

X038/11/01

NATIONAL
QUALIFICATIONS 2013

MONDAY, 13 MAY
9.00 AM – 10.45 AM

ECONOMICS
INTERMEDIATE 2

60 marks are allocated to this paper.

Part 1 (40 marks) Candidates should attempt **both** items.

Part 2 (20 marks) Candidates should attempt **one** question.

All answers are to be written in the answer book provided.



PART 1

Candidates should attempt BOTH items.

ITEM A

Read the following and answer the questions below and on *Page three*.

Fizzy Fizz is a manufacturer of soft drinks. The firm has experienced economies of scale and improved efficiency in the **long run**. The UK Government has, however, increased indirect taxation that has led to an increase in the **rate of inflation** in the economy.

The following table shows the firm's short run costs.

<i>Fizzy Fizz output per day</i> (barrels)	<i>Total cost</i> (£)	<i>Average cost</i> (£)	<i>Marginal cost</i> (£)
0	100	–	–
1	200	200	100
2	280	140	80
3	330	A	50
4	360	90	30
5	450	90	90
6	600	100	150
7	770	110	B

- (a) Explain what is meant by the following terms:
- (i) “long run”; 2
 - (ii) “rate of inflation”. 2
- (b) (i) Using the table, identify the amount of fixed costs for Fizzy Fizz. 1
- (ii) Give **one** example of a variable cost for Fizzy Fizz. 1
- (c) Using the table calculate:
- (i) the average cost at **A**; 1
 - (ii) the marginal cost at **B**. 1
- (d) (i) Using a demand and supply diagram, explain the effect on the market for soft drinks if the UK government imposes an indirect tax. 4
- (ii) **Other** than an increase in indirect taxation, describe another cause of inflation. 2

ITEM A (continued)

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|-----|---|-------------|
| (e) | (i) Suggest and explain 2 economies of scale Fizzy Fizz might achieve as it expands its scale of production in the long run. | 4 |
| | (ii) Identify 2 benefits to Fizzy Fizz of improving its efficiency in the long run. | 2 |
| | | (20) |

[Turn over

ITEM B

Read the following and answer the questions below.

In recent years, there has been an increase in international trade which has led to a rise in the volume of imported goods into the UK which has impacted on **national income**. Many of these goods originate from the countries within the European Union (EU). The **exchange rate** value of sterling has fallen against the Euro which influences import and export prices.

- (a) Explain what is meant by the following terms:
- (i) “national income”; 2
 - (ii) “exchange rate”. 2
- (b) Explain why most of the UK’s trade is with other EU countries. 2
- (c) (i) Suggest **2** benefits of international trade for the UK economy. 2
- (ii) Explain **2** reasons why some countries impose barriers to international trade. 4
- (d) Explain how the recent **decrease** in the value of sterling against the euro affects the price of UK imports from eurozone countries. 2
- (e) Draw a fully labelled diagram to show the basic circular flow of income. 4
- (f) Explain the likely effect of an **increase** in the value of imports on the level of national income. 2
- (20)**

PART 2—Essay Questions

Candidates should attempt ONE essay question.

1. All countries are faced with the basic economic problem of scarcity. Governments can intervene in their economies through the use of budgets.
- (a) Explain why all countries face the basic economic problem of scarcity. 5
- (b) Explain why governments have to make choices, and give an example of **one** choice they might face. 3
- (c) Explain the term “labour mobility” and describe **2** measures that the government could introduce to improve it. 6
- (d) Explain how the UK government can use the Budget to:
- (i) increase the disposable income of consumers;
- (ii) reduce the income gap between rich and poor. 6
- (20)**
2. Smart phones have become increasingly popular. Some UK manufacturing firms have relocated their production process to newly industrialised countries.
- (a) Identify and explain **3** factors which could increase the demand for smart phones. 6
- (b) Using a diagram, explain how the market for basic mobile phones will be affected by an increase in demand for smart phones. 6
- (c) Explain **2** reasons why a UK manufacturer may wish to relocate production to a newly industrialised country. 4
- (d) Explain why demand curves usually slope downwards from left to right. 4
- (20)**

[Turn over for Questions 3, 4 and 5 on Page six

3. National Income statistics are used by governments of developing countries.
- (a) Explain **2** uses of National Income statistics. 4
- (b) Describe **3** difficulties of calculating National Income. 6
- (c) Describe **3** economic features of developing countries. 6
- (d) Explain **2** ways developed countries can help increase the national income of developing countries. 4
- (20)**
4. The rate of interest and government spending influence the UK economy.
- (a) Explain how an increase in the rate of interest is likely to affect:
- (i) savers and borrowers;
- (ii) the rate of inflation. 6
- (b) Describe the advantages and disadvantages of increased government spending on education for the UK economy. 6
- (c) Explain **2** effects of unemployment on:
- (i) individuals; 4
- (ii) the economy. 4
- (20)**
5. UK unemployment rates and levels of unemployment have an effect on the Current Account of the UK Balance of Payments.
- (a) Explain the difference between the rate of unemployment and the level of unemployment. 2
- (b) Explain **4** reasons why there may be an increase in the level of unemployment. 8
- (c) Explain **one** reason for the UK Trade in Services being in surplus and **one** reason for the UK Trade in Goods being in deficit. 6
- (d) **Other** than the Trade in Goods and Trade in Services, describe the components of the UK Current Account. 4
- (20)**

[END OF QUESTION PAPER]

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