C

0820/403

NATIONAL QUALIFICATIONS 2008

MONDAY, 12 MAY
1.00 PM – 2.45 PM

ECONOMICS
STANDARD GRADE
Credit Level

1 Read each question carefully.

2 Attempt **all** the questions.

3 All answers are to be written in the answer book provided.

SA 0820/403 6/670

	Marks	
	KU	ES

1. Study the article below and then answer the questions which follow.

> **FAT CATS GET FATTER**
>
> Today a newspaper journalist spoke out against huge salaries in the public sector. "Managers have seen their basic salaries rocket by up to five times the rate of inflation!", he said. "In addition, many are also earning huge bonuses and receiving other benefits." A top economist added that this would widen the gap between the rich and the poor and could give rise to higher taxes.

Adapted from a newspaper article.

(*a*) Explain the following terms as used in the article.

(i) The public sector **1**

(ii) The rate of inflation **1**

(*b*) Name **2** benefits, apart from bonuses, that managers might receive in addition to basic salaries. **2**

(*c*) (i) Explain why the salary increases referred to in the article would widen the gap between the rich and the poor. **2**

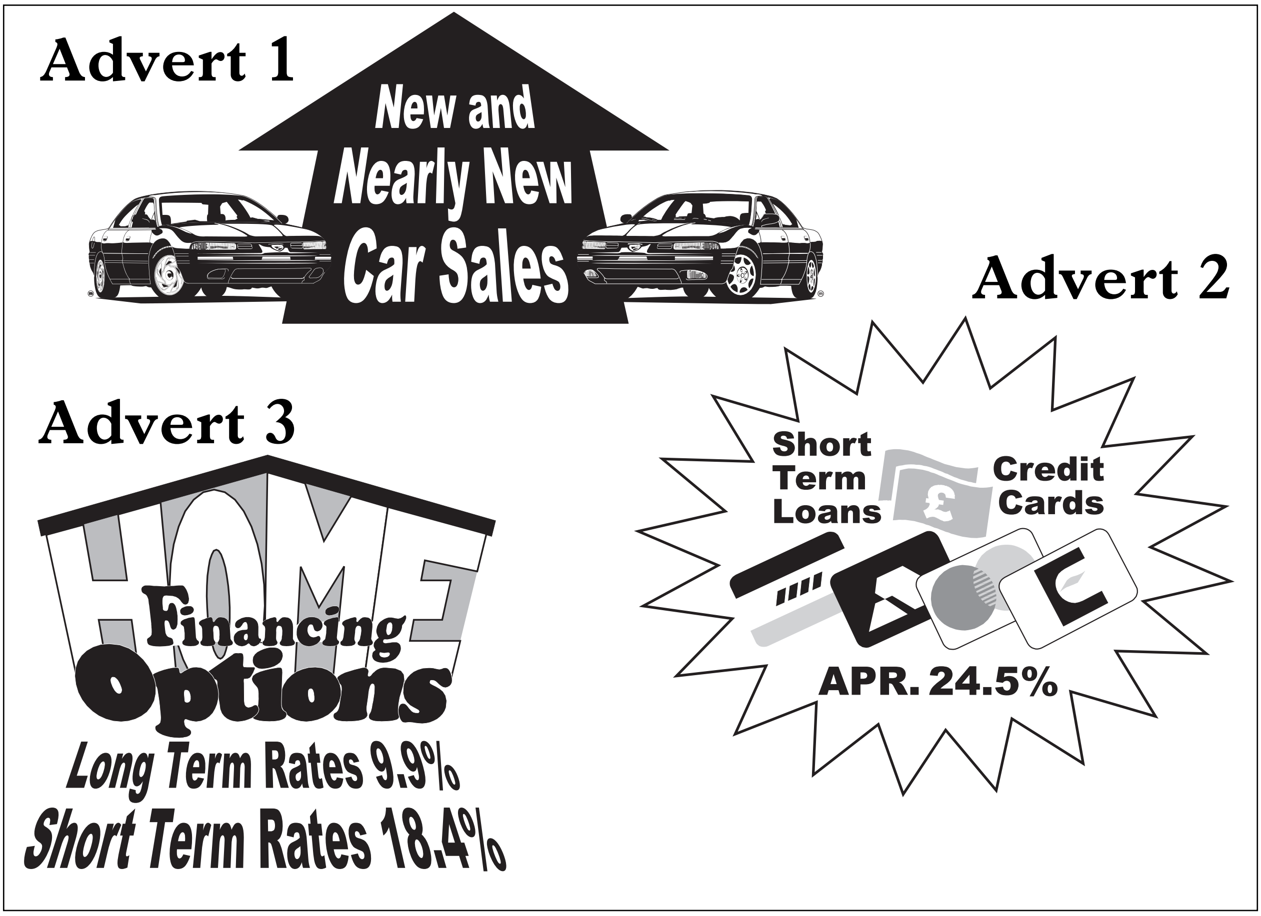
(ii) Why might these salary increases lead to higher taxes? **2**

