style-type: none"> • It leads to a negative spiral of falling prices, output and incomes (1) • This can lead to a deep recession which can be difficult to cure (1) • This leads to low economic growth which leads to rising unemployment (1) • Conventional monetary policy can be ineffective when trying to reverse deflation (1) • Interest rates cannot fall below 0% (1) • It is impossible to achieve negative real interest rates (1) • Negative real interest rates encourage spending and not saving (1) • Deflation can be 'benign' if it is caused by technological progress (1) • This lowers production costs and leads to better quality goods at lower prices (1) • Lower prices can improve living standards as long as real wages are maintained (1) • Hyperinflation can be as damaging as deflation if it totally debases the currency (1) <p>Credit relevant negative points about inflation</p> <p>Credit knowledge of Japan's lost decade (1)</p>	7	<p>Maximum of 2 marks for statistics Credit any other relevant explanation Credit appropriate development</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<p>Full descriptions of the following points will be credited:-</p> <p>Inflationary pressures:</p> <ul style="list-style-type: none"> • Lack of spare capacity leads to upward pressure on inflation because shortages of labour/resources drives wages and costs higher (1) which can lead to higher prices if passed on.(1) • Rising real wages leads to upward pressure on inflation because rising real wages may lead to higher consumer spending (1) which could contribute to rising AD which could be inflationary. (1) • House price inflation/bubble (1) • Economic recovery (1) • Need to return to more ‘normal’ interest rates • QE/loose monetary policy (1) <p>Deflationary pressures:</p> <ul style="list-style-type: none"> • Falling oil prices have contributed significantly to deflationary pressures as oil is an important component of energy, transportation and in some industries raw material costs (1). The oil price has dropped to a low of US\$48. (1) • Global economic downturn (1) • Rising value of £ (1) • Over-supply of certain products (1) • Falling demand from countries such as China (1) • International competitiveness issues (1) • Falling commodities prices (1) • Supermarket prices wars eg Lidl (1) 	9	<p>Credit any reasonable description of the above factors/any other relevant factors</p> <p>Up to 2 marks for relevant statistics</p> <p>Max of 3 marks per point</p> <p>For full marks both inflationary and deflationary pressures must be described.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<p>Potential areas for discussion:</p> <ul style="list-style-type: none"> • Keeping interest rates unchanged • Raising interest rates • Lowering interest rates • QE unchanged • More QE • Reversing QE • Funding for Lending • Forward Guidance • Negative interest rates on retail bank deposits 	9	<p>Credit any reasonable discussion of the policy options</p> <p>Any other relevant factors at the time of candidates sitting the paper</p> <p>Maximum 3 marks per point</p>
11.	(a)	<p>Explanations of the following points will be credited up to a maximum of 3 marks per explanation:</p> <ul style="list-style-type: none"> • Bursting of a Debt bubble (plus explanation) • Total debt burden exceeds 250% of GDP (plus explanation) • Bursting housing bubble (plus explanation) • Bursting Stock market bubble (plus explanation) • Ageing population (plus explanation) • Corruption (plus explanation) • Large shadow banking sector (plus explanation) • Need to rebalance the economy from export-led to consumer-led economic growth (plus explanation) • Chinese growth has been overstated by the Chinese Government (plus explanation) • Higher saving ratio (plus explanation) 	7	<p>Credit any other relevant explanation</p> <p>Credit appropriate development</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<p>Positive:</p> <ul style="list-style-type: none"> • Lower oil prices plus explanation which could include that lower oil prices lower the costs of businesses which can raise profit margins for them (1) UK businesses experiencing lower costs may be able to raise wages/increase investment as a result. (1) • Lower oil prices also contribute to lower inflation for UK households (1) lower prices of petrol and other items has raised real wages and led to higher living standards. (1) as households can afford to buy more goods and services than previously. (1) • Lower commodity prices plus explanation • Lower price of UK imports from China and other Asian countries trying to compete plus explanation <p>Negative:</p> <ul style="list-style-type: none"> • Possible deflation plus explanation • Falling demand for UK exports plus explanation • Rising unemployment in export-led companies plus explanation • Surplus Chinese goods being ‘dumped’ into UK markets leading to business closures and redundancies. Eg steel industry • Falling stock markets plus explanation • Lower potential investment from China plus explanation 	8	<p>Credit any other relevant discussion point</p> <p>Credit appropriate development</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<p>Consequences for the Chinese economy:</p> <ul style="list-style-type: none"> • Lower prices for Chinese exports in foreign markets (1) • Leading to higher demand for Chinese exports (1 dev) • Higher exports will lead to higher economic growth/lower unemployment (1 dev) • Impact on Chinese balance of payments will depend on PED (1) Combined PED for imports and exports must be greater than one for the devaluation to have a positive impact on the Balance of Payments. (1) • Imports of foreign products will become relatively more expensive (1) • Leading to lower demand for foreign imports (1) • Improvement to the balance of payments (1) • Net exports (X - M) will become more positive (1) • Risk of competitive devaluations which will offset each other (1) • Risk of 'price wars' to maintain market shares (1) 	6	<p>Candidates may look at this from the point of view of any country.</p> <p>Don't accept 'flipped' responses.</p> <p>Credit any other relevant description point.</p>
	(d)	<p>Analysis could include the following:</p> <p>Positive:</p> <ul style="list-style-type: none"> • Larger potential future workforce • Lower dependency ratio in the future • Changing patterns of demand <p>Negative:</p> <ul style="list-style-type: none"> • Dangers of falling GDP per capita • Pressure on social infrastructure/services 	4	Credit any other relevant point

