



X822/76/11

Economics

Duration — 2 hours 30 minutes

Total marks — 90

SECTION 1 — 30 marks

Attempt ALL questions.

SECTION 2 — 60 marks

Attempt ALL questions.

You may use a calculator.

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 6 1 1 *

SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

SCOTCH WHISKY CAUGHT UP IN AVIATION TRADE WAR

The Scotch whisky industry is becoming increasingly concerned about being caught in the middle of a **trade war** between the US and the EU, including the UK, over aircraft manufacturing. The complaint by the US is that Airbus, an EU aircraft manufacturer, is over-subsidised by European governments, including the UK, and they have taken retaliatory trade measures in response. One effect has been that since October 2019 Scotch malt whisky exports to the US now carry a 25% tariff.

The Scotch Whisky Association says that the fall in whisky exports to the US is around £200m already. It has also led to a reduction in the economies of scale from which whisky firms have been able to benefit.

But the claims of unfair subsidies also go the other way. The EU and UK claim that the US aircraft manufacturer Boeing is being vastly over-subsidised by the US government.

An added complication is that subsidies to both Airbus and Boeing have increased significantly during the Covid-19 crisis. Along with this, the worldwide suspension of most air travel in March and April 2020 has hit the world's two aircraft manufacturing giants very hard.

These trade tensions come amidst concerning signs for the UK economy, with the weak exchange rate of sterling and the unprecedented economic impacts of the Covid-19 pandemic.

Questions	MARKS
1. (a) (i) Describe what is meant by the term 'trade war'. Your response must make reference to information provided in the source material.	2
(ii) Other than political retaliation, explain possible reasons for a government imposing tariffs on imports.	3
(b) Explain the possible effect of a 'weak exchange rate of sterling' on UK firms.	3
(c) Draw a diagram to show the effect on the market for aircraft of subsidies given by EU and US governments, combined with the worldwide suspension of most air travel during the Covid-19 pandemic.	4
(d) Describe 3 internal economies of scale which may be achieved by firms operating in the drinks industry.	3

Read the following source and attempt ALL questions that follow.

BORIS JOHNSON WARNS ‘LONG, LONG WAY TO GO’ FOR UK RECOVERY

The Prime Minister, Boris Johnson, has warned that the UK has a “long, long way to go” before the economy improves, after official figures showed the largest drop in employment in over a decade. The Office for National Statistics (ONS) said that between April and June 2020 the number of people in work fell by 220,000. The drop in the number of people employed was the largest quarterly decrease since the financial crisis in 2009.

The youngest workers, the oldest workers, and those in manual occupations have been the worst hit during the pandemic, the ONS added. This is seen as particularly concerning as it is harder for people in these groups to find a new job, when compared to other workers, and this could lead to a worsening of income inequality in the economy.

Between April and June 2020 there were falls in pay for those still working, with regular pay levels down 0.2% compared with a year earlier – the first negative pay growth since records began in 2001. This has caused concern that this could further reduce the **real incomes** of millions of households in the UK.

Economists agree that the economic recovery will be “slow going”. Many firms have been struggling to survive and have had to cut their costs of production, for example by reducing their labour force and levels of investment spending on capital equipment.

Questions	MARKS
2. (a) Define the term ‘real incomes’.	1
(b) Explain possible effects of high levels of unemployment on UK firms.	3
(c) Describe stages of the business cycle.	4
(d) Other than income inequality, describe 4 different types of market failure.	4
(e) Describe the possible impact of decreased investment spending by firms on the circular flow of income.	3

[Turn over

SECTION 2 — 60 marks

Attempt ALL questions

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|---------|--|---|
| 3. (a) | Describe the problem of scarcity. | 3 |
| (b) | Explain the ways scarcity affects the choices made by | |
| (i) | firms | 2 |
| (ii) | governments. | 2 |
| (c) | Compare the characteristics of perfect competition and monopoly. | 4 |
| (d) (i) | Explain, using a diagram, in what way an increase in the price of a product is likely to affect sales revenue, if demand is price elastic. | 4 |
| (ii) | Describe the importance of price elasticity of demand for governments. | 2 |
| (e) | Describe reasons why a loss-making firm may continue to operate in the short run. | 3 |
| 4. (a) | The UK government aims to maintain positive economic growth. This may conflict with achieving other government aims.
Explain these conflicts. | 4 |
| (b) | Describe possible reasons for a shift from direct to indirect taxation. | 3 |
| (c) | Explain the ways in which policies could be used to decrease the rate of inflation. | 6 |
| (d) | Describe economic powers which have been devolved to the Scottish Parliament from the UK government. | 4 |
| (e) | Describe what is meant by the equilibrium level of national income. | 3 |
| 5. (a) | Describe the benefits to the UK economy of hosting multinationals. | 4 |
| (b) | Suggest 3 reasons why some multinationals may decide to relocate from the UK to a mainland EU country. | 3 |
| (c) | Describe the theories of absolute and comparative advantage. | 6 |
| (d) | Describe the components of the current account of the Balance of Payments. | 3 |
| (e) (i) | Describe the role of the European Central Bank. | 2 |
| (ii) | Describe the role of the World Trade Organisation (WTO). | 2 |

[END OF QUESTION PAPER]

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