Marks

KU | ES

2. Study the pictures below and then answer the questions which follow.

CHOICES, CHOICES!



(*a*) Explain why consumers have to make choices when spending their income. **2** (KU)

(*b*) (i) Identify **one** example of a substitute good for a car. **1** (KU)

(ii) Explain, using a diagram, how increases in the price of complementary goods might affect the market for cars. **4** (ES)

(*c*) (i) Explain why credit cards are a form of money. **2** (KU)

(ii) Describe **one** advantage and **one** disadvantage to the **economy** of the increased use of credit cards. **4** (KU)

(*d*) Explain fully why the rates of interest in Advert 2 are different to the rates in Advert 3. **4** (ES)

[Turn over

3. Study the economic indicators below and then answer the questions which follow.

Alistia—Economic Indicators

Diagram 1

New Jobs Created (thousands)

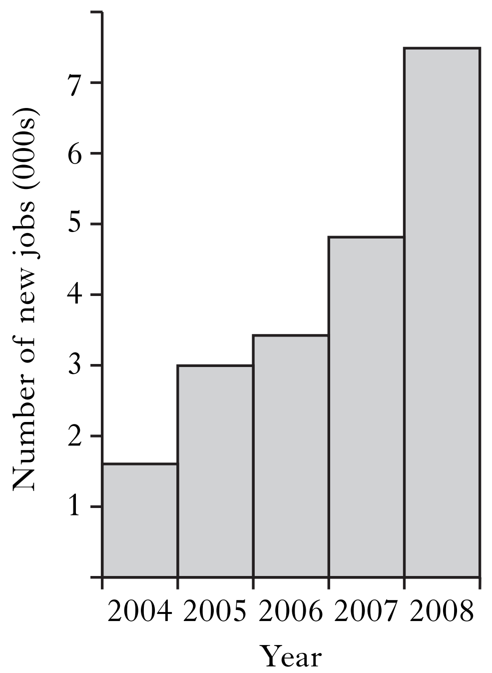


Diagram 2

Retail Price Index

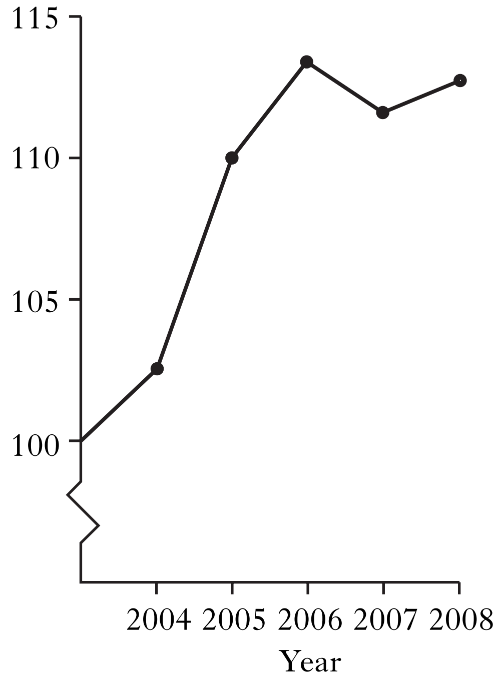
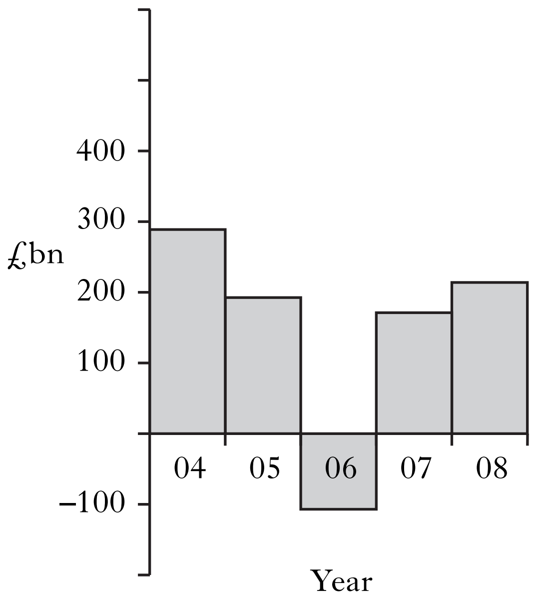


