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2010 Economics

Intermediate 2

Finalised Marking Instructions

ECONOMICS INTERMEDIATE 2

2010 Marking Scheme

Item A

			Marks
(a)		The situation where buyers/consumers (of coffee) (1) meet with the sellers/ producers (of coffee) (1) to exchange coffee for a price. Buyers + sellers (1) plus development (1).	**2**
(b)	**(i)**	The value of exports (of goods) is greater than the value of imports (of goods). Exports > imports (1) plus development eg value of goods.	**2**
	(ii)	Description of: (Balance of) Trade in services ie exports of services/imports of services eg financial services Interest, profits and dividends + description or example Transfers + example or description.	**2**
(c)		The diagram should show an increase in supply (1) and a decrease in price (1).	**2**
(d)	**(i)**	Costs of production that change or vary (directly) with production/increase as production increases.	**1**
	(ii)	Wages of the workers in the coffee shop eg assistant's, waitresses etc. Cost of milk to put in the coffee, sugar etc. Must be linked to a coffee shop.	**1**
(e)	**(i)**	Increase in spending (1) eg on JSA (1). Reduction in tax revenue (1) because of a reduction in income/spending/ profits (1). Increasing business failure (1) due to lack of demand (1). Reduction in economic growth (1) + reason (1). Accept any plausible answer.	**2**
	(ii)	One mark for suggestion, two marks for explanation: Offer subsidies to manufacturers − reduces costs of production; the firm might employ more workers to increase supply Incentives for individuals to start up their own business, eg grants Reduce interest rates (B of E) − makes borrowing to finance expansion more attractive Decrease direct/indirect taxation − makes more money available for spending on UK products, thereby stimulating demand and production Develop schemes to encourage employers to take on more workers eg welfare to work Increase public spending eg NHS so more workers are needed Export drive to increase employment in industries that export products.	**3**
(f)		Falling incomes. Increasing prices of other products − less (real) income available for expensive coffee. Price of coffee rising in coffee shops.	**1**

(g) **(i)** Output per unit of resource (2) (input); accept output per worker (2). Measure of efficiency (1). **2**

(ii) Look for any reasonable way of increasing output per input.
Measures include: bonuses, profit related pay, increased division of labour, new machinery, increased training, piece rates.
Do not credit measures which will simply increase output eg overtime or employ more workers. **2**

Item B

Marks

(a) **(i)** Tax placed on income and wealth (1), or: the tax is sent directly to the revenue authority (1). Examples are − income tax, corporation tax, capital gains tax, national insurance etc.
One mark for correct example. **2**

(ii) Advantages:
Reduces inflationary pressure − because of the fall in demand/spending
More income for the Scottish Government − provides more money for government to spend on public services.
Reduces income inequalities − surtax.

Disadvantages:
Reduces disposable incomes and therefore decreases the standard of living.
Slows down demand − could result in increased unemployment. **4**

(b) Capital − long term spending/spending on fixed assets (1).
Credit examples (1).
Current − regular spending/day to day spending (1).
Credit examples (1). **4**

(c) Reduce the rate of inflation (1).
Decreases (aggregate) demand/less demand causes prices to fall (1). **2**

(d) **(i)** US citizens have less income to spend (1) (rising unemployment, firms closing etc), so will import fewer goods from Scotland (1).
(ie Scottish exports of goods will fall); so fewer Americans coming on holiday to Scotland (1) so fewer invisible exports(1), less income for the tourist industry etc (1). **2**

(ii) Quota − limit the amount of a product that is allowed into a country.
Tariff − a tax on imports that will increase the price.
Safety standards − impose regulations on foreign products.
(Subsidy − money given to home producers to artificially lower their prices)
Embargo − ban particular products or ban products from an individual country.
One mark for the measure or the description. **2**

(e) **(i)** The (sacrifice of) next best alternative (foregone) (1).
The real cost of any choice (1). **1**

(ii) A new road/school/hospital etc. **1**

(f) Credit any plausible benefit eg
Increased visitors to Glasgow, increased spending, more tax for government, increased business for firms eg hotels who may demand more workers, increased economic growth etc. **2**

PART 2

Marks

1 **(a)** Scarcity refers to the situation where:

- resources are limited (credit examples)
- wants (for goods) are unlimited (credit reasons)
- therefore, at any one time, there will never be enough resources to produce enough goods to completely satisfy everyone's wants. **5**

(b) Using resources in a way that satisfies as many wants as possible (2).
Credit references to technical efficiency ie maximum output from minimum amount of resources (1) and its relationship to economic efficiency (1). . **3**

(c) To reduce imports to improve balance to trade deficit.
Raise revenue eg tariff.
Protect infant industry − To raise the price of imports so that domestic firms can compete in the home market.
To prevent harmful or unsafe products entering a country.
To prevent dumping.
To protect essential industries.
To reduce unemployment.
To retaliate.
Credit examples.
Two marks per reason. **6**

(d) Look for a simple description of 3 of the following. One mark for the form of aid and one for the description/development:
Food aid
Grants/loans
Technical aid
Help with education and training
Machinery (Capital)
Medical aid
Military aid
Debt relief
Free/fair trade. **6**

