X038/301

NATIONAL
QUALIFICATIONS
2007

WEDNESDAY, 16 MAY
9.00 AM – 11.30 AM

ECONOMICS
HIGHER

Instructions to Candidates.

Candidates must attempt **both** items in Section A and any **two** questions in Section B.

SECTION A

ITEM A

Read the passage below and then answer the questions which follow.

FOREIGN LESSONS FOR BRITISH MANUFACTURERS

Leaders of the European Union recently gathered for an informal summit on Europe's economy and the challenges it faces, especially from **globalisation**.

With unemployment in the UK being almost half the European average and with higher **economic growth** in recent years than its European rivals, Britain felt that it had found some of the answers.

But many in Europe don't regard Britain as being such a great economic success story. German unemployment may well be double that of Britain, but recently Germany had a trade surplus of 12·6 billion Euros, while Britain had a trade deficit of 8 billion Euros.

In addition, labour productivity, one of the key determinants of prosperity, is 20% lower in Britain than in France and Germany. However, the statistic which most puzzles economists is that foreign-owned companies in the UK have 50% greater productivity than British-owned ones.

Despite this, many sectors of the UK economy are world class and Britain has a much larger services sector than most of Europe. Britain has also moved away from those types of production which can be done more cheaply in China and India.

BBC News 25:10:05 (adapted)

Marks

(*a*) Explain the following terms, **as used in the passage**:

(i) "globalisation"; **2**

(ii) "economic growth". **2**

(*b*) Describe **2** benefits for an economy of an increased rate of economic growth. **4**

(*c*) (i) Suggest and explain **one** reason for Britain's large trade deficit. **2**

(ii) Other than import controls, describe **one** measure Britain could take to reduce a trade deficit, and explain how it would work. **3**

(*d*) Explain the meaning and importance of labour productivity. **4**

(*e*) (i) Give **2** reasons why an American company might wish to set up a factory in Britain. **2**

(ii) Suggest and explain **2** reasons for productivity levels in foreign-owned companies in the UK being higher than in British-owned companies in the UK. **4**

(*f*) Give **one** example of a good or service that can be produced more cheaply in India or China than in the UK and explain why it can be produced more cheaply there. **2**

(25)

[Turn over

ITEM B

Read the passage below and then answer the questions which follow.

CHANGES IN THE WORLD SUGAR MARKET

At present, the 312,000 sugar beet farmers in the European Union are guaranteed a minimum price for their sugar beet of £432 per tonne—three times the world market price of £144 per tonne. However, in recent World Trade talks, European Union ministers agreed to cut the **minimum guaranteed price** given to EU sugar beet farmers by almost 40%.

There has been a mixed reaction to this news. Some EU sugar refiners will be forced to become more technically efficient in order to stay in business. Official estimates predict that European sugar production will drop by 25% and that 90,000 sugar workers will lose their jobs. However, the news has been welcomed by the World Trade Organisation (WTO) and by those EU companies who use sugar in their production process.

In addition, the expected drop in sugar production will reduce the EU's dumping of huge sugar surpluses on **the world sugar market**. This dumping has caused economic problems for sugar farmers in some developing countries. These farmers will now benefit from the fact that the EU will almost double its annual sugar imports. However, the European Commission predicts that all sugar exports from Europe will eventually stop and that the EU will turn into a major sugar importer.

Adapted from articles in the *Financial Times* 25:11:05 and *The Times* 25:11:05

Marks

(*a*) (i) Explain what is meant by "minimum guaranteed price". **2**

(ii) Draw a diagram to show how the EU minimum guaranteed price created sugar surpluses. **2**

(*b*) (i) Explain what is meant by technical efficiency. **2**

(ii) Describe **one** way in which firms could increase their technical efficiency. **2**

(*c*) Suggest why the move to reduce the minimum guaranteed price has been welcomed by the WTO. **2**

(*d*) Explain how an increase in unemployment will affect a government's finances. **4**

(*e*) Explain, using a diagram, how the removal of the minimum guaranteed price for sugar is likely to affect the **price** of chocolate. **4**

(*f*) (i) What is meant by "the world sugar market"? **2**

(ii) Explain how the dumping of huge sugar surpluses on the world sugar market has caused economic problems for sugar farmers in developing countries. **2**

(*g*) Explain how the predicted changes in the EU's sugar trade are likely to affect the future value of the Euro. **3**

(25)

SECTION B

Attempt any TWO questions.

Marks

1. The effects of scarcity could be reduced if all countries concentrated on the production of those goods in which they have a comparative advantage over other countries.

(*a*) Explain what is meant by "scarcity" in economics. **5**

(*b*) Explain the theories of absolute and comparative advantage. **8**

(*c*) Argue the case for and against import controls. **12**

(25)

2. A recent survey revealed that people on lower incomes smoke more cigarettes than people on higher incomes.

(*a*) Using the information in the above sentence, explain:

(i) the difference between positive and negative income elasticity of demand;

(ii) the difference between progressive and regressive taxation. **10**

(*b*) Describe **3** factors that can affect a product's price elasticity of demand. **6**

(*c*) Explain why governments may intervene in the market for some goods and services. **9**

(25)

3. The numbers employed in the Scottish manufacturing sector have been falling for several years.

(*a*) Suggest and explain reasons for the continued decline in employment in the Scottish manufacturing sector. **7**

(*b*) Using the concept of the multiplier, describe some economic consequences for the Scottish economy of the closure of one of its major manufacturing firms. **8**

(*c*) Describe fiscal and monetary measures a government could take to increase the level of employment and explain how they would work. **10**

(25)

4. The UK has decided not to join the Eurozone, and will continue to allow Sterling to float. One reason for this is that joining the Eurozone would result in a large fall in the UK rate of interest.

(*a*) Explain factors that determine the demand for Sterling on the foreign exchange markets. **8**

(*b*) Discuss the advantages and disadvantages for a country of having a floating exchange rate. **10**

(*c*) Explain some of the economic problems that could result from a large fall in the UK rate of interest. **7**

(25)

[Turn over for Questions 5 and 6 on *Page six*

Marks

5. Although the level of competition in markets varies, the short run average total cost curves of most firms are U-shaped.

(*a*) Compare and contrast the characteristics of perfect competition and monopoly. **10**

(*b*) Explain why:

(i) short run average total cost curves are usually U-shaped;

(ii) long run average total cost curves are usually U-shaped. **15**

(25)

6. Environmentalists fear that future increases in National Income may be at the expense of sustainable development.

(*a*) Briefly describe **3** methods of measuring the value of the UK's national income. **6**

(*b*) Explain some of the uses of, and problems involved in calculating, National Income. **10**

(*c*) Explain what is meant by "sustainable development" and describe some measures governments have taken to help achieve it. **9**

(25)

[*END OF QUESTION PAPER*]

ACKNOWLEDGEMENTS

Section A Item A – Article is adapted from "Foreign Lessons for British Manufacturers" by Jonty Bloom, taken from BBC News, 25 October 2005. Reproduced by kind permission of BBC News.

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