Question		Expected Answer(s)	Max Mark	Additional Guidance
12.	(a)	<p>Demand factors:</p> <ul style="list-style-type: none"> • Lower demand from emerging economies/China (1) • Low rates of economic growth in developed countries (1) • Stagnant global trade (1) • Development of other sources of energy (1) <p>Supply factors:</p> <ul style="list-style-type: none"> • Lifting of sanctions on Iran • New extraction technologies eg fracking (1) • Over-supply from OPEC (1) • Lower US imports due to fracking (1) 	6	Credit appropriate development
	(b)	<p>Positives:</p> <ul style="list-style-type: none"> • Lower prices improving standard of living • Rising real wages • Falling costs for transportation/production • Higher profit margins for some businesses • Better balance of payments as UK is a net oil importer • England, Wales and NI - winners • Higher output and economic growth • Positive impact on government finances. <p>Negatives:</p> <ul style="list-style-type: none"> • Contributing to deflation • Impact on Scottish economy, specifically employment and output • Negative multiplier effect in Aberdeen • Impact on supply chain profitability in oil industry • Impact on tax revenues from oil industry and petrol sales • Bad for meeting environmental targets 	10	Credit any other relevant discussion point Credit appropriate development

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<p>Analysis could include the following:</p> <ul style="list-style-type: none"> • Reduce tax burden on the oil industry in Scotland • Subsidise oil industry • Tax breaks for investment • Encourage diversification/regional aid • Encourage innovation • Encourage FDI • Supporting training/retraining initiatives • Encouraging geographical mobility • Very difficult given this is a global market with global over-supply 	9	<p>Credit any other relevant point</p> <p>Credit appropriate development</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
13.	(a)	<p>Advantages:</p> <ul style="list-style-type: none"> • Greater volume of trade due to single market which eradicates trade barriers between member states (1) This increases the potential for UK firms to gain access to the market of all member states with no barriers.(1) Over 50% UK exports are sold into the EU. (1) • Increased competition may encourage greater efficiency in UK firms (1) this forces UK firms to be more dynamic because they have to respond quickly to competitive pressures. (1) • Free movement of labour • Free movement of intellectual property • Inward investment • Larger market in which to sell • Greater economies of scale <p>Disadvantages:</p> <ul style="list-style-type: none"> • Distorts trade with the rest of the world as UK focuses on EU (1) whilst the Common External Tariff prevents other countries fairly trading with the UK.(1) This harms UK consumers and businesses.(1) • The CAP protects inefficient agriculture and therefore impedes dynamism and efficiency in the economy. (1) This leads to a misallocation of resources and protects inefficiency.(1) • Cost of membership to the UK taxpayer .(1) The tax revenue could be used to invest in UK infrastructure which would improve UK productivity.(1) • Red tape and bureaucracy adds to business costs.(1) 	10	<p>Credit any other relevant discussion point Credit appropriate development</p> <p>Max 2 marks for statistics</p> <p>Max 8 if no mention of Open/Dynamic</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(b)	<ul style="list-style-type: none"> • Austerity measures (1) • Spillover from sovereign debt crisis (1) • High general unemployment (1) • High youth unemployment (1) • Residual banking issues in some countries (1) • Low productivity in some member states (1) • Low growth rate in the larger economies (1) • Lack of export-led growth (1) • Falling demand from emerging economies (1) 	8	Credit any other relevant description Credit appropriate development Max 2 marks for statistics Max 3 marks per point
	(c)	Potential areas for evaluation: <ul style="list-style-type: none"> • Lowering interest rates. It is currently% (1) • Interest rates in the Eurozone cannot be lowered because they are already close to 0%. (1) It is impossible for nominal interest rates to fall below 0% because banks cannot charge depositors and pay borrowers. (1) • Keynesian 'liquidity trap' (1) • More QE (1) • Issues regarding the effectiveness of QE in the Eurozone (1) • Could be the only option given all other factors (1) • Support for Eurozone banking system to prevent a banking crisis (1) • Draghi statement that the ECB will do whatever it takes (1) • Negative interest rates on retail bank deposits (1) • Devalue the Euro (1) • Issue Eurobonds (1) • Two-tier Euro (1) 	7	Credit any reasonable evaluation

[END OF MARKING INSTRUCTIONS]