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0820/403

NATIONAL
QUALIFICATIONS
2011

TUESDAY, 3 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.

		Marks	
		KU	ES
1.	Study the passage below and then answer the questions which follow. Arachnia's biggest power company, AEC is planning to takeover Scotopower, the Scotopian nuclear power generating company. It has been buying land near nuclear power stations in Scotopia in case it fails in its takeover bid. AEC hopes that it will be able to build new power stations on this land. Although AEC is not in the public sector, the Scotopian Government is in favour of the takeover. AEC's strategy will allow it to become a strong competitor should the takeover bid fail.		
	(*a*) Explain the following terms as used in the passage.		
	(i) Takeover	**1**	
	(ii) The public sector	**1**	
	(*b*) (i) Name the form of integration described in the passage.	**1**	
	(ii) State possible advantages of this integration to:		
	1 AEC;	**2**	
	2 AEC's employees.	**2**	
	(*c*) ". . . the Scotopian Government is in favour of the takeover."		
	Describe **2** possible effects of this takeover on the Scotopian economy.		**4**

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

Marks KU ES

TALKS END IN STALEMATE AS THE STRIKE CONTINUES

Public sector workers took to the picket lines as part of the ongoing dispute with management, with further strikes planned. Trade Unions called for industrial action after local government officials announced plans to make the sector more capital intensive. A spokesperson for the council said, "This strike will only cause increased unemployment. High inflation has caused us spending problems. The recession also decreased our revenues."

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

1 Strike

2 Trade Union **2** (KU)

(ii) Describe **2 other** forms of industrial action that the workers could have taken. **2** (KU)

(*b*) Explain reasons why local government plans to make the public sector more capital intensive. **4** (ES)

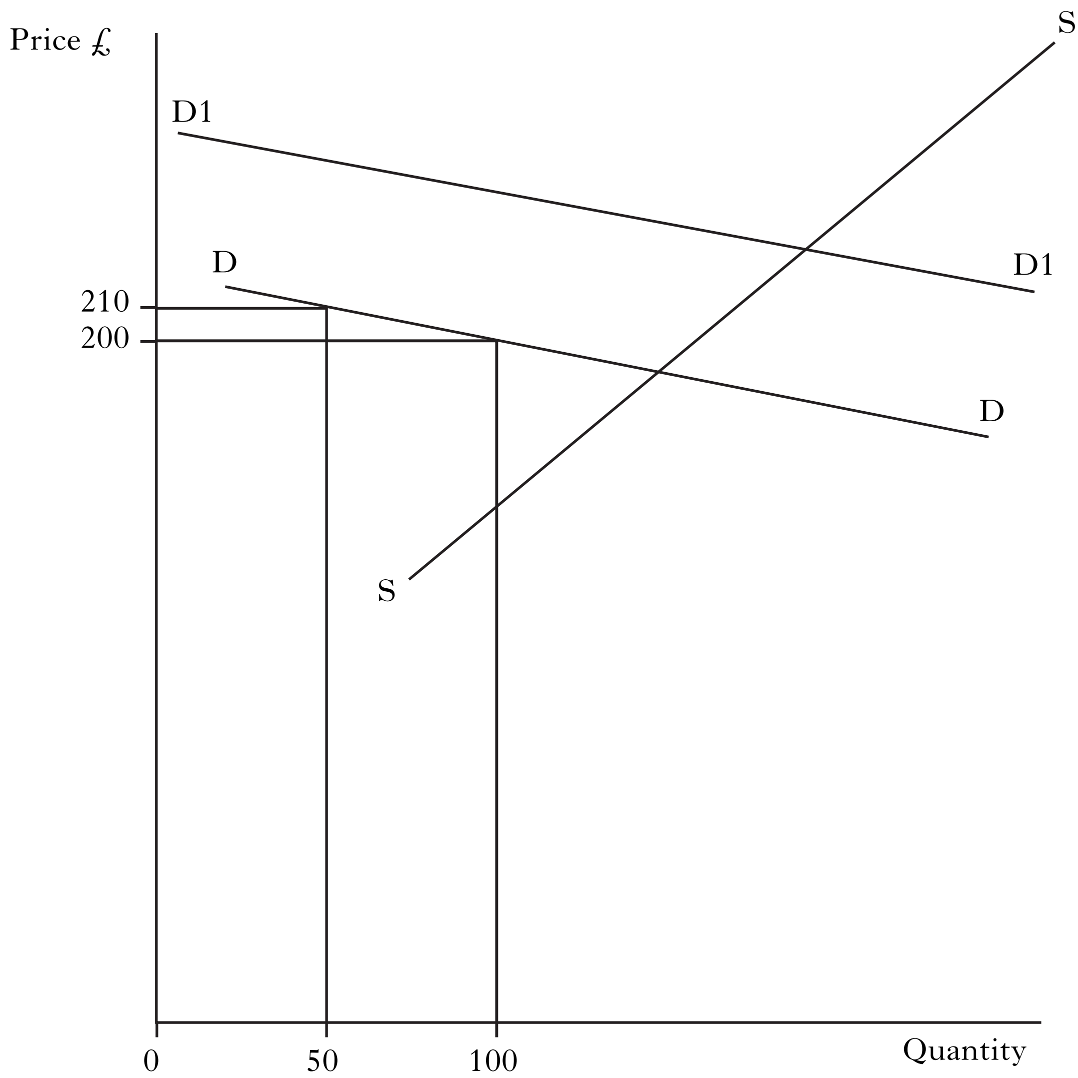
(*c*) Explain reasons why the recession has decreased revenues of local government. **4** (ES)