Diagram 3

Balance of Payments on Current Account (£ billion)



	Marks KU	Marks ES
3. (continued)		
(*a*) (i) Describe the trends in New Jobs Created.		**2**
(ii) Do the trends described in (*a*)(i) mean that unemployment is falling? Explain your answer.		**4**
(*b*) Suggest **one** group of people who might be most affected by the trend in the Retail Price Index. Justify your answer.		**2**
(*c*) (i) Explain the term "Balance of Payments on Current Account".	**2**	
(ii) Do the economic indicators suggest a link between changes in the Retail Price Index and changes in the Balance of Payments? Justify and explain your answer.		**6**

[Turn over

Marks (KU | ES)

4. Study the table below and then answer the questions which follow.

THE MARKET FOR HAND-HELD COMPUTERS			
Price (£)	**Quantity Demanded (000s)**	**Quantity Supplied (000s) 2007**	**Quantity Supplied (000s) 2008**
100	150	35	45
200	124	42	70
300	100	58	100
400	80	80	145
500	65	110	198
600	40	152	260
700	15	202	330

Note: Demand has not changed between 2007 and 2008

(*a*) (i) What is the equilibrium price and quantity of Hand-Held Computers in 2007? — ES 1

(ii) Calculate the total revenue at the equilibrium point in 2008. — ES 1

(*b*) (i) Calculate the price elasticity of demand for a change in price from £300 to £400. — ES 2

(ii) Would you describe the price elasticity of demand calculated in (*b*)(i) as elastic, inelastic or unitary? Explain your answer. — KU 2

(iii) Suggest **one** factor that determines price elasticity of demand. — KU 1

(*c*) (i) Would an economist describe the change in supply between 2007 and 2008 as an extension in supply? Justify your answer. — ES 3

(ii) Suggest reasons for the change in supply of Hand-Held Computers between 2007 and 2008. — KU 3

	Marks	
	KU	ES

5. Study the passage below and then answer the questions which follow.

> Many people are moving abroad to escape the economic and social costs of life in Britain. House prices and the cost of living are more attractive abroad. However, things do not always work out as expected and many people returning home find that treatment through the National Health Service is no longer available due to changes in Government policy.

(*a*) Give **one** example of an economic cost and **one** example of a social cost in the UK that might encourage people to move abroad. **2** (KU)

(*b*) People in the passage are moving abroad in an attempt to improve their standard of living. What information in the passage indicates that living standards abroad are higher than in the UK? Explain your answer. **3** (ES)

(*c*) Explain **one** economic argument in favour of and **one** economic argument against the Government Health Policy changes as mentioned in the passage. **4** (ES)

[Turn over for Question 6 on *Page eight*

	Marks	
	KU	ES

6. Study the table below and then answer the questions which follow.

CHUCKIT-BUCKIT LTD		
Cost of Production of Folding Buckets		
Output (000s)	**Fixed Cost (£000s)**	**Variable Cost (£000s)**
0	300	0
100	300	150
200	300	300
300	300	450
400	300	600
500	300	750
600	300	900

		KU	ES
(*a*)	Explain Chuckit-Buckit Ltd's cost figures at an output level of zero buckets.		2
(*b*)	Explain why Chuckit-Buckit Ltd experiences rising variable costs.	1	
(*c*)	Chuckit-Buckit Ltd decides to set its production level at 300 buckets. At what price would it have to sell its product to break even?		2
(*d*)	Chuckit-Buckit Ltd wants to increase the scale of its production in the long run. Describe possible economic advantages and disadvantages of this change.	4	
(*e*)	Chuckit-Buckit Ltd exports its product to the USA. The dollar exchange rate changes from £1 = \$1·90 to £1 = \$1·80. Describe possible economic effects of this change on the firm.		4

[*END OF QUESTION PAPER*]