

# **X038/201**

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NATIONAL  
QUALIFICATIONS  
2007

WEDNESDAY, 16 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.

When the new American Z-Box game system was recently put on the UK market, its manufacturer was not prepared for how popular it would be.

The following table shows the daily demand for, and supply of, the Z-Box at various prices:

**THE MARKET FOR Z-BOX**

<i>Price (£)</i>	<i>Demand/day</i>	<i>Supply/day</i>
200	420	100
250	350	150
300	200	200
350	120	350
400	80	500

The American firm intends to increase its output in the long run.

*Marks*

- (a) Explain what is meant by “the market for Z-Box”. 2
- (b) (i) What is the equilibrium price **and** equilibrium quantity in the above table? 1
- (ii) Calculate the daily total revenue of the manufacturer of the Z-Box at the equilibrium price. 2
- (c) (i) If supply increased by 200 a day at all prices. What would be the new equilibrium price and quantity? 2
- (ii) Identify **2** factors which could cause an increase in the supply of a good. 2
- (d) (i) If the UK Government placed an import tax on the Z-Box, explain how this would affect the UK demand for it. 2
- (ii) Describe **2** reasons why the UK Government might place a tax on imports. 4
- (e) (i) Explain what is meant by the term opportunity cost. 2
- (ii) Suggest **one** possible opportunity cost for the American firm of producing the Z-Box. 1
- (f) What is the difference between the short run and the long run? 2

**(20)**

## ITEM B

**Read the following passage and answer the questions which follow.**

The increase in the world demand for oil has led to an increase in the price of oil. The increased demand has been caused mainly by China's rapidly growing economy.

The rise in oil prices will affect the UK economy in a number of ways. It is likely to lead to an increase in the rate of **inflation**, a fall in the rate of **economic growth** and an increase in the rate of unemployment. Higher oil prices are also likely to affect the exchange rate of Sterling.

*Marks*

- |     |   |             |
|-----|---|-------------|
| (a) | Explain what is meant by the following terms:   |             |
|     | (i) inflation;  | 2           |
|     | (ii) economic growth.   | 2           |
| (b) | (i) Draw a supply and demand diagram to show why the price of oil has increased.                      | 3           |
|     | (ii) Explain why rising oil prices can lead to an increase in the price of other goods and services.  | 2           |
| (c) | Describe <b>one</b> cause of inflation other than rising costs.                                       | 2           |
| (d) | Describe <b>one</b> problem for UK exporters of an increase in the rate of UK inflation.              | 2           |
| (e) | Describe <b>one</b> cause of unemployment other than rising costs.                                    | 2           |
| (f) | Explain <b>2</b> economic problems for the UK Government of an increase in the level of unemployment. | 4           |
| (g) | How would a decrease in the exchange rate of Sterling affect the price of UK exports?                 | 1           |
|     |   | <b>(20)</b> |

**[Turn over for PART 2 on Page four]**

## PART 2—Essay Questions

Candidates should attempt ONE essay question.

Marks

1. As all countries are faced with scarcity, producers in every country have to choose how to use their resources.
  - (a) Explain why all countries are faced with scarcity. 4
  - (b) Describe, using examples, the basic choices producers have to make about the use of their resources. 6
  - (c)
    - (i) Explain what is meant by division of labour by process and describe **2** ways in which it can lead to a more efficient use of resources. 6
    - (ii) Describe **2** disadvantages for workers of division of labour by process. 4

(20)
2. Because of an increase in demand, a baker has increased his output of cakes. If the baker continues to increase his output, he could, in the long run, experience economies of scale.
  - (a) Suggest and describe **3** reasons for an increase in demand for cakes. 6
  - (b) There is an increase in the demand for cakes **and** an increase in the supply of cakes. Draw **one** diagram to show how these increases might affect the equilibrium price. 4
  - (c) Explain, using a diagram, what happens to **average** fixed costs as output increases. 4
  - (d) Describe **3** economies of scale a firm might achieve as it increases its output. 6

(20)
3. The UK Government uses both monetary and fiscal policies to help it achieve its economic aims. One of these aims is low inflation.
  - (a) State **2** economic aims of UK Governments other than low inflation. 2
  - (b)
    - (i) Explain how interest rates can be used to achieve **one** of the aims you mentioned in part (a). 4
    - (ii) Explain how the Budget can be used to achieve **one** of the aims you mentioned in part (a). 4
  - (c)
    - (i) Explain, using examples, the difference between direct and indirect taxation. 6
    - (ii) Explain the difference between progressive and regressive taxation. 4

(20)

4. Developing countries have lower incomes per head than developed countries. The national income of developing countries could be increased if their governments increased their level of capital expenditure.
- (a) Describe **3** uses of national income statistics. 6
  - (b) Explain, using examples, the difference between government capital expenditure and government current expenditure. 6
  - (c) (i) Identify **4** characteristics of developing countries apart from relatively low levels of national income. 4
  - (ii) Describe **2** ways in which developed countries could help to increase the national income levels of developing countries. 4
- (20)
5. Recent changes in the exchange rate of Sterling have affected the UK's Balance on Current Account and the level of UK National Income.
- (a) (i) Describe **one** factor that influences the demand for Sterling.
  - (ii) Describe **one** factor that influences the supply of Sterling. 4
  - (b) A UK citizen is about to visit Paris. Will she benefit from a decrease or an increase in the exchange rate of Sterling against the Euro? Explain your answer. 4
  - (c) What are the main components of the UK Current Account? 5
  - (d) Explain how an increase in UK exports will affect the equilibrium level of National Income. A diagram should be included in your explanation. 7
- (20)

[END OF QUESTION PAPER]

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