



National  
Qualifications  
2023

**X822/77/11**

**Economics**

FRIDAY, 26 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 8 2 2 7 7 1 1 \*

## SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

### Truss's great tax gamble

In September 2022, the former Prime Minister, Liz Truss unveiled the biggest package of tax cuts in 50 years as she gambled her premiership on boosting economic growth at all costs. Liz Truss and Kwasi Kwarteng, the then Chancellor of the Exchequer, announced £45 billion of tax cuts as part of a 'new era' for Britain. The plan included scrapping the

5 45p rate of income tax, implementing a 1p cut in the basic rate of income tax, and reducing stamp duty on property in England and Wales. Corporation tax would also have been frozen and the rise in national insurance contributions reversed. At the time Kwarteng said that while the UK economy was probably 'technically' in **recession**, he believed it would not be deep.

10 The tax cuts, combined with the energy support package, would have led to a £72 billion rise in government borrowing in 2022/23. However, the tax measures, which would have applied only to England, Wales and Northern Ireland, would have left 2.4 million working Scots paying more in income tax compared to their UK counterparts. The First Minister, Nicola Sturgeon, claimed that the tax cuts would see the 'super rich laughing all the way to

15 the bank'. The Resolution Foundation, an economic think tank, estimated that two thirds of the tax cuts would go to the richest fifth of households, with only 12 per cent going to the poorest half.

Tax cuts were only the start. The next stage of Truss's plan would have involved a series of supply-side reforms to liberalise the economy. These were likely to involve the relaxation

20 of planning rules and loosening immigration restrictions that target highly skilled workers, to help with the current tight labour market. Plans also included scrapping a host of regulations in areas ranging from farming to childcare.

There were, however, considerable risks in this plan. Although it could have helped economic growth in the short-term, there was a risk that after a couple of years of enjoying

25 a temporary stimulus, the economy would have been left with a permanent hangover of high interest rates and soaring **national debt**. In response to the proposed plan, global money markets sent the interest rates charged to the government rocketing. Additionally, mortgage and commercial borrowing rates rose, which has very clear risks for the housing market.

## Questions

1. Describe what is meant by the following terms:
  - (a) recession (line 8) 1
  - (b) national debt (line 26). 1
  
2. Explain why the UK government believed that cutting taxes would lead to economic growth. 6
  
3. Analyse the implications of a rising level of national debt. 4
  
4. Discuss the possible economic implications of diverging income tax rates between Scotland and the rest of the UK. 4
  
5. Other than changes to income tax, evaluate 2 possible policies that a government could introduce to reduce inequality. 6
  
6. Describe the economic advantages and disadvantages to the UK of inward migration. 6
  
7. Explain the reasons for the housing market being a potential barrier to labour mobility. 2

[Turn over

## SECTION 2 — 25 marks

## Attempt this question

- |    |     |      |                                                                                                                                |   |
|----|-----|------|--------------------------------------------------------------------------------------------------------------------------------|---|
| 8. | (a) | (i)  | Explain, using a diagram(s), why firms in a perfectly competitive market are only able to make normal profits in the long run. | 6 |
|    |     | (ii) | Discuss the view that monopolies do not always benefit consumers.                                                              | 6 |
|    | (b) | (i)  | Using a fully labelled diagram, explain why electric cars may result in positive externalities in consumption.                 | 7 |
|    |     | (ii) | Discuss possible ways a government might encourage the use of electric cars.                                                   | 6 |

## SECTION 3 — 25 marks

## Attempt ONE question

9. On 3 August 2022, the Bank of England's Monetary Policy Committee (MPC) raised the base interest rate to 1.75%. At the same time the bank said that inflation would continue to rise throughout the year.
- (a) Analyse the possible economic consequences of further increases in interest rates on the UK economy. 9
  - (b) Other than an increase in interest rates, discuss the economic implications of high inflation on the UK economy. 8
  - (c) Discuss why some economists believe that monetary policy is currently ineffective at lowering the rate of inflation. 4
  - (d) Describe the key concepts of modern monetary theory. 4

OR

10. On 7 July 2022, the Office for Budget Responsibility (OBR) published its Fiscal Risks and Sustainability Report, stating that the UK is facing the long-run pressures of an ageing population. This report came at a time when the pound continued to fall in value, and there were continuing concerns over the UK's productivity performance.
- (a) Describe the economic consequences of an ageing population on the UK. 9
  - (b) Explain the economic implications of a fall in the value of the pound on the UK economy. 8
  - (c) Discuss the measures which the UK government could introduce to improve the country's productivity. 8

OR

11. On 28 June 2022, Scotland's First Minister, Nicola Sturgeon, proposed plans to hold a consultative referendum on Scottish independence in October 2023. This announcement came at a time of concerns over rising energy prices.
- (a) Describe the economic arguments for and against Scottish independence. 10
  - (b) Discuss the impact of high energy prices on the UK economy. 8
  - (c) Analyse the possible measures which the UK government could apply to reduce the negative impact of high energy prices. 7

OR

12. In the aftermath of the global pandemic there are growing concerns about the slowdown in global economic growth. However, China's government remained committed to its zero-Covid policy and its Belt and Road Initiative (BRI).
- (a) Explain why some developing countries have struggled to achieve high rates of economic growth. 9
- (b) Explain the economic implications of China's 'zero-Covid' policy on the global economy. 6
- (c) Describe the key features of China's Belt and Road Initiative. 6
- (d) Describe the role of the World Bank. 4

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