

X038/101

NATIONAL
QUALIFICATIONS
2008

FRIDAY, 23 MAY
9.00 AM – 10.15 AM

ECONOMICS
INTERMEDIATE 1

40 marks are allocated to this paper:

20 marks for Item A and 20 marks for Item B.

Attempt **all** questions.

All answers are to be written in the answer book provided.



ITEM A

Read the information below, then answer the questions which follow.

Bill Smith owns a factory that makes sports cars. The factory uses division of labour by process.

Each car sells for £50,000 and the average cost of producing one car is £60,000.

Bill is trying to find ways of reducing his costs.

He is thinking of buying a paint-spraying machine which, when in use, should reduce some of his variable costs.

The demand for Bill's cars has recently increased.

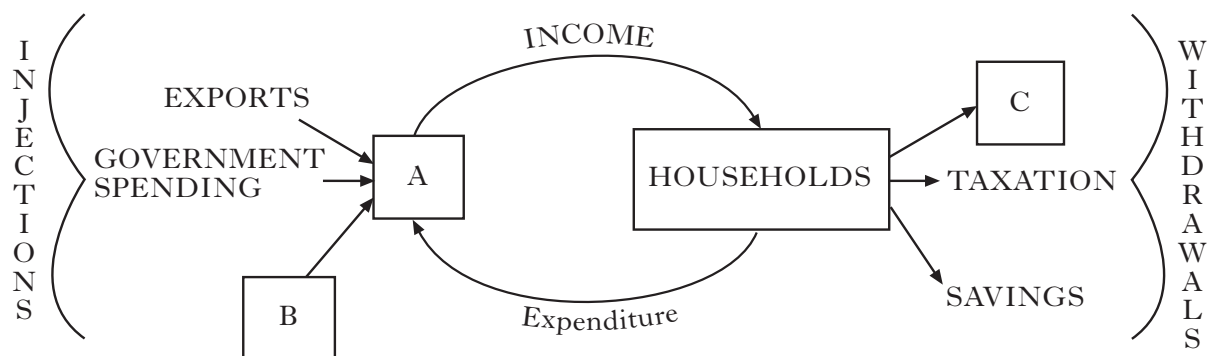
Marks

- | | | |
|----|---|-------------|
| 1. | There are 3 sectors of production: primary, secondary and tertiary. In which sector is Bill operating? | 1 |
| 2. | (a) What is meant by division of labour by process? | 2 |
| | (b) Describe 2 advantages for Bill's workers of division of labour by process. | 2 |
| | (c) Describe 2 disadvantages for Bill's workers of division of labour by process. | 2 |
| 3. | If the factory makes and sells 10 cars a week: | |
| | (a) calculate the firm's total revenue per week; | 1 |
| | (b) calculate the firm's total cost per week. | 1 |
| 4. | Calculate the profit or loss the factory makes on each car . | 2 |
| 5. | (a) Is the paint-spraying machine a capital or a consumer good? | 1 |
| | (b) Explain your answer to 5(a). | 1 |
| 6. | (a) Describe how using a paint-spraying machine can reduce Bill's variable costs. | 2 |
| | (b) Other than buying machinery, suggest one way Bill could reduce his costs. | 1 |
| 7. | Suggest 2 reasons for the increase in demand for Bill's cars. | 2 |
| 8. | Draw a diagram to show how the increase in the demand for Bill's cars will affect their price. | 2 |
| | | (20) |

ITEM B

Read the information below, then answer the questions which follow.

The following diagram shows the circular flow of income in economy X. The diagram also shows some injections and withdrawals.



The following information refers to economy X in 2005 and 2006.

	2005	2006
Inflation	2%	4%
Unemployment	1 million	2 million
Exports of goods	£100 million	£110 million
Imports of goods	£80 million	£120 million

Marks

- What is the missing word in box A?
 - What is the missing word in box B?
 - What is the missing word in box C?

3
- Do injections increase or decrease the level of National Income? 1
- If the Government wants to reduce the rate of inflation, should it increase or decrease the rate of income tax? 1
- Write down **one** example of an indirect tax. 1
- What happened to the purchasing power of money in economy X in 2006? 1
- Write down **2** causes of inflation. 2
- What is the difference between the unemployment rate and the unemployment level? 2
- Why does the level of government spending increase when unemployment increases? 1
- Calculate the Balance of Trade in Goods in economy X in 2006. 2
- Name and describe **2** barriers to trade. 4
 - Give **2** reasons why a country might put barriers to trade on imports. 2

[END OF QUESTION PAPER]

(20)

[BLANK PAGE]