



National  
Qualifications  
2018

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## 2018 Economics

### 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, ie marks should be awarded for what is correct and not deducted for 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.

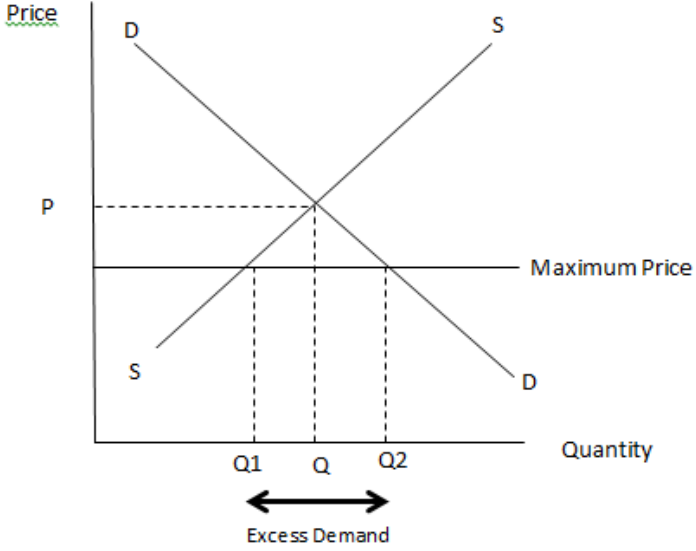
Up to the total mark allocation for this question:

- **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.

## Marking instructions for each question

### SECTION 1

Question		Expected answer(s)	Max mark	Additional guidance
1.	(a)	<p><b>Description:</b></p> <ul style="list-style-type: none"> <li>Wages are not rising/wages have not grown/wages have stayed the same (1).</li> </ul> <p><b>From source material:</b></p> <ul style="list-style-type: none"> <li>'rises have been capped at 1% which is below the rate of inflation' (1).</li> <li>In Sept 2009 CPI/inflation rose above Average Weekly Earnings (1).</li> <li>There has been a 'decade of salary freezes' (1).</li> <li>Teachers, nurses and police officers have been affected by this (1).</li> </ul>	2	<p>Maximum 1 mark for description.</p> <p>Do Not Award (DNA) Decrease in wages.</p> <p>Maximum 1 mark for example.</p> <p>DNA 'pay fall or stagnate in real terms.'</p> <p>Accept any date between Sept 2009 and Sept 2014.</p> <p>Accept other relevant examples taken from the graph.</p>

Question		Expected answer(s)	Max mark	Additional guidance
(b)	(i)	 <ul style="list-style-type: none"> <li>• Fully labelled demand and supply diagram (1).</li> <li>• Horizontal line representing maximum price/pay cap below equilibrium (1).</li> <li>• Quantities indicated (Q1,Q2)/excess demand/shortage of supply illustrated (1).</li> </ul>	3	<p><b>Fully labelled:</b></p> <p>Axis labelled - Price, Quantity, or P, Q.  Demand and supply curves labelled - D, S.  Equilibrium price indicated - p,q, or eq.</p>

Question		Expected answer(s)	Max mark	Additional guidance
	(ii)	<ul style="list-style-type: none"> <li>• This will lead to increased unemployment (ID) due to increasing wage costs (1).               <ul style="list-style-type: none"> <li>○ This is because organisations may ‘shed’ workers to limit cost increases/limit reductions in profit (DEV) (1).</li> <li>○ Firms may also substitute machinery for labour (DEV) (1).</li> <li>○ A negative multiplier effect may create even more unemployment as those made unemployed will spend less (DEV) (1).</li> <li>○ This is because lifting the pay cap will mean the market price of labour (wages) will not be prevented from settling at equilibrium price (DEV) (1).</li> </ul> </li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• Unemployment may fall (ID) as labour supply may increase (1). This is because joining the labour market is more attractive/those not working have more incentive to work (DEV) (1).</li> </ul>	<b>3</b>	<p>Award maximum <b>2 development (DEV)</b> marks.</p> <p>DNA development marks, not relevant to effect on employment.</p>