Marks

2	**(a)**		High rates of economic growth (BRIC). High spending on education and training. Large volume of exports. Large increases in investment. Pegged currencies. High spending on infrastructure.	**4**
	(b)	**(i)**	Uses: Measure economic growth and standard of living Compare growth levels in different years Compare growth levels with other countries Help the government plan future economic strategy Calculate contributions to international organisations To see which countries need aid. Mark of 2 for each use.	**4**
		(ii)	Difficulties: Complexity Double counting Transfer incomes Shadow economy Inflation Population changes DIY. One mark for identification and one mark for the description.	**6**
	(c)	**(i)**	Inflation rate should increase (1) as an increase in NI implies an increase in the level of total demand.	**2**
		(ii)	Level of employment should increase as the increase in total demand will increase the demand for labour.	**2**
		(iii)	The volume of imports should increase as the increase in demand will also apply to our demand for imports.	**2**

Marks

3 **(a)** Diagram should show:
Original demand and supply curves plus correctly labelled axes (1).
An increase in supply (1).
A fall in equilibrium price and increase in equilibrium quantity (1).
The explanation is that the subsidy reduces the supplier's costs (1) which will cause them to increase the supply (1). The increase in supply will reduce the equilibrium price and increase the equilibrium quantity (1).
Three marks for the diagram and 3 marks for the explanation. **6**

(b) **(i)** EU − group of (European) countries who formed a free trade area (1) where barriers to trade have been removed (1). Expanded to free movement of capital, labour and resources (1).
Credit reference to the Simple Market (1). **2**

(ii) Advantages of enlargement:
increased political stability
larger market with no trade barriers − allows greater specialisation and economies of scale
increase in FDI (Foreign Direct Investment) attracted by the lower costs in the new entrant countries
EU consumers may benefit from the cheaper output.

Disadvantage of enlargement:
CAP and Regional and Structural Funds need reformed areas of the old EU now get less help eg Highlands
Firms may relocate to the cheaper eastern European countries.
Two marks per explanation with a maximum of four marks for advantages and four marks for disadvantages. **6**

(c) **(i)** Fall in value of sterling means that Europeans can get more sterling for euros (1). Or wheat then becomes cheaper in the Eurozone so more will be demanded (1). The farmer will therefore export a greater volume of wheat to Europe (1). Or the farmer's profit will rise (1) **2**

(ii) UK citizen will get less euros for their sterling (1), therefore the cost of the holiday will be more expensive (1). **2**

(iii) French cheese will be more expensive in the UK (price will rise) (1). Cheese importers will get fewer euros for their sterling (1). **2**

Marks

4 **(a)** **(i)** Law of diminishing marginal utility (1) − the more we have of a good the less we want one more (1) therefore the less willing we are to pay for one more (1) so, when a good falls in price it gives consumers more value (utility) for their money (1) ie it becomes a better buy (1), so they will buy more.

Possible 5 marks for the utility effect.

(Income effect) − price changes affect the real income of consumers (1) so when price falls existing consumers of the good will experience a rise in their real income (1) enabling them to buy more (1).

(Substitution effect) − the price may fall below that of a substitute (1) good, therefore some consumers might switch (1) to the cheaper substitute (1). **4**

(ii) Look for an understanding of how an increase in price increases the profit (1) on a good and therefore producers are willing (and able) to supply more (1). Credit candidates who mention that new producers might now enter the market (1).

Mark 4:4 or 5:3. **4**

(b) Diagram showing original curves and axes (1):
Decrease in demand for oil (1)
Increase in supply of oil (1)
Equilibrium price of oil falling (1). **4**

(c) Falling oil prices reduce industrial costs (transport, electricity, power etc) (1) or the cost of goods made from oil (1). The decrease in these costs should lead to lower prices (1) (if producers pass them on to consumers) (1). **4**

(d) **(i)** Exporters goods will become more competitive in foreign markets (1), therefore they should sell more and increase profit (1). **2**

(ii) Person on fixed income will now be able to buy more goods with their income (1) therefore standard of living should be higher than before (1). **2**

Marks

5 **(a)** Short run − period of time in which at least one of the factors of production is fixed.
Long run − period of time when all factors of production are variable (can be increased). **2**

(b) **(i)** ATC − the cost of producing one unit (1) on average (1); AFC + AVC; total cost divided by output (1).
MC − the extra cost (1) of producing one more unit of output (1); the change in total cost (1) when one more unit of output is produced (1) (accept formula).
Optimum output − the output that minimises ATC (1); the firm's most efficient (1) output; lowest point on ATC curve (1); the point of highest productivity; technically efficient point (1). **6**

(ii) Look for a diagram showing a U-shaped ATC curve (1) which is cut at its lowest point (optimum) by a correctly drawn MC curve (1). Optimum output must be clearly identified (1). **3**

(c) **(i)** Lack of job security/increased threat of redundancy/lack of promotion prospects/fewer bonuses and benefits.
Fewer chances of employment/more unemployed workers in the manufacturing industry. **3**

(ii) Less variety/availability of manufactured goods.
Less competition which would reduce quality of manufacturers and increase prices. **3**

(iii) If UK exports of manufactured goods decreases this will cause balance of trade in goods to worsen.
If UK exporters of manufactured goods import fewer raw materials, this would improve the balance of trade in goods.
If UK manufacturers decrease their output this might mean UK consumers would import these goods from abroad and the trade in goods would worsen. **3**

Mark according to overall quality.

[END OF MARKING INSTRUCTIONS]