



2011 Economics

Standard Grade Credit

Finalised Marking Instructions

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Marking Instructions

Question 1

- (a) (i) Takeover means to join up with another firm and take complete control of it. **1 KU**
- (ii) The public sector is the sector of the economy owned and controlled (both needed) by the Government on behalf of the people. **1 KU**
- (b) (i) Horizontal **1 KU**
- (ii) AEC
- They could take advantage of economies of scale
They will lose competitors from the market
They have expanded abroad and may make more money
It has spread its risk.
- Any 2 suitable answers **2 KU**
- AEC's employees
- Their jobs might be more secure
They could get a pay rise
There could be opportunities for them to gain promotion.
- Any 2 suitable answers **2 KU**
- (c) Increased investment in the economy could lead to increases in jobs elsewhere which will in turn raise demand for other goods. This could lead to further increases in employment.
- If there is increased foreign investment by one firm, it might make the country more attractive to other companies which may, in turn, increase their investment which would again lead to increased employment.
- If the firms make more profit, they will have to pay more tax which will give more money to the government not only from this but from Income Tax. This money could then be spent on goods and services to benefit the population as a whole.
- Accept any 2 answers fully explained. (2 × 2)
Accept negative effects fully explained. **4 ES**

Question 2

- (a) (i) A strike means the complete withdrawal of labour by the workers.
A Trade Union is an organisation which operates on behalf of the workers to try to gain better pay and conditions. **2 KU**
- (ii) Sit in – workers occupy the building and refuse to leave.
Go slow – the workers work at a slow pace to try to impede production.
Work to rule – workers only do what is stated in their contracts.
Overtime ban – workers refuse to do overtime when requested. **2 KU**
- (b) The government could be trying to save money through removing some workers thereby not having to pay wages.
The government might be looking to make the public sector more efficient and deliver a better service.
- Accept any reasonable answer for 1 mark but with detail for 2. **4 ES**
- (c) (There are less jobs as demand has fallen, meaning less Income Tax) (1)
(which could mean less money from central government.) (1)
(People are spending less therefore VAT revenues have decreased) (1);
(also meaning less money available from central government.) (1)
(Local businesses may collapse) (1) (which will mean a fall in revenue from business rates.) (1)
(People are less likely to make use of leisure facilities) (1) (which provide sources of revenue for the government.) (1)
- Accept any reasonable answer which relates to local government. **4 ES**

Question 3

- (a) (i) Price elasticity of demand is the degree of responsiveness of quantity demanded to changes in the price. **1 KU**
- (ii) Price elasticity of demand
= % change in quantity demanded/% change in price
= $50/100 \times 100 = 50\%$ / $10/200 \times 100 = 5\%$
 $50/5 = 10$
IF Figures 50% and 5% given = 1 mark **2 ES**
- (iii) Elastic – a small change in price leads to a large change in quantity. **2 KU**
- (iv) The degree of need.
Availability of substitutes.
Whether the item is habit forming or not. **2 KU**
- (b) Demand has increased because:
peoples' incomes may have increased
the item has become more popular
a competitor has gone out of business.
- Accept any reasonable answer to explain an increase in demand. **2 KU**
- (c) (i) (Price may fall) (1) because there might be lower demand. **2 ES**
- (ii) (Price may fall) (1) because there could be falling costs to the business which might be passed on to consumers.
Price may rise because more people decide to buy the product. **2 ES**
- (iii) New technology might make the production of cameras cheaper to produce and this might lower the price.
Price might fall because people are moving across to another form of photography and no longer want the Olympus camera. **2 ES**
- Price change = 1 mark if correctly explained.

Question 4

(a) Advantages

All profits are kept by the owner.

Control is totally in the hands of the owner.

Decision making can be quick as there need be no consultation.

Disadvantages

Everything has to be done by the owner.

Taking breaks can be difficult.

In the event of illness, there may be no-one to take over the work.

One mark for each part.

2 KU

(b)

Metalicraft still have fixed costs even if they produce nothing. These costs include expenses like rent which still have to be paid at zero output.

However, at this level, there are no variable costs because these only occur when production starts and vary directly with the level of output.

2 ES

(c)

Variable costs are directly involved in production eg raw materials, meaning that the more that is produced, the higher the costs will be.

1 KU

(d)

Costs at an output level of 20 will be £50,000. Stewart will sell 20 at £2,000 each giving a total of £40,000. He will make a loss.

2 ES

(e)

He could divide the total costs ie fixed costs plus variable costs, by output.

1 KU

(f)

(Marginal cost is the addition to total cost with the production of one more unit) (1) therefore if variable costs are divided by the increase in output, this will give MC ie £1,000.

2 ES

(g)

Output is the number of chess sets that Stewart would be able to produce whereas supply is the number of chess sets that he is prepared to offer for sale.

2 KU

Question 5

- (a) 1 Unemployment rate is the percentage of the working population who are registered as looking for work. **1 KU**
- 2 (Real GDP is the amount of goods and services produced in an economy.) (1) Taking account of inflation (1). **2 KU**
- (b) Unemployment has been rising over the 4 years whilst at the same time GDP has been falling. If there are less people employed, there may be less goods produced and there will be less demand. **4 ES**
- (c) The Gaeltopian Government could increase Government spending to increase demand in the economy.
They could decrease tax in order to increase spending in the economy, stimulating demand and increasing employment to cope with this. This would also increase the amount of goods and services produced in the country.
The Government could cut interest rates which might encourage firms to invest more which could increase GDP. If this investment takes the form of expanding the business, this will lead to further increases in demand which could lead to rising employment.
- Accept any reasonable answer. Accept development for further marks. **6 ES**
- Must address both unemployment and increased GDP but not necessarily in one policy.
- Max 4 if only one problem is addressed.

Question 6

- (a) (i) Deficit in Trade in Goods = -6.2
Surplus in Trade in Services = 3.9
The total is therefore -£2.3 bn.
If -6.2 and 3.9 given = 1 mark. **2 ES**
- (ii) No (1) – (although there is a deficit all the way through the year, this is decreasing each quarter.) (1) **2 ES**
- (b) (It is not possible to give an accurate picture because the figures for Services (1) have not been analysed by area.) However, the figures for Trade in Goods would indicate that more goods are imported from the EU than are exported.
Financially this is less beneficial. However, it does give the people more variety and choice.

On the other hand, trade with non-EU countries has been improving in that the deficit is falling. **4 ES**
- (c) Financial Services
Travel and Tourism
Education
Diplomatic services **Must give 2 items** **1 KU**
- (d) The pound is able to buy less of other currencies. This will make imports more expensive and will make exports less expensive. This should decrease UK demand for imports and increase foreign demands for exports. This should improve the balance of payments figures.
If there is increased demand for exports, this should increase demand for labour which will increase employment. However, if goods are going abroad, there will be less available at home. If less imports are coming in people might buy UK goods meaning that there will be less available for exports. **4 KU**

[END OF MARKING INSTRUCTIONS]