Question		Expected answer(s)	Max mark	Additional guidance
	(iii)	<ul style="list-style-type: none"> <li>• Governments provide merit goods (ID) because they are deemed to benefit society (1). Without intervention markets sometimes fail to produce enough of these/these goods are often under-consumed (DEV) (1).</li> <li>• Governments regulate de-merit goods (ID) because they are deemed to be bad for society (1). Markets sometimes produce too many of these/may be over-consumed (DEV) (1).</li> <li>• Governments provide public goods (ID) because without intervention these goods could be under-provided (1). These goods are difficult to generate profit from/they result in a free-rider problem/they are non-excludable in use/they are non-rivalled in use (DEV) (1).</li> <li>• Governments regulate negative externalities (ID) because they are a cost to a third party (1). Without intervention markets may over-produce these (DEV) (1).</li> <li>• Governments promote positive externalities (ID) because they are a benefit to a third party (1). Without intervention firms may have no incentive to generate these (DEV) (1).</li> <li>• Governments attempt to address inequality (ID) because markets may result in unequal distribution of income and wealth (1). Markets may fail to provide the basic needs of some members of society (DEV) (1).</li> </ul>	2	<p>Award maximum 1 development mark.</p> <p>Accept explanations referencing either the economic term (public goods) or the practical example (street lighting).</p> <p>DNA development marks for examples alone.</p>

Question		Expected answer(s)	Max mark	Additional guidance
	(c) (i)	<ul style="list-style-type: none"> <li>• The Living Costs and Food Survey (Family Expenditure Survey), is taken across the UK (1).</li> <li>• This is used to create a basket of several hundred goods and services most commonly bought by consumers (1).</li> <li>• Items are weighted according to the amount typically spent (1).</li> <li>• For example, petrol may carry a higher weighting than beauty treatments (1).</li> <li>• An index starts at 100 in the base year (1).</li> <li>• Prices are sampled at various locations across the UK (1).</li> <li>• Changes in the prices are expressed as an annual inflation rate or percentage (1).</li> <li>• Housing costs are not included in the calculation (1).</li> </ul>	3	
	(ii)	<p><b>Description:</b></p> <ul style="list-style-type: none"> <li>• Deflation is a decrease in the general price level of goods and services (1).</li> <li>• Deflation is when the rate of inflation becomes negative/falls below 0% (1).</li> </ul> <p><b>From source material:</b></p> <ul style="list-style-type: none"> <li>• Jan 2015 - April 2015 (1).</li> <li>• June 2015/August 2015 (1).</li> <li>• Nov 2015 (1).</li> </ul>	2	<p>Maximum 1 mark for description.</p> <p>Maximum 1 mark for reference to source material.</p>

