

X038/13/01

NATIONAL
QUALIFICATIONS
2014

WEDNESDAY, 28 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*.

UK Energy Companies Under Fire

Between October and November 2013, the biggest energy companies operating in the UK announced plans to raise their prices by 8–10%. These decisions were met with outrage from politicians and consumer groups. Fuel poverty campaigners said that the price rises would leave some people with a choice of having to “heat or eat”, raising concerns about the impact on income inequality.

Former Prime Minister, Sir John Major, called for a **windfall tax** on the profits of the UK’s top energy companies which would be used for extra winter fuel payments to those on low incomes. The Labour leader argued that companies have been “overcharging” customers for many years and pledged that gas and electricity bills would not go up for 20 months if Labour won the 2015 election. The efficiency and effectiveness of this policy have been questioned.

However, the UK energy companies argued that their profits are only four or five pence in the pound. They blame much of the rise on the UK Government’s social and environmental levies, rising wholesale energy costs and the need for continued investment in infrastructure. The UK Government responded by lowering the social and environmental levies and obligations on the biggest energy companies. It is believed that a review of the energy market will be undertaken by the **Competition Commission**, which is to be merged with the Office of Fair Trading in 2014 to form the Competition and Markets Authority.

One of the issues facing the industry is the need for new investment in power generating capacity in the UK to “stop the lights going out”. As a result, the UK Government has given the go-ahead for the UK’s first new nuclear power station in a generation. France’s EDF Energy will lead a consortium, which includes Chinese investors, to build the Hinkley Point C plant. Ministers say the deal will help the UK move towards low-carbon power. This will help the UK meet its environmental targets by reducing negative externalities caused by burning fossil fuels. For the first time, a nuclear power station in the UK will not be built using revenue from UK taxpayers. The short and long run economic implications of this for the UK are uncertain.

	<i>Marks</i>
1. Explain what is meant by the following terms as used in the passage.	
(a) Windfall tax (line 6).	2
(b) Competition Commission (lines 17–18).	2
2. Describe the likely impact of rising energy prices on income inequality.	2
3. Explain why companies in the UK energy market may be able to “overcharge” their customers.	2
4. Discuss the possible effects of a freeze on energy prices.	3
5. Explain one possible advantage and one possible disadvantage to the UK economy of foreign direct investment into the UK nuclear industry.	4
6. (a) Explain what is meant by the term negative externalities.	2
(b) Use a diagram to show the effects of negative externalities resulting from burning fossil fuels to generate energy.	2
7. Suggest and justify 2 policy measures, other than a price freeze, which a UK Government could adopt to protect the consumer from “overcharging” by energy companies.	6
	(25)

[Turn over for Section B

SECTION B

Attempt TWO of the six questions set.

Each question carries 25 marks.

1. (a) Using diagrams to support your answers:
 - (i) explain why a firm in perfect competition can make only normal profits in the long run; 10
 - (ii) explain why a monopoly can make abnormal profits in the short and long run. 10
 - (b) Explain why a monopoly is neither productively nor allocatively efficient. (Diagrams may be useful in your answer.) 8
 - (c) Discuss the effects of price discrimination on a monopoly and its consumers. 7
- (25)**
2. Economic recovery in the UK gained momentum in 2013.
 - (a) Explain why economic recovery in the UK gained momentum in 2013. 9
 - (b) Discuss possible factors which could threaten economic recovery in the UK. 9
 - (c) Describe supply-side policies which might be implemented to support a sustainable economic recovery. 7
- (25)**
3. Some economists argue that as a result of the UK Government's "Help to Buy" scheme, UK house prices have risen. Some fear that this will lead to a housing "bubble".
 - (a) Describe the UK Government's "Help to Buy" scheme. 4
 - (b) Other than the "Help to Buy" scheme, explain possible reasons for recent increases in house prices in some regions of the UK. 8
 - (c) Explain the dangers for the UK economy if this rise in house prices proves to be an "asset bubble". 6
 - (d) Discuss whether the UK Government and Bank of England should intervene to prevent unsustainable rises in house prices. 7
- (25)**

4. In 2013, Mark Carney, Governor of the Bank of England, announced the introduction of “Forward Guidance” in the UK and the continuation of Quantitative Easing.
- (a) Explain what is meant by the term “Forward Guidance” and why it was introduced in the UK. 6
- (b) Explain the criticisms made of “Forward Guidance”. 6
- (c) Evaluate whether this policy helps or hinders the MPC’s inflation targeting. 5
- (d) Explain how Quantitative Easing has affected the UK economy. 8
- (25)**
5. Rates of economic growth vary widely amongst developing, emerging and developed economies.
- (a) Explain why emerging economies have higher rates of economic growth than many developed economies. 9
- (b) Using examples, explain why some developing economies struggle to achieve high rates of economic growth. 8
- (c) Discuss whether trade barriers help or hinder economic growth in developing economies. 8
- (25)**
6. The European Union and Euro have continued to make headlines around the world.
- (a) Discuss the possible economic implications for the UK economy of removing the restrictions applied to migration from Bulgaria and Romania in 2014. 10
- (b) Apart from the free movement of labour, describe the economic advantages and economic disadvantages to the UK of continued EU membership. 8
- (c) Despite ongoing Euro problems, Latvia joined the single currency in 2014. Explain the advantages to Latvia of Euro membership. 7
- (25)**

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