[Turn over

3. Study the diagram below and then answer the questions which follow.

Marks	
KU	ES

Market for Olympac Cameras



(*a*) (i) Explain the term "price elasticity of demand". **1** (KU)

(ii) Using DD, calculate the price elasticity of demand when the price changes from £200 to £210. **2** (ES)

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

(iv) State **2** factors that determine price elasticity of demand. **2** (KU)

(*b*) Give **2** reasons for the change in demand from DD to D1D1. **2** (KU)

(*c*) Explain the possible effects of each of the following on the price of Olympac cameras.

(i) Increased income tax **2** (ES)

(ii) Falling interest rates **2** (ES)

(iii) Introduction of new technology **2** (ES)

Marks	
KU	ES

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

Stewart is a sole trader. His business, Metalicraft, makes chess sets out of recycled metals. Each set is hand crafted. Stewart limits the number of each design to 50 sets. He also makes sets to individual specifications on request. The following table shows his costs of production.

METALICRAFT		
Total Costs of Production of Limited Edition Chess Sets (£)		
Output	**Fixed Costs**	**Variable Costs**
0	30,000	0
10	30,000	10,000
20	30,000	20,000
30	30,000	30,000
40	30,000	40,000
50	30,000	50,000

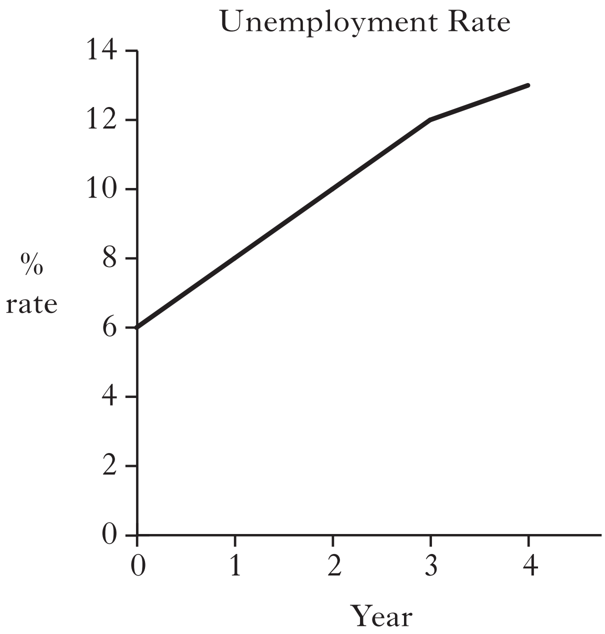
Question	KU	ES
(*a*) State **one** advantage and **one** disadvantage to Stewart of being a sole trader.	2	
(*b*) Explain Metalicraft's costs at an output level of zero chess sets.		2
(*c*) Explain why Metalicraft experiences rising variable costs.	1	
(*d*) Stewart sells each set for £2,000. Explain what problem Stewart would experience at an output level of 20.		2
