

X038/301

NATIONAL
QUALIFICATIONS
2009

TUESDAY, 26 MAY
9.00 AM – 11.30 AM

ECONOMICS
HIGHER

Instructions to Candidates.

Candidates must attempt **both** items in Section A and any **two** questions in Section B.



SECTION A

ITEM A

Read the passage below and then answer the questions which follow.

In the spring of 2007, citizens were warned to delay mending their garden fences as the price of imported timber (wood) had soared. The UK imports about 80% of its timber, and timber importers warned consumers to brace themselves for considerable price rises. The prices of other garden products such as decking and sheds were also affected by the increase in timber prices. A spokesman for the Timber Traders Federation said that a combination of factors had caused the price to rise.

Poor timber-harvesting conditions, and adverse weather conditions in Scandinavia and Eastern Europe, meant that UK sawmills were having to pay up to 50 per cent extra for their timber. In addition, there were a lot of building projects going on in China, and some developing countries, which required vast amounts of timber. Germany and South America offered to make up some of the shortfall in the supply of timber. However, timber importers were warned not to make the problem worse by panicking the prices up.

Adapted from *Daily Telegraph*, 31 May 2007

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|-----|--|-------------|
| (a) | Using an example from the passage, explain what is meant by derived demand. | 2 |
| (b) | Using the information in paragraph 2, draw a diagram to show why the price of timber has increased. | 3 |
| (c) | Explain how an increase in the price of timber can lead to an increase in the supply of timber in the short run. | 2 |
| (d) | Explain how the price of a product can be panicked up. | 2 |
| (e) | Explain how an increase in the price of timber is likely to affect: | |
| | (i) the UK balance of trade; | |
| | (ii) the exchange rate of sterling. | 4 |
| (f) | Describe 2 ways sawmills could avoid passing all of the increase in the price of timber on to consumers. | 4 |
| (g) | If the demand for garden sheds is price elastic, explain how the total revenue of garden shed producers will be affected by the increase in the price of timber. | 3 |
| (h) | (i) Explain one reason for the increase in the number of building projects in some developing countries. | |
| | (ii) Explain how the increase in building projects in China and developing countries will affect the price of garden sheds in the UK. | 5 |
| | | (25) |

[Turn over

ITEM B

Read the passage below and then answer the questions which follow.

The emergence of China as a commercial superpower is the most important economic phenomenon of our time.

China's economic growth rate has averaged 9·2% a year for the last three decades. An unprecedented surge in China's share of global exports has resulted from its membership of the **World Trade Organisation**. This membership, combined with an improved **economic infrastructure**, vast workforce and low wages, allowed China to become the workshop of the world. Cheap Chinese goods swept the globe—the country was effectively “exporting deflation”—and this enabled central banks throughout the world to repeatedly cut interest rates.

However, from 2005, some problems started to appear in the Chinese economy. Chinese authorities were encouraging the production of more sophisticated goods. This caused an increased demand for skilled labour which, despite China's vast workforce, was in short supply. This had a significant impact on wages.

Between 2005 and 2007, China's currency, the yuan, rose by almost 10% against the dollar and in 2007 China's Consumer Price Index leapt from 4·4% to 5·6%—a ten year high.

China's industrial revolution is based on construction and manufacturing, both of which are highly energy intensive. This has caused problems for China and the rest of the world.

Adapted from *Sunday Telegraph*, 9 September 2007

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|-----|---|-------------|
| (a) | Explain the following terms, as used in the passage : | |
| | (i) World Trade Organisation; | 2 |
| | (ii) economic infrastructure. | 2 |
| (b) | (i) Explain the difference between real and money rates of economic growth. | 2 |
| | (ii) Explain how membership of the World Trade Organisation resulted in an increase in China's economic growth. | 2 |
| (c) | (i) What is meant by deflation? | 1 |
| | (ii) Explain why China "exporting deflation" allowed central banks throughout the world to cut interest rates. | 3 |
| (d) | Explain the likely effect of a reduction in UK interest rates on: | |
| | (i) the exchange rate of sterling; | |
| | (ii) the level of UK investment. | 4 |
| (e) | Suggest what happened to wages in China in 2005. Explain your answer. | 2 |
| (f) | Explain how an increase in the value of the yuan against the dollar is likely to affect the US balance of trade. | 3 |
| (g) | Suggest and explain 2 economic problems China's industrial revolution has created for the rest of the world. | 4 |
| | | (25) |

[Turn over for Section B on Pages six and seven]

SECTION B

Attempt any TWO questions.

Marks

1. An increasing amount of the world's scarce resources is being allocated by the price mechanism rather than by State planning.
 - (a) Explain why resources are scarce. **5**
 - (b) Describe how the price mechanism allocates resources. **6**
 - (c) Suggest reasons for the increased use of the price mechanism as a method of allocating resources. **6**
 - (d) Describe some of the problems which can arise from allowing the price mechanism to allocate resources. **8****(25)**
2. The number of people in employment in the UK during the 3 months to the end of May 2007 was 29.1 million. This was the highest since records began in 1971.
 - (a) Suggest and explain reasons for the high level of UK employment. **6**
 - (b) Explain **3** advantages of an increase in employment for an economy. **6**
 - (c) Explain what is meant by monetary policy and fiscal policy and explain how they can be used to increase the level of employment. **13****(25)**
3. One government objective is to achieve a sustainable rate of economic growth.
 - (a) Explain what is meant by "a sustainable rate of economic growth". **8**
 - (b) Using a production possibility diagram, explain the difference between economic growth and an increase in economic activity. **7**
 - (c) (i) Describe **3** government objectives, other than economic growth. **6**
(ii) Choose any **2** government objectives and explain how they might conflict. **4****(25)**
4. The law of diminishing marginal utility applies to consumers and the law of diminishing returns applies to producers.
 - (a) (i) Describe the law of diminishing marginal utility and explain how it influences the slope of a normal demand curve. **7**
(ii) Explain, using examples, why the demand curve for some goods slopes upwards from left to right. **8**
 - (b) Explain the law of increasing and diminishing returns and explain how it can be used to account for the shape of a marginal cost curve. **10****(25)**

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|-----|---|-------------|
| 5. | In the second quarter of 2007, Scottish manufactured exports grew at their fastest rate for 5 years. | |
| (a) | Suggest and explain reasons for the record growth of Scottish manufactured exports. | 6 |
| (b) | Describe the main components of the Balance of Payments, other than trade in goods. | 9 |
| (c) | Describe some measures developed countries could take to increase the growth rates of developing countries and explain how these measures would work. | 10 |
| | | (25) |
| 6. | Cadbury has expanded production in Poland and has axed 700 manufacturing jobs in certain areas of the UK. These areas will experience a negative multiplier effect. | |
| (a) | Explain why some UK firms might choose to expand production abroad rather than in the UK. | 7 |
| (b) | Explain, using examples, what is meant by a negative multiplier effect. | 8 |
| (c) | Argue the case for and against the UK joining the Eurozone. | 10 |
| | | (25) |

[END OF QUESTION PAPER]

ACKNOWLEDGEMENTS

Section A Item A—Article is adapted from “Gardeners warned off fixing the fence” by Paul Stokes, taken from *The Daily Telegraph*, 31 May 2007. © Telegraph Media Group Limited 2007.

Section A Item B—Article is adapted from “Beijing’s fastest-growing export is inflation” by Liam Halligan, taken from *The Sunday Telegraph*, 9 September 2007. © Telegraph Media Group Limited 2007.