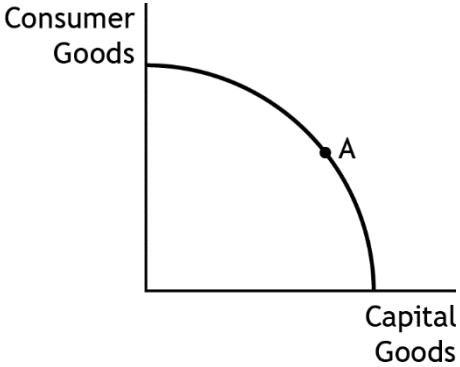


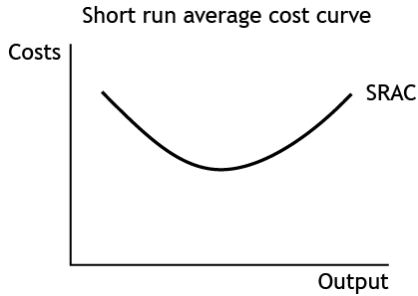
Question		Expected answer(s)	Max mark	Additional guidance
	(d) (i)	<ul style="list-style-type: none"> <li>• Inflation increases prices (ID) which makes exports less attractive/competitive (1).</li> <li>• The volume of exports/demand for exports will fall (ID) which has a negative effect on the Balance of Trade (1).</li> <li>• In comparison to high UK prices, imports will appear more attractive (ID) so demand for/volume of imports will increase (1). The Balance of Trade will worsen (DEV) (1).</li> </ul>	2	Award maximum 1 development mark.
	(ii)	<p><b>Current Account</b></p> <ul style="list-style-type: none"> <li>• <b>Trade in services</b> records the value of services traded between countries (1).</li> <li>• <b>Investment income</b>/net primary income shows the net interest, profits and dividends between the UK and other countries (1).</li> <li>• <b>Current transfers</b>/net secondary income shows government and private transfers between the UK and other countries/items such as overseas development aid (1).</li> </ul> <p><b>Capital/Financial Account</b></p> <ul style="list-style-type: none"> <li>• The <b>transfer of ownership</b> of fixed assets (1).</li> <li>• <b>FDI</b>, eg investment in land, premises and equipment by UK companies setting up branches overseas and vice versa (1).</li> <li>• <b>Portfolio investment</b> shows flows of money between countries to buy stocks and shares overseas (1).</li> <li>• Other investment eg 'hot money' (1).</li> <li>• <b>Reserve assets</b> eg reserves of foreign currency managed by the Bank of England (1).</li> </ul> <p><b>Balancing item</b> - net errors and omissions (1).</p>	3	Titles of components (in bold) not required in order to award marks if descriptions are adequate.

Question		Expected answer(s)	Max mark	Additional guidance
	(iii)	<p>Examples referring to current situation include:</p> <ul style="list-style-type: none"> <li>• Trade in goods deficit.</li> <li>• Trade in services surplus.</li> <li>• Current account/BoP deficit.</li> </ul> <p>Recent trends:</p> <ul style="list-style-type: none"> <li>• Trade on goods deficit widening (1).</li> <li>• Balance of payments deficit is increasing (1).</li> <li>• Increase in exports (due to weak sterling) (1).</li> <li>• Deficit on trade in goods increasingly outweighs the surplus on trade in services (1).</li> <li>• Current account deficit is widening (1).</li> <li>• Trade in services surplus is narrowing (1).</li> </ul>	2	<p>DNA development marks.</p> <p>Award maximum 1 mark for answers referring to current situation.</p>
	(e)	<ul style="list-style-type: none"> <li>• Free movement of goods (1).</li> <li>• Free movement of services (1).</li> <li>• Free movement of capital (1) or single market with mobility of resources (1).</li> <li>• CAP - farmers within the EU receive subsidies/Ensures crop prices remain stable/Ensures no shortages (1).</li> <li>• CFP - fisherman within the EU receive subsidies/ Ensures fish prices remain stable/Ensures no overfishing (1).</li> <li>• EMU - single currency in the Eurozone (1).</li> <li>• ECB - central bank for the Eurozone (1).</li> <li>• CET - customs union with Common External Tariff (1).</li> <li>• Membership fees are required from member states (1).</li> </ul>	3	DNA development marks.

SECTION 2

Question		Expected answer(s)	Max mark	Additional guidance
2.	(a)	<ul style="list-style-type: none"> <li>• Human wants are unlimited while resources are limited (1).</li> <li>• Scarcity is a relative concept (1).</li> <li>• Scarcity arises due to human greed/competing wants (1).</li> <li>• Scarcity exists everywhere/it is a universal problem (1).</li> </ul>	3	DNA marks for descriptions of choices to be made/opportunity costs.
	(b) (i)	<p>Consumer Goods</p> <p>Capital Goods</p> <p><b>Diagram:</b></p> <ul style="list-style-type: none"> <li>• Fully labelled diagram (axes labelled appropriately and PPC curve) (1).</li> <li>• Quantities indicated on axes using numbers/letters (1).</li> </ul> <p><b>Explanation:</b></p> <ul style="list-style-type: none"> <li>• Opportunity cost arises, because as production of one good rises (ID) quantities of the alternative good are sacrificed (1).</li> <li>• Credit example from diagram, eg as consumer goods rise from 60 to 80 (ID) the <u>opportunity cost</u> is the 10 capital goods <u>sacrificed</u> (1).</li> </ul>	3	<p>Accept diagram with appropriate alternative labels.</p> <p>Maximum 2 marks for diagram. Maximum 2 marks for explanation. Maximum 1 mark for fully labelled diagram across part (i) and (ii).</p>

