AH

National
Qualifications
2019

X722/77/11   **Economics**

FRIDAY, 24 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.

SECTION 1 — 30 marks

Read the following source and attempt ALL the questions that follow.

China's Economy Shows Signs of Slowing

According to the International Monetary Fund (IMF), China's economic growth is expected to slow from 6·9% in 2017 to 6·6% in 2018.

5 Within China, car sales have fallen for the 3rd month in a row, and Ford announced that sales in September 2018 had fallen 43% compared with the same month in 2017. This car sale slump will create global ripples as slackening demand presents a problem for global carmakers.

This slowdown in Chinese economic growth has various causes, including the impact of US tariffs, slowing investment growth and deteriorating Net Exports. In response to this slowdown, the Chinese Central Bank has injected US $109·2 billion (750 billion Yuan) into
10 the economy. The Chinese Government has also brought forward infrastructure spending despite the high level of private sector and public sector debt in the economy. Some economists believe that China's banking system is precarious and that the property market could be seriously overvalued which, if prices fell, could lead to a banking crisis similar to the Credit Crunch in 2008/9.

15 The rising US$ has made matters worse for the Chinese Central Bank, because it has pledged to keep the value of the Yuan stable against the US$. This requires the Chinese Central Bank to intervene in the Foreign Exchange markets to prevent a devaluation or revaluation of the Yuan against the US$. If the Yuan was devalued, it would make it harder for China to service its debt because, like many **emerging economies**, much of its debt is
20 borrowed in US$. A revaluation would also have negative effects on the Chinese economy.

At the same time as the Chinese economy is slowing, the US economy is booming, which has prompted the US Federal Reserve, the US Central Bank, to raise interest rates to prevent the US economy from **'overheating'**, which has contributed to a rise in the value of the US$.

Questions

1. Describe what is meant by the following terms.

   (a) Emerging economies (line 19)   **2**

   (b) 'Overheating' (line 23)   **2**

2. Explain the impact that falling car sales in China may have on global carmakers and the global economy.   **6**

3. Describe the reasons why slowing investment growth reduces the rate of economic growth in China.   **4**

4. Discuss the possible impacts on the Chinese economy of a fall in the value of the Yuan against the US$.   **6**

5. Using a demand and supply diagram, explain why a rising interest rate in the US has led to a rise in the value of the US$.   **4**

6. Discuss whether China's high rate of economic growth is sustainable.   **6**

[Turn over

SECTION 2 — 25 marks

Attempt this question

7. (a) Explain why firms in oligopolistic markets do not normally compete on price. (You may wish to use a diagram in your answer.) **8**

(b) Describe different barriers to entry which may exist in imperfect markets. **4**

(c) Explain, with the aid of a diagram, why Higher Education leads to positive externalities. **7**

(d) Discuss economic arguments for and against continuing free tuition in Higher Education in Scotland. **6**

SECTION 3 — 25 marks

Attempt ONE of the following questions

8. In June 2018 the UK Government announced that the National Health Service (NHS) will receive significant additional funding. It also approved a new runway at Heathrow Airport.

   (a) Discuss the economic implications of increased spending on the NHS. **8**

   (b) Explain the economic arguments for and against building a new runway at Heathrow Airport. **8**

   (c) Describe the advantages and disadvantages of running a budget deficit for an economy. **9**

9. On 2 August 2018 the Bank of England tightened monetary policy by raising the base rate from 0·5% to 0·75%, and also signalled a policy of reversing Quantitative Easing (QE).

   (a) Describe the current inflationary and deflationary pressures in the UK economy. **9**

   (b) Discuss the view held by some economists that QE was relatively ineffective in helping the UK economy recover from recession. **8**

   (c) Analyse the possible economic consequences of a further tightening of monetary policy on the UK economy. **8**

10. In August 2018 the Office for National Statistics (ONS) revealed that pay growth had slowed to its weakest in almost a year despite UK unemployment being the lowest for more than 40 years. This announcement came at a time of growing concerns about the impact of Artificial Intelligence (AI) on future employment.

    (a) Explain the reasons for low unemployment in the UK. **7**

    (b) Discuss the view that the UK has a 'productivity problem'. **10**

    (c) Describe the impact that artificial intelligence may have on employment. **8**

11. In July 2018 the BBC announced that the US President, Donald Trump, has 'shaken the foundations of global trade' by placing steep tariffs on billions of dollars' worth of goods from the EU, Canada, Mexico and China. This decision came at a time of growing concerns about the impact of Brexit on the UK economy.

    (a) Discuss the economic arguments for and against protectionist policies. **10**

    (b) Describe what is meant by a 'Hard' Brexit. **5**

    (c) Discuss the potential consequences of Brexit on the UK economy. **10**

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