

X038/101

NATIONAL
QUALIFICATIONS
2007

WEDNESDAY, 16 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.

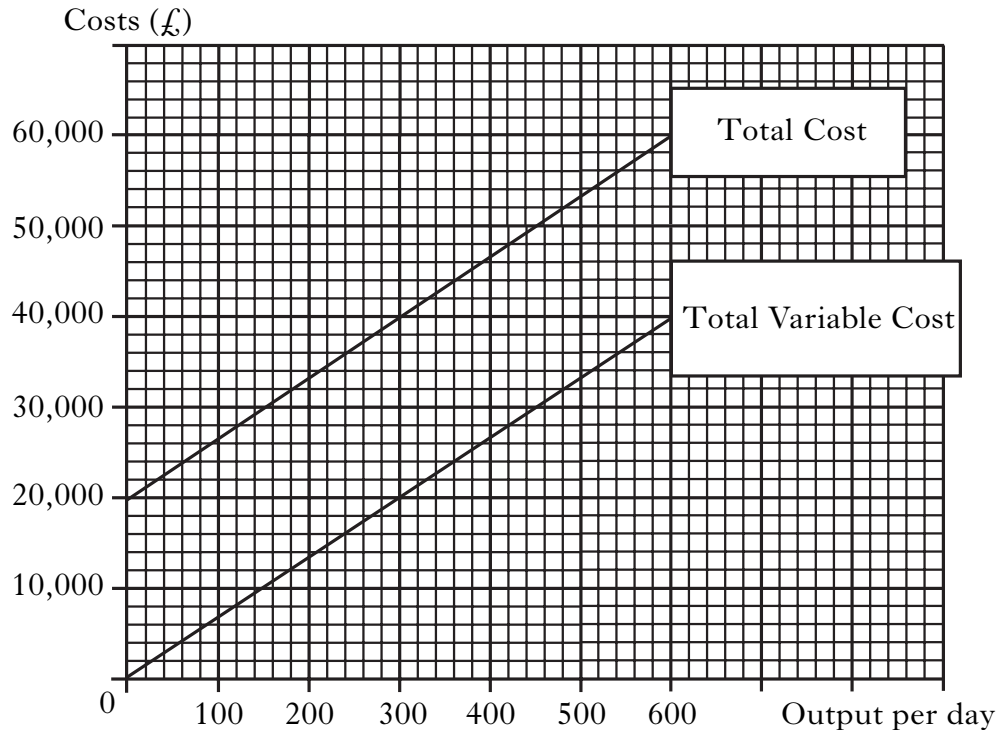
All answers are to be written in the answer book provided.



ITEM A

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

The following diagram shows the Total Cost curve and the Total Variable Cost curve of a firm that makes bicycles.



Marks

The demand for bicycles has recently increased.

1. (a) What is meant by fixed costs? 2
 (b) How much are the firm's total fixed costs? 1
2. (a) What is meant by variable costs? 2
 (b) Give **one** example of a variable cost. 1
3. Draw a demand and supply diagram to show how an increase in the demand for bicycles will affect the **price** of bicycles. 3
4. Describe **2** reasons why the demand for bicycles might increase. 4
5. Draw a demand and supply diagram to show how an increase in the **supply** of a good will affect its **price**. 3
6. What is meant by opportunity cost? 2
7. (a) Suggest **one** opportunity cost for the firm of producing bicycles. 1
 (b) Suggest **one** opportunity cost for a consumer of buying a bicycle. 1

(20)

ITEM B

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

For the last 10 years, the rate of inflation in the UK has been around 2·5%. In 1974, the rate of inflation in the UK was over 25%. High rates of inflation can lead to a Balance of Trade deficit.

For the last 10 years, the rate of unemployment in the UK has been around 5%. In 1983, the level of unemployment in the UK reached over 3 million. High levels of unemployment can cause problems for the government and individuals.

Marks

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|----------------------------------------------------------------------------------------------------------------------------------|-------------|
| 1. What is meant by inflation? | 2 |
| 2. Describe 2 causes of inflation. | 4 |
| 3. What is meant by a Balance of Trade deficit? | 2 |
| 4. What is meant by the level of unemployment? | 2 |
| 5. Describe 2 causes of unemployment. | 4 |
| 6. Describe one effect a high rate of unemployment has on: (a) the government; (b) individuals. | 4 |
| 7. What will an increase in the rate of income tax do to: (a) the level of unemployment; (b) the rate of inflation? | 2 |
| | (20) |

[END OF QUESTION PAPER]

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