

X038/201

NATIONAL
QUALIFICATIONS
2010

FRIDAY, 28 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.

Vietnam is now one of the world's largest exporters of coffee, yet it is hard to believe that it only entered the **world coffee market** in the 1990s. Coffee exports now make a huge contribution to Vietnam's **surplus on trade in goods**.

In 2003 Vietnam greatly increased its output, which led to a fall in world coffee prices. However, prices soon started rising again and in 2008 they reached a 5-year high. The increase in coffee prices meant that coffee shops worldwide faced increased **variable costs of production**.

Starbucks—the coffee shop chain—announced in 2008 that increased costs had badly affected its profits and that it was closing at least 600 of its coffee shops, making 12,000 people unemployed. Starbucks has also been hard-hit by consumers reducing their spending on expensive coffee. A spokesperson for Starbucks said that, to avoid more closures, the company would have to think of ways to increase **productivity** and cut costs.

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| (a) | Explain what is meant by the world coffee market . | 2 |
| (b) | (i) Explain what is meant by surplus on trade in goods . | 2 |
| | (ii) Other than trade in goods, describe one item in the current account of the balance of payments. | 2 |
| (c) | Draw a supply and demand diagram to show how Vietnam's increase in output of coffee could cause a fall in the world price of coffee. | 2 |
| (d) | (i) Describe what is meant by variable costs of production . | 1 |
| | (ii) Other than the cost of coffee, name one variable cost of production for a coffee shop. | 1 |
| (e) | (i) Describe one economic consequence for the UK economy of an increase in unemployment. | 2 |
| | (ii) Suggest one measure the UK government could take to reduce the level of unemployment and explain how it would work. | 3 |
| (f) | Suggest one economic reason for consumers reducing their spending on coffee in coffee shops. | 1 |
| (g) | (i) Explain what is meant by productivity . | 2 |
| | (ii) Suggest 2 ways a firm might increase its level of productivity. | 2 |
| | | (20) |

ITEM B

Read the following and answer the questions below.

In 2008 the Scottish Government wanted to increase **direct taxation**. The reason was to maintain the levels of **capital and current spending**. If they did not increase direct taxation they would have to cut government spending.

At a time when the world was heading towards a recession, the Scottish Government had some difficult decisions to make in order to make the best use of its resources. For example, it was considering building a new sports arena for the 2014 Commonwealth Games in Glasgow. The final decision will be based on **opportunity cost**.

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|-----|--|-------------|
| (a) | (i) Using an example, explain what is meant by direct taxation . | 2 |
| | (ii) Describe 2 economic effects of an increase in direct taxation. | 4 |
| (b) | Using examples, explain the difference between government capital and current spending . | 4 |
| (c) | Explain the likely effect of a cut in government spending on the rate of inflation. | 2 |
| (d) | (i) Explain how a recession in the USA is likely to affect the level of Scottish exports to the USA. | 2 |
| | (ii) Identify 2 measures a government could take to reduce the level of imports. | 2 |
| (e) | (i) Define the term opportunity cost . | 1 |
| | (ii) Suggest one possible opportunity cost to the Scottish government of building a new sports arena. | 1 |
| (f) | Explain one benefit for the Scottish economy of the 2014 Commonwealth Games being held in Scotland. | 2 |
| | | (20) |

[Turn over for PART 2 on Page four]

PART 2—Essay Questions**Candidates should attempt ONE essay question.**

1. Since all countries face the economic problem of scarcity they must try to be economically efficient. Trade barriers and overseas aid can influence economic efficiency.
 - (a) Explain what is meant by the economic problem of scarcity. **5**
 - (b) Explain what is meant by economic efficiency. **3**
 - (c) Explain **3** reasons why countries put up trade barriers. **6**
 - (d) Describe **3** forms of aid given to less developed countries. **6**

(20)

2. Newly industrialised countries specialise in the production of manufactured goods. This has increased their National Incomes.
 - (a) Describe some other characteristics of newly industrialised countries. **4**
 - (b) (i) Explain some of the uses of National Income statistics. **4**
 (ii) Describe some of the difficulties in calculating National Income. **6**
 - (c) Explain the likely effect of an increase in aggregate (total) demand on a country's:
 - (i) rate of inflation;
 - (ii) level of employment;
 - (iii) volume of imports. **6**

(20)

3. Wheat production no longer receives a subsidy from the European Union (EU). UK producers have been affected by EU enlargement and a fall in the value of sterling against the euro.
 - (a) Explain the effect a subsidy has on the equilibrium price and quantity of wheat. Your answer must include a diagram. **6**
 - (b) (i) Describe what is meant by the EU. **2**
 (ii) Describe some advantages and disadvantages of EU enlargement for the UK economy. **6**
 - (c) Explain how a fall in the value of sterling against the euro is likely to affect:
 - (i) the profit made by UK exporters;
 - (ii) the cost to a UK citizen of a holiday in Spain;
 - (iii) the price of French products sold in the UK. **6**

(20)

4. In 2008 the decrease in the price of oil was caused by changes in the demand for, and supply of, oil. The fall in the price of oil helped reduce the UK's rate of inflation.
- (a) Explain why:
- (i) demand curves usually slope downwards from left to right;
 - (ii) supply curves usually slope upwards from left to right. 8
- (b) Draw a demand and supply diagram to show why the price of oil has decreased. 4
- (c) Explain how a decrease in the price of oil can cause a decrease in the UK rate of inflation. 4
- (d) Describe the effect of a decrease in the rate of inflation on:
- (i) a UK exporter;
 - (ii) someone on a fixed income. 4
- (20)**
5. Increases in the price of electricity have increased the short run average total cost of UK manufacturers. This has led to some UK manufacturers decreasing their output.
- (a) Explain what is meant by the short run. 2
- (b) (i) Explain what is meant by average total cost, marginal cost and optimum output. 6
- (ii) Draw a diagram showing the relationship between average total cost, marginal cost and optimum output. 3
- (c) Explain how the decreased output of manufacturers is likely to affect:
- (i) workers in the manufacturing industry;
 - (ii) buyers of manufactured goods;
 - (iii) the UK Balance of Trade in Goods. 9
- (20)**

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