(*e*) How could Stewart use the figures in the above table to calculate the unit cost of production?	1	
(*f*) Calculate Stewart's marginal cost.		2
(*g*) Explain the distinction between the output of chess sets and the supply of chess sets.	2	

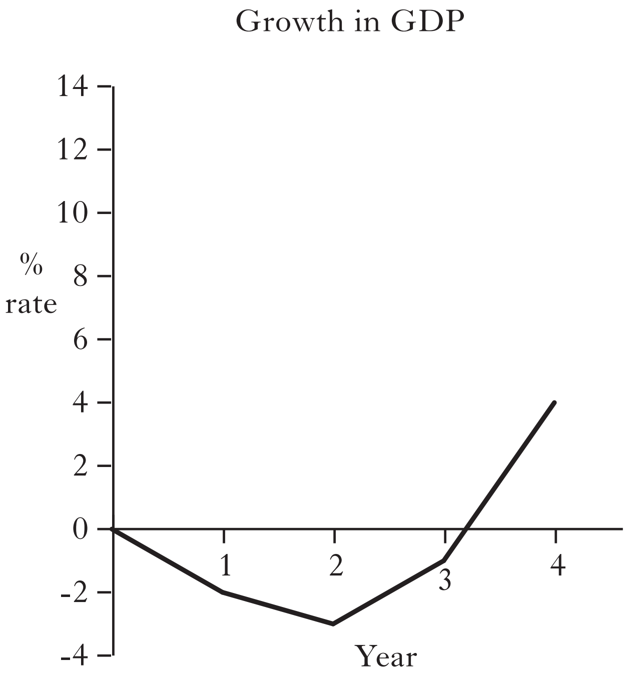
[Turn over

	Marks	
	KU	ES

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

ECONOMIC INDICATORS FOR GAELTOPIA





(*a*) Explain each of the following terms.

	KU	ES
1 Unemployment rate	**1**	
2 Real GDP	**2**	
(*b*) Describe and explain the relationship between the Gaeltopian unemployment rate and GDP Growth.		**4**
(*c*) Explain economic policies the Gaeltopian Government might use to decrease unemployment and increase GDP.		**6**

	Marks	
	KU	ES

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

UK TRADE FIGURES (£bn)

2009	Balance of Trade in Goods			Balance of Trade in Services
	EU	Non-EU	World	Total
Quarter 1	–2·8	–5·3	–8·1	4·3
Quarter 2	–2·8	–3·7	–6·5	3·8
Quarter 3	–2·5	–3·9	–6·4	3·8
Quarter 4	–3·2	–3·0	–6·2	3·9

(*a*) (i) Calculate the overall Balance of Trade for Quarter 4. **2**

(ii) A leading economist has suggested that the overall Balance of Trade is worsening. Is this correct? Justify your answer. **2**

(*b*) Do the above figures support the view that the UK economy benefits from membership of the EU? Justify your answer. **4**

(*c*) Name **2** items that would be included under Trade in Services. **1**

(*d*) The exchange rate of the pound against other major currencies is weakening. Discuss the possible effects that this will have on the UK economy. **4**

[*END OF QUESTION PAPER*]