Question	Expected answer(s)	Max mark	Additional guidance
(ii)	 <p><b>Diagram:</b></p> <ul style="list-style-type: none"> <li>• (Economically efficient) point indicated on curve (1).</li> </ul> <p><b>Explanation:</b></p> <ul style="list-style-type: none"> <li>• Producing goods and services at points inside the boundary is inefficient (ID) as some resources are underutilised (1), while points on the boundary eg point A represent economic efficiency (DEV) (1), and points outside the boundary are not possible with current resources (DEV) (1).</li> <li>• Economic efficiency (eg point A on the diagram) (ID) which is when all resources are allocated in the best way with minimum waste (1).</li> <li>• No opportunity cost is incurred when moving from a point within the boundary to a point on the boundary (ID) as this simply indicates a more efficient use of resources (1).</li> <li>• Economic efficiency includes being technically/ productively efficient (ID) ie producing maximum output from minimum input (1). This in combination with allocative efficiency creates economic efficiency (DEV) (1).</li> </ul>	3	<p>Maximum 1 mark for diagram. Maximum 2 marks for explanation.</p>

Question	Expected answer(s)	Max mark	Additional guidance
(c)	<p><b>Diagram</b></p> <ul style="list-style-type: none"> <li>Fully labelled axes (costs/output) (1).</li> <li>U-shaped curve labelled correctly (SRAC/AC/ATC) (1).</li> </ul>  <p><b>Explanation:</b></p> <p>The curve falls initially (1D) due to:</p> <ul style="list-style-type: none"> <li>Increasing returns (1).</li> <li>Benefits of specialisation (1).</li> <li>Fixed costs are being spread over an increasing output (1).</li> <li>Output rising faster than costs (1).</li> <li><math>MC &lt; AC</math>, pulling AC down (1).</li> </ul> <p>The lowest point on the curve is the point of maximum efficiency (1D) as costs are at their lowest per unit (1).</p> <p>The curve begins to rise (1D) due to:</p> <ul style="list-style-type: none"> <li>Diminishing returns/law of diminishing marginal returns (1).</li> <li>Benefits of specialisation are eroded/fixed factor is 'overworked' (1).</li> <li>Costs are rising faster than output (1).</li> <li><math>MC &gt; AC</math>, pushing AC up (1).</li> </ul>	6	<p>Maximum 2 marks for diagram (ignore extraneous curves).</p> <p>Maximum 5 marks for explanation.</p> <p>Maximum 3 marks for explanations of either fall or rise in AC.</p> <p>Maximum 1 development mark for an example.</p>

Question		Expected answer(s)	Max mark	Additional guidance
3.	(a)	<ul style="list-style-type: none"> <li>• Grants may be awarded (ID) which could be used to invest in capital improving productivity (1). Increased productivity means more output can be produced without increasing input (DEV) (1).</li> <li>• Education may be improved (ID) to improve efficiency of workers (1). More efficient workers will reduce wastage/errors (DEV) (1).</li> <li>• More/better training may be provided (ID) to improve productivity/flexibility (1). More flexible staff will reduce stoppages/bottlenecks (DEV) (1).</li> <li>• Industry may be deregulated (ID) to increase opportunities for competition (1). More competition encourages increased efficiency (DEV) (1).</li> <li>• Minimum wage may be increased (ID) to incentivise more people to join the labour force (1).</li> <li>• Subsidies may be offered (ID) to reduce the unit cost of production leading to higher output (1).</li> <li>• Tax breaks may be awarded to new firms (ID), which would have the effect of reducing costs leading to higher output (1).</li> <li>• Labour mobility/flexibility may be improved (ID) for example zero hour contracts which makes it easier to meet demand (1).</li> </ul>	4	Award maximum 2 development marks.

