2011 Economics

Intermediate 2

Finalised Marking Instructions

ECONOMICS INTERMEDIATE 2

2011 Marking Scheme

PART 1

ITEM A

		Marks
(a)	One mark for each characteristic given, for example high rates of economic growth, investment in education and training, infrastructure, moving from agriculture to manufacturing, concentrates on exports.	**2**
(b) **(i)**	This is an export for the UK so balance of trade in goods improves (not rise/fall) (reduces deficit/inc surplus). Brings money into country/circular flow.	**2**
(ii)	Trade in services (intangibles) – accept services Interest, profits and dividends – accept IPD's. Transfers. Do not credit examples.	**2**
(c)	• Two successive quarters of • Negative (economic) growth – both points required for 2 marks Credit references to rising unemployment, falling AMD, economic slowdowns falling inflation, increased business failure etc. Accept 2 characteristics or a combination.	**2**
(d) **(i)**	The amount received from selling one unit on average (in this case one kilo). Total Rev/Amt Sales – 2 marks Ave rev = price – 1 mark	**2**
(ii)	£15 (must have £ sign)	**1**
(e)	£16 × 3000 = £48,000.	**1**
(f)	£3 × 5000 = £15,000 (£17 - £14) or £17 × 5,000 - £14 × 5,000	**2**
(g)	11,000 kilos (1 mark – no need for k). Point at which the average total cost is at its lowest point. Accept highest productivity.	**2**
(h)	Any advantages of specialisation, for example increased output resulting in lower ATC, better quality, skilled staff, include output per worker. Plus Any disadvantage, for example workers more likely to make mistakes due to boredom etc/if specialise in one product, nothing to fall back on.	**4**

ITEM B

			Marks
(a)	**(i)**	Rate of increase/% increase (1 mark) in the general (average) price level (1 mark) over a period of time (one year). Credit references to fall in the value of money. If a candidate says an increase in prices – 1 mark. % increase in prices (2 marks)	**2**
	(ii)	Increase in the productive capacity of an economy. Credit references to increases in national income, GDP. (Increase in output) of goods/services (1 mark).	**2**
(b)	MPC <u>increases interest rates</u> – saving increases, borrowing falls, less demand therefore prices do not rise. Fiscal policy – <u>increase income tax</u> or reduce government spending – reduce aggregate demand etc.		**3**
(c)	(UK goods less competitive abroad), less demand. Firm's revenue drops, lower profits.		**2**
(d)	**(i)**	(Aggregate demand would increase) – loans cheaper – more people borrow to spend as they pay back less interest, people spend rather than save because the return on their savings falls.	**2**
	(ii)	(Unemployment falls) – increased spending – firms expand output – employ more workers. Or firms borrow to expand – employ more workers.	**2**
(e)	Diagram should show an increase (shift right) in supply and a decrease in the equilibrium price. It should show: • A demand and supply curve and the original equilibrium price - accept P/Q. • An increase in supply. • A fall in the equilibrium price. • Clearly show price fall. One mark for each point.		**3**
(f)	**(i)**	Government spending (1) on health, education etc/is greater than income (2) from taxes etc.	**1**
	(ii)	Recession – negative economic growth – usually falling demand, rising unemployment – less government income from taxes and increased spending on benefits, etc.	**3**

PART 2

Marks

1 **(a)** Resources are limited (finite)
Human wants (for goods and services) are unlimited (unending)
This gives rise to the basic economic problem of scarcity.
There will never be enough resources at any one time to satisfy unlimited wants for goods and services, therefore scarcity can never be eliminated.
Credit examples/description of resources – one mark.
Credit reasons for wants being infinite – one mark. **5**

(b) The methods could relate to either geographical or occupational mobility, a variety of answers is possible. Each identification could gain one mark and each explanation one mark. 3 × 2 marks **6**

(c) **(i)** Lack of demand – recession
Wrong type of products produced (loss of comparative advantage)
Loss of competitiveness – prices too high. 3 × 2 marks **5**

(ii) Claimant count (1) with explanation, (LFS/ILO) + explanation. Must have survey for 1 mark. **4**

