

X038/201

NATIONAL
QUALIFICATIONS
2008

FRIDAY, 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 passage and answer the questions which follow.

Despite a stable economic growth rate and a low rate of inflation, the UK economy is experiencing a fall in manufacturing output. In addition, the Government's **budget deficit** is increasing.

Some economists believe that the UK economy will fall into **recession** this year, partly because of the reduction in demand for UK goods in the USA. The reduced demand for UK exports is likely to affect UK unemployment and increase the **deficit on Trade in Goods**. The situation will be made worse if there is an increase in the rate of interest.

Adapted from an article in the *Daily Telegraph*, 28 September 2006.

Marks

- | | | |
|-----|---|---|
| (a) | Explain what is meant by a recession. | 2 |
| (b) | (i) Explain how a fall in demand for UK exports is likely to affect UK unemployment. | 2 |
| | (ii) Explain 2 disadvantages for the UK Government of an increase in the level of unemployment. | 4 |
| (c) | (i) What is meant by a deficit on Trade in Goods? | 2 |
| | (ii) Suggest one measure the UK Government could take to reduce a deficit on Trade in Goods. Explain how the measure would work. | 3 |
| (d) | (i) What is meant by a budget deficit? | 1 |
| | (ii) Explain how a budget deficit can increase the rate of inflation. | 2 |
| (e) | Explain how an increase in the rate of interest is likely to affect: | |
| | (i) the level of saving; | |
| | (ii) the rate of economic growth. | 4 |

(20)

ITEM B

Read the following passage and answer the questions which follow.

Natural gas is a major source of energy in the UK. Supplies of gas from the North Sea are running out faster than expected and, as a result, its price is changing. More gas is now being imported from overseas. This increase in imports has put a downward pressure on the exchange rate of sterling. In the UK, the gas industry has started to decline and some workers have been made redundant. This has increased government spending on **transfer payments** and measures to increase **occupational mobility**.

It is not surprising, therefore, that the UK Government has been trying to encourage people to save energy.

Marks

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|-----|--|------|
| (a) | Explain what is meant by transfer payments and give one example. | 3 |
| (b) | Explain how a fall in the exchange rate of sterling is likely to affect: | |
| | (i) the price of UK exports; | |
| | (ii) the number of tourists visiting the UK. | 4 |
| (c) | (i) Name a major item of government spending not mentioned in the passage. | 1 |
| | (ii) Explain why the government spends money on this item. | 2 |
| (d) | (i) The passage mentions that the supply of North Sea gas is changing. Draw a demand and supply diagram to show how the change in the supply of North Sea gas will affect its equilibrium price. | 3 |
| | (ii) Explain how an increase in the price of gas is likely to affect the price of electricity. | 3 |
| (e) | (i) What is meant by occupational mobility? | 2 |
| | (ii) Describe one way the government could improve the occupational mobility of redundant gas workers. | 2 |
| | | (20) |

[Turn over for PART 2 on *Page four*

PART 2—Essay Questions

Candidates should attempt ONE essay question.

Marks

1. Despite increases in the level of UK National Income, scarcity remains a problem.
 - (a) Explain what is meant by scarcity in Economics. 5
 - (b) Explain what is meant by National Income and describe **3** problems of measuring it. 8
 - (c) Explain what is meant by National Income equilibrium. A diagram must be used in your explanation. 7

(20)
2. Ace Tennis Company manufactures tennis racquets and exports some of them to the US.
 - (a) Explain how a fall in the exchange rate of sterling against the dollar would affect the profits made by Ace Tennis Company. 4
 - (b) Describe **3** factors that could increase the demand for tennis racquets in the UK. 6
 - (c)
 - (i) Explain the difference between fixed costs and variable costs.
 - (ii) Suggest **one** fixed cost and **one** variable cost for Ace Tennis Company. 6
 - (d) Draw a diagram to show the relationship between total fixed costs, total variable costs and total costs. 4

(20)
3. Government policies to increase economic growth may also affect the rate of inflation and the rate of unemployment.
 - (a) Describe how inflation is measured in the UK. 4
 - (b) Describe some causes of inflation. 6
 - (c)
 - (i) Explain how government policies can be used to increase economic growth. 6
 - (ii) Explain how the policies you described in (c)(i) may affect the rate of unemployment. 4

(20)

4. Taxation and government spending can be used to make incomes more equal.
- (a) Explain how taxation and government spending can be used to make incomes more equal. 8
 - (b) Describe the main economic aims of government, other than greater income equality. 4
 - (c) Explain how a tax on a good will affect its equilibrium price and quantity. Your answer should include a diagram. 8
- (20)**
5. Countries and workers tend to specialise because of absolute advantage and comparative advantage.
- (a) Explain the difference between absolute advantage and comparative advantage. 8
 - (b) Describe how consumers may benefit from specialisation by countries. 4
 - (c) Describe **2** advantages and **2** disadvantages for workers who specialise. 8
- (20)**

[END OF QUESTION PAPER]

ACKNOWLEDGEMENTS

Part 1 Item A—Article was adapted from *US housing crash could bring the UK down with it* from The Daily Telegraph, 28 September 2006 by Edward Conway. Published by The Daily Telegraph. Reproduced by permission of The Daily Telegraph.

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