

X038/201

NATIONAL
QUALIFICATIONS
2011

MONDAY, 23 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

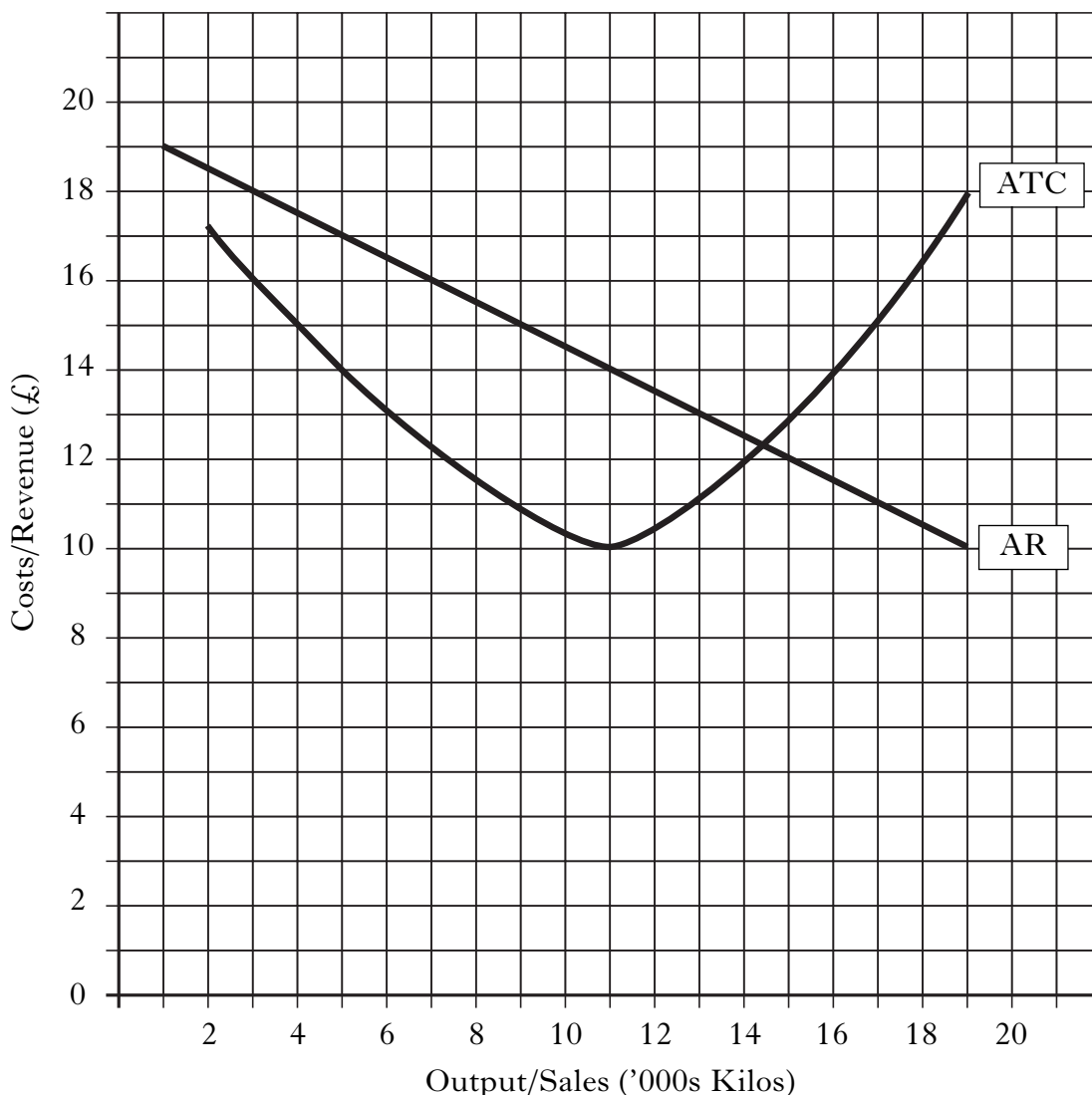
Candidates should attempt BOTH items.

ITEM A

Read the following and answer the questions on *Page three*.

Smokie Joes, a Scottish business, specialises in the production of smoked salmon. The firm exports most of its output and some of these exports are sold to countries in the Far East—especially Japan and China (a newly industrialised country). The recent world **recession** has resulted in a large fall in demand for Smokie Joes' salmon. This fall in demand has caused problems for the firm.

The diagram below shows the firm's short run average total cost curve (ATC) and average revenue curve (AR).