Question		Expected answer(s)	Max mark	Additional guidance
	(b)	<ul style="list-style-type: none"> <li>• Unemployment may <b>decrease</b> (ID) as creating economic growth may have increased demand for labour (1). <ul style="list-style-type: none"> <li>○ More people in work increases consumer spending/AD (DEV) (1).</li> <li>○ This will stimulate further growth/a positive multiplier effect (DEV) (1).</li> </ul> </li> <li>• Unemployment may <b>decrease</b> (ID) as the growth may have increased tax revenue which the government can invest (1). <ul style="list-style-type: none"> <li>○ Government investment in eg capital projects creates jobs (DEV) (1).</li> <li>○ Government may also use increased revenue to fund increased public sector wages/schemes to improve employment (DEV) (1).</li> <li>○ This will incentivise more people to enter the labour market (DEV) (1).</li> </ul> </li> </ul>	3	

Question		Expected answer(s)	Max mark	Additional guidance
	(c)	<p><b>Negative effect of high unemployment:</b></p> <ul style="list-style-type: none"> <li>• Reduced income/falling standards of living (1).</li> <li>• More competition for jobs (1).</li> <li>• Less tax revenue for government (1) eg less income tax as less people working/less VAT as less disposable income/spending (DEV) (1).</li> <li>• Wage levels may fall as workers are forced to accept less skilled/less well-paid jobs (1).</li> <li>• Economic growth may slow due to reduced AD (1).</li> <li>• Economic growth may slow due to de-skilling of workforce (1).</li> <li>• Increased JSA costs for government (1) which may increase budget deficit (DEV) (1).</li> <li>• Increased costs for government on NHS/policing/social work (1).</li> <li>• Pressure on government to intervene eg bring forward capital spending plans (1).</li> </ul> <p><b>Positive effects of high unemployment:</b></p> <ul style="list-style-type: none"> <li>• Opportunity for entrepreneurial activity/retraining (1).</li> <li>• Firms have more choice when hiring employees (1) allowing them to select better quality staff, improving efficiency/productivity (DEV) (1).</li> <li>• Firms have reduced costs due to fewer demands for wage rises/people willing to work for less improving profitability/potential for growth (DEV) (1).</li> <li>• There is reduced inflationary pressure (1) which may lead to improved BoP as exports competitive (DEV) (1).</li> </ul>	8	<p>Maximum of <b>6 marks</b> for descriptions of either positive or negative effects only.</p> <p>Award maximum <b>1 development mark</b> per effect described.</p>



Question		Expected answer(s)	Max mark	Additional guidance									
4.	(a)	<ul style="list-style-type: none"> <li>This is when a country can produce goods/services at a lower opportunity cost than others (1).</li> <li>This means it would sacrifice less of one good in order to produce another good (relative to a second country) (1).</li> <li>A country will benefit by specialising and producing this good or service (1).</li> <li>This would ensure world output/standard of living would increase (1).</li> </ul> <p><b>For example:</b></p> <table border="1"> <thead> <tr> <th></th> <th>Country A</th> <th>Country B</th> </tr> </thead> <tbody> <tr> <td>Cars</td> <td>3</td> <td>4</td> </tr> <tr> <td>Trucks</td> <td>1</td> <td>2</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Country A has an absolute advantage in neither cars nor trucks (1).</li> <li>However, country A has a comparative advantage in cars (1).</li> <li>This is because Country A only has to give up 1/3 truck to make 1 car whereas Country B has to give up 1/2 truck to make 1 car (1).</li> <li>Country A should therefore specialise in the production of cars (1).</li> </ul>		Country A	Country B	Cars	3	4	Trucks	1	2	4	Award maximum 3 marks for an example.
	Country A	Country B											
Cars	3	4											
Trucks	1	2											