2 **(a)** (Free trade is trade between countries without any restrictions)+ develop – max 2 marks.
Countries can, therefore, buy and sell wherever they can get the best deal.
Countries can specialise in the products in which they have a comparative/absolute advantage.
(Greater choice)/variety as not all countries produce the same goods.
(Lower prices) because some countries can produce goods more cheaply than others (credit references to comparative advantage).
Augments home supplies – shortages can be met by imports.
Increases world competition which would lead to reduced prices.
Companies can benefit from greater economies of scale because of bigger markets so lower prices.
Better quality/innovation. **6**

(b) The cost advantages (1) firms can experience when they increase their size (increase all their factors) (1) or reductions in ATC (1) which large firms can achieve (1) or any similar definition – maximum 2 marks.
Look for an explanation of at least 2 economies of scale (internal or external) eg bulk buying, increasing dimension, lower interest rates etc. Credit candidates who relate economies of scale to lower average cost. (Discount) for bulk buying (2).
4 × 1 or 2 × 2 **6**

(c) Explanation of how equilibrium level will fall – fall in exports a fall in an injection (or a leakage) – less money flowing round the system etc.
Diagram – max 5 marks **8**

			Marks
3	**(a)**	Direct taxation is levied on income and wealth (1) Sent directly to revenue authority (1). Examples (1). Indirect tax is levied on expenditure (1). Collected by an intermediary who sends it to the revenue authority (1). Examples (1). Credit progressive and regressive.	**6**
	(b)	Price of fatty foods rises. Discourage consumption – obesity – drain on NHS. Raise revenue – government receive more revenue to spend on other areas eg NHS. Max 3 marks for each.	**6**
	(c)	Diagram showing decrease in supply, with increase in price. Tax reduces supply so supply shifts to left. This increases costs of production and results in a higher price. Max 3 marks for diagram or max 3 marks for explanation.	**4**
	(d)	Look for an explanation of at least 2 forms of effective aid eg Provision of capital equipment. (+) Technical assistance. (+) Educational help. (+) Free trade (fair trade). (+) Debt relief. (+) Medicines – accept only one health issue. The explanations should show how the aid would help increase growth in the LDC.	**4**
4	**(a)**	((Buyers) and sellers) of foreign currency.	**2**
	(b)	Increased demand for imports (and expansion). Falling demand for exports. Level of UK Foreign direct investment. More UK citizens going abroad on holiday. Hot money outflows (interest rates falling). One mark for influence and one for explanation eg we sell sterling to buy the currency we need to buy imports. 3 × 2	**5**
	(c)	Explanation of price mechanism – price above equilibrium, price forced down because demand is less than supply – ie surplus. Price below equilibrium – price bid up – demand is greater than supply – shortage. Max 4 marks for explanation Max 5 marks for diagram (labels etc 1 mark max, 2 for short/2 for surplus)	**7**
	(d)	The main reason is to correct market failure (credit definition) – 1 mark. Look for explanations of situations in which the market might not allocate resources efficiently. Candidates might give a micro answer and discuss the reasons for the government taxing goods, granting subsidies and imposing minimum/maximum prices. This is a valid approach to look for 3 explanations for full marks.	**6**

Marks

5 **(a)** Trade – when the value of our exports of goods is less than the value of imports of goods (must mention value to gain full marks).
1 mark - value
1 mark - import/export
1 mark - goods **3**

(b) Import controls – tariff – tax increases price of imports – less competitive, reduces demand.
Quota – limit to number of goods allowed to enter the country.
Slowdown consumer spending – increase interest rates, increase direct taxation, reduce government spending.
Boost productivity by increasing government spending on infrastructure, or privatisation, spending on education and training.
Devaluation – exports cheaper, imports more expensive.
Buy British
3 × 2 **6**

(c) Fewer exports of goods, less demand from UK exporters – downsize or lay off workers.
Increased imports – fewer demand for UK goods competing with these imports.
Falling AMD – circ flow W>J **5**

(d) Reduce income tax – greater disposable income – increased aggregate demand.
Reduce corporation tax – greater incentive to expand.
Reduce VAT – reduced costs of production.
Increased capital spending – creates jobs building schools, road etc.
Increased current spending – increased wages – increased AMD etc. Max 3 marks.
Credit budget (fiscal) deficit - + totals
Accept subsidies to businesses. **6**

[END OF MARKING INSTRUCTIONS]