

X038/201

NATIONAL
QUALIFICATIONS
2009

TUESDAY, 26 MAY
9.00 AM – 10.45 AM

ECONOMICS
INTERMEDIATE 2

60 marks are allocated to this paper.

Part 1 (40 marks) Candidates should attempt **both** items.

Part 2 (20 marks) Candidates should attempt **one** question.

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



PART 1

Candidates should attempt BOTH items.

ITEM A

Read the following and answer the questions below.

Recent poor weather conditions in Eastern Europe have increased the price of wood.

Rosewood Ltd is a manufacturer of hand-made wooden garden seats. The following table shows the firm's total cost and revenue at various outputs.

Total Cost and Revenue for Rosewood Ltd		
Seats made per day	Total cost	Total revenue
0	28	0
1	80	76
2	96	106
3	111	126
4	124	140
5	130	150
6	138	156
7	168	161

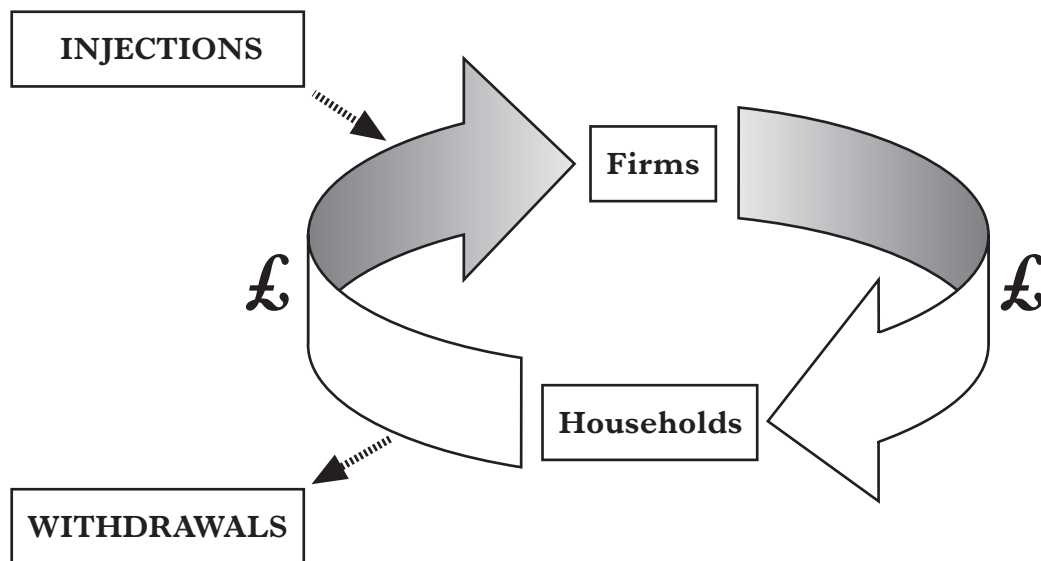
Marks

- (a) Explain the term "total revenue". 2
- (b) (i) What is the amount of fixed costs for Rosewood Ltd? 1
- (b) (ii) Give **one** example of a fixed cost for Rosewood Ltd. 1
- (c) Calculate the **average** revenue when output is 5 seats per day.
(Show your working.) 2
- (d) What is the value of average variable costs when output is 7 seats per day?
(Show your working.) 2
- (e) At which daily output is Rosewood Ltd most efficient? Explain your answer. 2
- (f) Rosewood Ltd is intending to invest in a machine.
 - (i) Suggest **2** reasons for Rosewood Ltd investing in a machine. 2
 - (ii) Describe **one** advantage and **one** disadvantage to the **workers** in Rosewood Ltd of an investment in a machine. 2
- (g) (i) Draw a demand and supply diagram to show why the price of wood is increasing. 2
- (g) (ii) Explain how an increase in the price of wood is likely to affect Rosewood's profit. 2
- (h) Suggest **2** factors which could increase the demand for garden seats made by Rosewood Ltd. 2

(20)

ITEM B

The following diagram represents the flow of income in an economy.



Although the national income in some developing countries has grown recently, their income per head is still well below that of developed countries.

- | | <i>Marks</i> |
|---|--------------|
| (a) Explain why money flows from: | |
| (i) firms to households; | 2 |
| (ii) households to firms. | 2 |
| (b) Describe, using examples, what is meant by the terms: | |
| (i) injections; | 2 |
| (ii) withdrawals. | 2 |
| (c) Describe 2 characteristics of developing countries. | 2 |
| (d) Describe 2 ways developed countries can help increase the national income of developing countries. | 4 |
| (e) (i) Name 2 types of import control and explain how they work. | 4 |
| (ii) Explain one reason why developed countries might impose import controls. | 2 |
| | (20) |

[Turn over for PART 2 on Page four]

PART 2—Essay Questions

Candidates should attempt ONE essay question.

Marks

1. In 2007, the exchange rate of sterling increased. This increase affected the UK balance of trade and the UK rate of unemployment.
- (a) Describe some of the benefits of international trade. 5
 - (b) Explain how an increase in the exchange rate of sterling is likely to affect the UK balance of trade. 5
 - (c)
 - (i) Describe **one** way of measuring the level of unemployment.
 - (ii) Explain how the rate of unemployment is calculated. 4
 - (d) Explain how:
 - (i) a change in the rate of interest can reduce unemployment;
 - (ii) the Budget can be used to reduce unemployment. 6
- (20)
2. When faced with choices, governments, producers and consumers must consider opportunity cost.
- (a) Explain what is meant by the term “opportunity cost”. 2
 - (b) Explain why:
 - (i) governments have to make choices, and give an example of a choice they face;
 - (ii) producers have to make choices, and give an example of a choice they face;
 - (iii) consumers have to make choices, and give an example of a choice they face. 9
 - (c) Explain how the government can use the Budget to:
 - (i) increase the profit of producers;
 - (ii) increase the disposable income of consumers;
 - (iii) reduce the gap between rich and poor. 9
- (20)
3. Government spending in the UK continues to rise.
- (a) Name **2** main areas of government spending. 2
 - (b) Explain the likely effect of an increase in government spending on:
 - (i) the rate of economic growth;
 - (ii) the rate of inflation. 8
 - (c) Describe **2** sources of government income. 4
 - (d) Explain why governments intervene in markets. 6
- (20)

4. The European Union (EU) is a free trade area. The recent enlargement of the EU has created opportunities for UK firms to achieve economies of scale.
- (a) What is meant by a “free trade area”? Describe **2** advantages for UK consumers of the UK being part of a free trade area. 6
 - (b) (i) Describe, using an example, what is meant by EU enlargement. 2
 - (ii) Explain **one** advantage and **one** disadvantage of EU enlargement for UK workers. 4
 - (c) (i) Explain what is meant by economies of scale.
 - (ii) Describe, using examples, the difference between internal and external economies of scale. 8
- (20)
5. In October 2007, the government increased the age at which people could buy cigarettes from 16 years to 18 years. The government hoped that this would result in fewer people smoking.
- (a) (i) Describe **2** economic reasons for the government wanting fewer people to smoke. 4
 - (ii) Explain **one** disadvantage to the government of fewer people smoking. 2
 - (b) Explain, using a demand and supply diagram, the likely effect on the price of cigarettes of a fall in the number of people smoking. 5
 - (c) Explain, using a supply and demand diagram, how an increase in the tax on cigarettes could lead to fewer people smoking. 5
 - (d) Describe **2** reasons why the government might place a subsidy on a good. 4
- (20)

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