



National  
Qualifications  
2016

**X722/77/11**

**Economics**

WEDNESDAY, 25 MAY

9:00 AM – 11:30 AM

**Total marks — 80**

**SECTION 1 — 30 marks**

Attempt ALL questions.

**SECTION 2 — 25 marks**

Attempt the question.

**SECTION 3 — 25 marks**

Attempt ONE question.

Write your answers clearly in the answer booklet provided. In the answer booklet, you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.



\* X 7 2 2 7 7 1 1 \*

## SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

**Improving the budgetary position and low productivity  
cause headaches for the UK Government**

The Chancellor, George Osborne, used his Budget in 2015 to announce benefit cuts for low-paid workers at the same time as forcing businesses to pay them more. He wishes the UK to become a higher-wage economy and it is therefore intended that the National Living Wage will rise to £9 per hour for workers above the age of 25 across the UK by 2020, with the exception of London. This will replace the National Minimum Wage which many believe is inadequate to cover the basic cost of living. This policy forms part of the UK Government's desire to pay less in **tax credits** to those on low incomes in order to improve the budgetary position. Some economists believe that cutting benefits and tax credits could lead to higher income inequality in the UK unless the increase to the National Living Wage compensates low-paid workers.

The consequences of imposing the National Living Wage and cutting tax credits have been widely discussed because they impact on individuals, businesses and the UK economy. These plans have been introduced in the context of a worsening global economic outlook. Specifically in the UK, whilst some economic indicators remain positive, there are others which are showing more worrying trends. Data from the Office for National Statistics (ONS) showed that the productivity of UK workers in 2014 fell to 20 percentage points below the average of other leading industrial nations. The challenge for policymakers and businesses is raising productivity which is problematic given that **supply-side policies** can be long-term and expensive. If productivity growth does not recover, there are implications for wage growth, inflation and international competitiveness.

1. Describe what is meant by the following terms:
  - (a) tax credits (line 7) 2
  - (b) supply-side policies (line 18). 2
2. Explain how moving to a higher-wage economy might improve the budgetary position. 3
3. Explain why the UK Government has made improving the budgetary position an important economic objective. 4
4. Discuss the consequences of imposing the National Living Wage on businesses. 3
5. Use a diagram to show the possible effects of a rise in the National Living Wage on the labour market. 2
6. Describe the possible causes of relatively low productivity in the UK. 4
7. Analyse the implications of relatively low UK productivity growth for inflation and international competitiveness. 4
8. Evaluate whether rising income inequality is always undesirable. 6

## SECTION 2 — 25 marks

Attempt this question

9. (a) Describe why price wars can occur in oligopolistic markets. **6**
- (b) Discuss the costs and benefits of price wars to consumers. **6**
- (c) (i) Explain, using a diagram, why public transport causes positive externalities in consumption. **7**
- (ii) Discuss the possible ways a government might increase the usage of public transport. **6**

[Turn over for next question]

## SECTION 3 — 25 marks

## Attempt ONE of the following questions

10. Inflation and monetary policy remain headline issues in the UK.
- (a) Explain why deflation can be considered a worse problem than inflation. 7
  - (b) Describe the inflationary and deflationary pressures in the UK economy. 9
  - (c) Discuss the policy options available to the Monetary Policy Committee (MPC) given the current economic environment. 9
11. (a) Explain the reasons why the rate of economic growth in China slowed considerably in 2015. 7
- (b) Discuss the possible impacts on the UK economy of the slowing rate of economic growth in China. 8
  - (c) Describe the consequences of the Chinese Government's intervention to devalue its currency (the Yuan). 6
  - (d) Analyse the economic consequences of the relaxation of the "one child policy" in China. 4
12. There are ongoing concerns about the price of oil and its impact on the UK and Scottish economies.
- (a) Describe the reasons why the price of oil remained low in 2015. 6
  - (b) Discuss the impact of the low price of oil on the UK economy. 10
  - (c) Analyse the possible measures which the UK or Scottish Governments could take to reduce the negative impacts of the low oil price. 9
13. In October 2015, a Bank of England Report concluded that EU membership made the UK a more open and dynamic economy. However, the Eurozone is still experiencing relatively low rates of economic growth.
- (a) Discuss whether EU membership makes the UK economy more open and dynamic. 10
  - (b) Describe the reasons for the relatively low rate of economic growth in the Eurozone. 8
  - (c) Evaluate the policy measures which could be or have been adopted by the European Central Bank (ECB) to raise aggregate demand in the Eurozone. 7

[END OF QUESTION PAPER]