



National
Qualifications
2025

X822/76/11

Economics

FRIDAY, 2 MAY

9:00 AM – 11:30 AM

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.



SECTION 1 — 30 marks

Read the following source and attempt ALL questions that follow.

SCOTLAND TO HOST FIRST TARIFF-FREE PORTS

The UK government has given the go ahead for two tariff-free ports (freeports) to be set up in Scotland. The aim of these ports is to increase economic activity by removing the tariffs normally paid on some imports. A freeport area can be approximately 45 km in diameter and must include a shipping port and/or an airport. Manufacturers located in these freeport areas can import raw materials tariff-free, and therefore benefit from cheaper production costs.

The Scottish freeports will be 'green' as their plans include methods of ensuring lower carbon emissions. This should reduce the market failure associated with the negative externality of air pollution.

The UK government argued that developing these ports could attract investment to areas that 'need it most'. However, critics argue that these freeports do not help to grow the economy overall but only encourage mobility of resources. The tax reductions and subsidies will cost the government millions of pounds a year and this creates opportunity costs. It is suggested that the support given to firms could also be against the World Trade Organization's rules on subsidies.

MARKS

Questions

- | | |
|--|---|
| 1. (a) Define what is meant by a negative externality. | 1 |
| (b) Explain reasons for imposing trade barriers such as tariffs. | 3 |
| (c) Draw a diagram to show the impact of subsidies, and increased advertising by the government to purchase from the tariff-free ports, on the market for products from tariff-free ports. | 4 |
| (d) Explain, using a production possibility diagram, what is meant by opportunity cost. | 3 |
| (e) Other than imposing rules on subsidies, describe the role of the World Trade Organization. | 1 |
| (f) Other than tariff-free ports, describe 3 methods a government could use to improve the mobility of resources. | 3 |

Read the following source and attempt ALL questions that follow.

THE CURRENT STATE OF THE UK ECONOMY

In July 2024 the pound sterling had risen to its highest level against the US dollar in a year, as investors bet on UK interest rates staying higher for longer. According to Bank of America, the pound is set to be one of the world's top-performing major currencies this year, amid expectations of 'above-trend growth' in the UK economy.

Following a **recession** in the second half of 2023, the UK economy gradually started turning a corner. The economy grew by 0.6% in the first quarter of 2024, as measured by Gross Domestic Product (GDP). This economic growth should lead to increased government revenue and, therefore, less borrowing.

In the financial year to March 2024, the UK government had a **budget deficit** and borrowed £122.1bn, which increased **national debt** and therefore the total interest the government has to pay.

The combination of the financial crash in 2008 followed by the Covid-19 pandemic pushed the UK's debt up from historic lows to its current level. The financial reality is that interest rates are set to remain higher, making debt more difficult to bring down, while spending pressures on health and defence continue to mount.

MARKS

Questions

- | | |
|---|---|
| 2. (a) Define the term recession. | 1 |
| (b) Explain why an increase in the UK interest rate causes a rise in the exchange rate for the pound sterling. | 2 |
| (c) Explain possible impacts on UK firms of a rise in the exchange rate for the pound sterling. | 3 |
| (d) Describe stages of the business cycle (trade cycle), other than recession. | 3 |
| (e) Distinguish, using examples, between government capital and current spending on health. | 2 |
| (f) Describe the following terms: <ul style="list-style-type: none">• budget deficit• national debt. | 2 |
| (g) Describe measures a government could use to improve its Gross Domestic Product (GDP). | 2 |

[Turn over

SECTION 2 — 60 marks

Attempt ALL questions

3. Distinguish between:
- (a) (i) scarcity and shortage 2
 - (ii) planned and market economies. 2
 - (b) Explain, using a diagram, the shape of a short run average cost curve. 6
 - (c) Explain 4 factors, other than price, which are likely to decrease the demand for a good or service. 4
 - (d) Describe the following goods which are exceptions to the law of demand:
 - (i) Giffen goods 2
 - (ii) Veblen/ostentatious goods. 2
 - (e) Other than negative externalities, describe one type of market failure. 2
4. (a) Describe what is meant by the multiplier effect. 3
- (b) Describe the ways in which increasing the rate of income tax may impact the economy. 3
- (c) (i) Describe 3 types of unemployment. 3
- (ii) Explain possible effects of high levels of unemployment on an economy. 4
- (d) Describe the way in which the rate of inflation is calculated in the UK. 4
- (e) Describe the problems of using national income statistics to compare economies. 3
5. (a) Describe economic characteristics of developed economies. 3
- (b) (i) Describe the possible reasons a multinational company would decide to locate in the UK. 4
- (ii) Describe the possible disadvantages to the UK economy of a multinational company locating in the UK. 3
- (c) Explain the benefits to UK firms from the rise of emerging economies. 3
- (d) Describe components of the UK Balance of Payments. 4
- (e) Describe, using an example, the theory of absolute advantage. 3

[END OF QUESTION PAPER]