Question		Expected answer(s)	Max mark	Additional guidance
	(b)	<ul style="list-style-type: none"> <li>• The volume of UK exports rise (ID) so foreign consumers need to purchase more sterling (1). For example, if more foreign tourists visit the UK they will need access to sterling to pay for UK goods and services (DEV) (1).</li> <li>• UK interest rates rise (ID) so 'hot money' inflows may increase (1). This is because investors will convert more currency to sterling to seek a higher rate of return (DEV) (1).</li> <li>• If speculators anticipate that sterling will rise in the future (ID) the demand for sterling will rise as they seek increased profits/returns (1).</li> <li>• Improved production methods may reduce production costs (ID) making UK goods more competitive overseas (1). This will increase the volume of exports/ encouraging purchase of them abroad (DEV) (1).</li> <li>• Investor confidence increases (ID) - if more individuals/firms wish to invest in the UK they will require sterling (1).</li> <li>• Government intervention (ID) - the UK government may decide to attempt to influence the exchange rate by intervening in the foreign exchange market (1). If they want the exchange rate to rise they may purchase additional sterling with their reserves of other currency (DEV) (1).</li> <li>• Low rates of inflation in the UK (ID) make UK goods/ services appear cheaper, so foreign consumers will demand more sterling to purchase them (1).</li> </ul>	4	Award maximum 2 development marks.

Question		Expected answer(s)	Max mark	Additional guidance
	(c) (i)	<ul style="list-style-type: none"> <li>• General Poverty - low GDP per capita (1).</li> <li>• Low standard of living (1).</li> <li>• High dependence on agriculture/only a few industries (1).</li> <li>• Low exports/limited exports (1).</li> <li>• Underutilised resources/under employment (1).</li> <li>• Low level of government spending/revenue (1) resulting in poor infrastructure development (DEV) (1).</li> <li>• Low standards of education/training (1).</li> <li>• Low productivity (1).</li> <li>• Lack of industry and enterprise - underdeveloped industrial sector (1).</li> <li>• Lack of new capital and technology (1) slowing ability to reach 'take-off' point (DEV) (1).</li> <li>• Low levels of saving and poor banking infrastructure (1).</li> <li>• Lack of basic infrastructures (1) eg good road system/ highways/telephone/services/big dams and canals (1).</li> <li>• Lack of foreign investment (1).</li> <li>• High levels of government corruption diverting aid (1).</li> <li>• Dependency on aid (1).</li> </ul>	4	<p>Award maximum 2 development marks.</p> <p>Candidates must describe <b>economic</b> characteristics of developing economies.</p> <p>DNA - for basic social characteristics unless linked to economic justification.</p>

Question	Expected answer(s)	Max mark	Additional guidance
	(ii) <ul style="list-style-type: none"> <li>• The MNC provides job opportunities (ID) as the demand for labour will increase (1). This will reduce unemployment (DEV) (1).</li> <li>• Creates additional tax revenue for the developing economy's government (ID) which can be used to stimulate growth (1).</li> <li>• Increases economic growth (ID) as the MNC increases the developing economy's output (1).</li> <li>• Creates an initial cash investment (ID) which will improve BoP (1).</li> <li>• The MNC will sell its goods abroad (ID) which means an increase in exports for the developing economy (1). This will improve its balance of trade figures (DEV) (1).</li> <li>• This will improve the standard of living in the developing economy (ID) as workers can buy more goods and services than before (1).</li> <li>• Use of new technology by the MNC (ID) gives the developing economy's workers more opportunity to improve their skills for the future (1). Other organisations in the developing economy can benefit from technology transfer, leading to greater overall output (DEV) (1).</li> <li>• MNCs may invest in infrastructures such as new roads (ID) which will benefit the developing economy as a whole (1).</li> </ul>	3	Award maximum 1 development mark.

**[END OF MARKING INSTRUCTIONS]**