

X038/13/01

NATIONAL
QUALIFICATIONS
2013

MONDAY, 13 MAY
9.00 AM - 11.15 AM

ECONOMICS
ADVANCED HIGHER

You should answer Section A and **two** questions from Section B.

The marks for each question are shown in the margin.



SECTION A

Read the following passage, and then answer the questions which follow on *Page three*.

World Food Prices Soar

Food prices have risen significantly in recent months. Reasons include extreme weather conditions, the use of food crops to produce biofuels and growing demand from **emerging economies**. The short-run price inelasticity of demand and supply in this market has led to sharp price rises.

5 Additionally, speculation about future food prices has helped exaggerate price rises. Speculators treat commodity shortages as an investment opportunity. They buy and sell “futures contracts”, which are agreements to sell a commodity at a certain price at a future date. The World Development Movement suggests that trading these contracts like stocks and shares is pushing food prices up to unsustainable levels. This is to the
10 detriment of the poorest consumers all over the world.

The President of the World Bank said that countries in North and Sub-Saharan Africa are among those most exposed. This is because much of their food is imported and food bills make up a large proportion of average household spending. Some governments have reacted to food price rises by introducing export bans or introducing maximum
15 prices for staple foods. Whilst this helps protect the urban poor, some believe that the introduction of maximum prices does more harm than good.

Under US law, 40% of the corn (maize) harvest must be used to make biofuel, a quota which the UN says could contribute to a food crisis around the world. Some economists believe that there is a large opportunity cost in the production of biofuels which diverts
20 resources away from the production of food. They believe that the high subsidies which biofuels receive, particularly in the US, are having a negative impact on the food market and are unjustifiable. On the other hand, some economists support subsidies for biofuels and green technologies because they will ultimately reduce dependency on non-renewable and environmentally damaging sources of energy. They believe the
25 biggest **market failure** facing the world is climate change.

Adapted from various BBC news articles August 2012

	<i>Marks</i>
1. Explain what is meant by the following terms as used in the passage.	
(a) Emerging economies (line 3).	2
(b) Market failure (line 25).	2
2. (a) Explain why the demand and supply of food in the world market tends to be price inelastic in the short-run.	2
(b) Use a diagram to show the effects of market changes on world food prices.	3
3. Explain the role of speculation in the world food market.	2
4. Explain why rising food prices are most detrimental to the poorest consumers.	2
5. Explain why the imposition of a maximum price in the market for staple foods might do more harm than good. Use a diagram to support your answer.	4
6. Describe the reasons why some economists believe that the production of biofuels is unjustifiable.	2
7. Given the controversy surrounding biofuels, suggest and justify other economic measures which governments can introduce to reduce the effects of climate change.	6
	(25)

[Turn over for Section B

SECTION B

Attempt TWO of the six questions set.

Each question carries 25 marks.

1. In the UK, the market for gas and electricity is dominated by six major firms who have been criticised for all raising their prices in a short period of time.
 - (a) Describe why the market for gas and electricity is oligopolistic. 8
 - (b) Discuss measures the UK government could take to ensure that the gas and electricity market operates more in the interests of consumers. 9
 - (c) Explain why the existence of large firms may not always be detrimental to consumers. 8

(25)

2. In Africa, some countries have recently experienced higher rates of economic growth than others.
 - (a) Discuss reasons why some countries in Africa have experienced higher rates of growth than others. 9
 - (b) Many African countries still receive foreign aid, although its effectiveness has been questioned. Discuss the effectiveness of foreign aid. 8
 - (c) Apart from aid, describe other measures that could be taken to raise economic growth rates in low income countries. 8

(25)

3. Some commentators are more optimistic than others about the survival of the Eurozone.
 - (a) Explain measures that have been taken, or could be taken, to ensure the survival of the Eurozone. 9
 - (b) Some economists believe that the Eurozone remains fundamentally flawed. Discuss this view. 8
 - (c) Describe the possible consequences for a country leaving the Eurozone. 8

(25)

4. Some economists believe that the UK governments's deficit reduction policy is misguided.
- (a) Explain why reducing the budget deficit is a key economic objective of the UK government. 8
- (b) Explain the negative impacts of the deficit reduction policy on the UK economy. 10
- (c) Given the UK government's determination to reduce the budget deficit, describe measures it can take to encourage economic growth. 7
- (25)
5. The effectiveness of quantitative easing and inflation targeting has been questioned by some economists.
- (a) Explain how quantitative easing is expected to affect an economy. 8
- (b) Discuss reasons why some economists believe that quantitative easing has winners and losers. 7
- (c) Explain the advantages and disadvantages of inflation targeting. 10
- (25)
6. Excessive alcohol consumption leads to high negative externalities in consumption. Therefore, the Scottish Government is intending to introduce minimum pricing for alcohol.
- (a) Draw a diagram to show the effects of negative externalities resulting from the excessive consumption of alcohol. 4
- (b) Explain the negative impacts of excessive alcohol consumption on the Scottish economy. 6
- (c) Some economists believe that minimum pricing for alcohol will be inefficient and ineffective. Discuss this view. 8
- (d) Describe and justify other measures which have been, or could be taken to reduce alcohol consumption in Scotland. 7
- (25)

[END OF QUESTION PAPER]

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