ITEM A (continued)

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|-----|---|-------------|
| (a) | Identify 2 characteristics of newly industrialised countries. | 2 |
| (b) | (i) Smokie Joes exports some of its smoked salmon to Japan. Explain how this affects the UK's balance of trade in goods. | 2 |
| | (ii) Other than the balance of trade in goods, identify 2 items in the UK's current account balance. | 2 |
| (c) | Explain what is meant by a "recession". | 2 |
| (d) | (i) Explain what is meant by average revenue. | 2 |
| | (ii) State the average revenue per kilo at an output level of 9,000 kilos. | 1 |
| (e) | Calculate the total cost of production at an output level of 3,000 kilos. | 1 |
| (f) | Calculate the total profit at an output level of 5,000 kilos. | 2 |
| (g) | Identify Smokie Joes' most efficient output level. Explain your answer. | 2 |
| (h) | Describe one advantage and one disadvantage for Smokie Joes of specialising in the production of one product. | 4 |
| | | (20) |

[Turn over

ITEM B

Read the following and answer the questions below.

Achieving a low **rate of inflation** is an economic aim of all governments. When the UK rate of inflation peaked at 5·2% in 2008 the government was very concerned.

However, in 2009, all thoughts of inflation were put aside as the UK economy moved into the longest recession since records began.

In an attempt to pull the economy out of recession by increasing **economic growth**, the interest rate was cut and government expenditure was increased. The Government also cut the rate of VAT from 17·5% to 15%.

As a result, in 2009, the budget deficit increased dramatically.

- | | | |
|-----|---|-------------|
| (a) | Explain the meaning of the following. | |
| | (i) Rate of inflation | 2 |
| | (ii) Economic growth | 2 |
| (b) | Identify one measure that can be taken to reduce a high rate of inflation and explain how it would work. | 3 |
| (c) | Explain one disadvantage of a high rate of inflation for UK exporting firms. | 2 |
| (d) | Explain the effect of a cut in interest rates on: | |
| | (i) aggregate demand in the UK; | 2 |
| | (ii) unemployment in the UK. | 2 |
| (e) | Use a supply and demand diagram to show how a cut in the VAT rate would affect the price of cars in the UK. | 3 |
| (f) | (i) Explain what is meant by a budget deficit. | 1 |
| | (ii) Explain how a recession can cause a budget deficit. | 3 |
| | | (20) |

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

1. As scarcity can never be eliminated, countries try to make their resources more mobile in order to reduce the effects of scarcity and decrease unemployment.
 - (a) Explain why scarcity can never be eliminated. 5
 - (b) Identify **3** methods of increasing labour mobility and explain how each would work. 6
 - (c) (i) Describe possible causes of an increase in the level of unemployment. 5
 (ii) Describe **2** ways of measuring unemployment. 4

(20)

2. The UK is a member of the European Union (EU)—a free trade area. Other EU countries are our main trading partners. However, the latest National Income statistics show that UK exports to the EU are falling.
 - (a) Explain what is meant by “a free trade area” and describe how EU consumers might benefit from free trade. 6
 - (b) Explain, using examples, what is meant by economies of scale. 6
 - (c) Explain how a fall in UK exports will affect the equilibrium level of national income. A circular flow of income diagram must be included in your explanation. 8

(20)

3. Plans for an indirect tax on fatty foods such as cakes and biscuits are being considered by the UK Government. At the same time people in many less developed countries (LDCs) live in poverty and do not have enough food to survive.
 - (a) Explain, with examples, the difference between direct taxes and indirect taxes. 6
 - (b) Explain ways in which a tax on fatty foods can benefit the UK. 6
 - (c) Explain, using a supply and demand diagram, the effect on the price of biscuits if the tax is introduced. 4
 - (d) Other than by giving food aid to LDCs, explain **2** ways in which a rich country could aid an LDC. 4

(20)

[Turn over for Questions 4 and 5 on Page six]

	<i>Marks</i>
4. The value of sterling has fallen against the euro and the dollar on the foreign exchange market.	
(a) Explain what is meant by the term “foreign exchange market”.	2
(b) Explain the factors that would cause the value of sterling to fall.	5
(c) Explain, using a diagram or diagrams, why the price of a good will eventually settle at equilibrium in a competitive market.	7
(d) Explain why governments may intervene in the operation of some markets.	6
	(20)
5. In 2009 the UK economy experienced a large budget deficit, a trade in goods deficit and rising unemployment.	
(a) Explain what is meant by “a trade in goods deficit”.	3
(b) Identify 3 methods of reducing a trade in goods deficit and explain how they would work.	6
(c) Explain how a prolonged deficit in the balance of trade could cause increased unemployment in the UK economy.	5
(d) Describe Budget measures that a government could take to reduce unemployment and explain how they would work.	6
	(20)

[END OF QUESTION PAPER]

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