



National  
Qualifications  
2014

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# 2014 Economics

## National 5

### Finalised Marking Instructions

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## General Marking Principles for National 5 Economics

*This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this Paper. These principles must be read in conjunction with the detailed marking instructions, which identify the key features required in candidate responses.*

- (a) Marks for each candidate response must always be assigned in line with these General Marking Principles and the Detailed Marking Instructions for this assessment.
- (b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.

- (c) i) Questions that ask candidates to Describe . . .  
Candidates must make a number of relevant, factual points up to the total mark allocation for the question. These should be key points. The points do not need to be in any particular order. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:

- One mark should be given for each accurate relevant point of knowledge.
- A second mark could be given for any point that is developed from the point of knowledge

- ii) Questions that ask candidates to Explain . . .  
Candidates must make a number of points that relate cause and effect and/or make the relationships between things clear, for example by showing connections between a process/situation. These should be key reasons and may include theoretical concepts. There is no need to prioritise the reasons. Candidates may provide a number of straightforward reasons or a smaller number of developed reasons, or a combination of these.

Up to the total mark allocation for this question:

- One mark should be given for each accurate relevant point of reason.
- A second mark could be given for any other point that is developed from the same reason

## Detailed Marking Instructions for each question

### Section 1

Question			Expected Answer(s)	Max Mark	Additional Guidance
1.	(a)	(i)	<ul style="list-style-type: none"> <li>• A = Fixed Costs</li> <li>• B = Variable Costs</li> <li>• C = Total Costs</li> </ul>	3	Award 1 mark for each correct label.
		(ii)	<ul style="list-style-type: none"> <li>• <math>8 \times 60,000 = \text{£}480,000</math> (1 mark)</li> <li>• <math>\text{£}480,000 - \text{£}350,000 = \text{£}130,000</math></li> </ul>	2	<p>Award 1 mark for total revenue of <math>\text{£}480,000</math> if total profit incorrect.</p> <p>If candidate only gives total profit as <math>\text{£}130,000</math> (no working) they can get full marks. Working does not necessarily have to be shown to gain full marks.</p> <p>Candidates must express answer in thousands to gain full marks.</p>
	(b)	(i)	<ul style="list-style-type: none"> <li>• rent of premises</li> <li>• advertising</li> <li>• heating</li> <li>• electricity</li> <li>• bank loan</li> </ul>	1	<p>Award 1 mark for identification of any relevant fixed cost.</p> <p>The expected responses given are not exhaustive.</p> <p>Award any other correct answers.</p>
		(ii)	<ul style="list-style-type: none"> <li>• wheat/raw materials to make the pasta</li> <li>• wages of production workers producing the pasta</li> </ul>	1	<p>Award 1 mark for identification of any relevant variable cost.</p> <p>The expected responses given are not exhaustive.</p> <p>Award any other correct answers.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<ul style="list-style-type: none"> <li>• Eurozone is a collective group of countries which use the Euro as their common currency (1)</li> <li>• currently the Eurozone has 18 members (1)</li> <li>• as a currency union, monetary rules are created and maintained by the European Central Bank (1)</li> <li>• Eurozone does not include every country in the European Union (some countries are not yet using the Euro) (1)</li> <li>• Eurozone does not include every country using the Euro (to become part of the Eurozone, the country must use the Euro as its sole legal currency) (1)</li> </ul>	2	<p>1 mark for identifying that the Eurozone is the collection of countries using the Euro (do not have to specifically mention 18!).</p> <p>1 mark for a development point.</p> <p>Credit candidates who mention relevant features, ie came into being in 1999 as a virtual currency, started to use notes and coins in 2002, originally consisted of 11 countries, etc.</p>
	(d) (i)	<ul style="list-style-type: none"> <li>• fall in value of sterling means that European firm will get more sterling for their euros or will get more sterling for the same amount of euros</li> <li>• Pasta Mama then becomes cheaper in Europe so more will be demanded</li> <li>• Mama Pasta Ltd will therefore sell more volume of pasta to Europe</li> <li>• profits should rise</li> </ul>	2	<p>Award 1 mark for effect of fall in sterling on exports - cheaper.</p> <p>Award 1 mark for explanation of how profits will rise.</p> <p>In the event that a candidate argues that import prices rises cause a decline in supply and therefore reduces sales and profits - accept for 2 marks.</p>
	(ii)	<ul style="list-style-type: none"> <li>• imported ingredients sold in the UK will therefore be more expensive (price will rise)</li> <li>• importers of ingredients will get fewer euros for their sterling</li> </ul>	2	<p>Award 1 mark for effect of fall in sterling on imports.</p> <p>Award 1 mark for explaining why imports are dearer.</p>
	(e)	<ul style="list-style-type: none"> <li>• a firm's costs of production have increased (1)</li> <li>• if costs therefore increase, businesses cannot supply as much at the same price and this will cause an inward shift of the supply curve (1)</li> </ul>	2	<p>Award 1 mark for identifying an increase in a firm's costs of production.</p> <p>Award 1 mark for the effect on the supply curve.</p> <p>A diagram is not required, but credit accurately drawn supply curve shifting inwards to the left (1).</p>

Question			Expected Answer(s)	Max Mark	Additional Guidance
2.	(a)		<ul style="list-style-type: none"> <li>Percentage increase in the general level of prices in a period of time.</li> <li>The rate of inflation is measured by the annual percentage increase in the level of consumer prices</li> </ul>	2	<p>1 mark for percentage increase.</p> <p>1 mark for in the level of prices.</p>
	(b)	(i)	<p>Effects of inflation on households include:</p> <ul style="list-style-type: none"> <li>reduces the purchasing power of people's incomes (1) because inflation leads to a fall in the value of money (1)</li> <li>reduces real incomes for those citizens whose money income does not rise in line with prices (1)</li> <li>reduces competitiveness in domestic and foreign markets and may force firms out of business,(1) so households may have less choice of goods and services (1)</li> <li>reduces their demand for goods and services (1)</li> <li>people save less (1) if the interest rate is less than the inflation rate (1)<u>OR</u></li> <li>increased savings as some people save more in times of high inflation due to uncertainty (eg fear of redundancy) (1)</li> <li>borrowing increases (1)</li> </ul>	2	<p>Award 1 mark for identifying an effect.</p> <p>Award 1 mark for explaining the effect on individuals.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(ii)	<p>Effects of inflation on firms include:</p> <ul style="list-style-type: none"> <li>• increased price of exports (1) - less competitive abroad, (1) less demand</li> <li>• higher wage demands as people try to maintain their real living standards</li> <li>• businesses then might be forced to cut costs (1) by laying off workers in order to remain competitive and maintain profit margins (1)</li> <li>• firm's revenue drops (1) as AMD has fallen (1)</li> <li>• reduces willingness to invest</li> <li>• increases uncertainty about the future</li> <li>• decrease price (relatively) of imports - more competitive</li> <li>• lower profits</li> <li>• increase in investment due to cheaper loan repayments in real terms</li> </ul>	2	<p>Award 1 mark for identifying an effect.</p> <p>Award 1 mark for explaining the effect on firms.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
	(c)	<ul style="list-style-type: none"> <li>• economic growth is an increase in the total value/output of goods and services (1)</li> <li>• produced within an economy using the same or less resources (1)</li> <li>• over a year (1)</li> </ul>	2	<p>Award 2 marks for clear definition. Must mention <u>increase</u> in output to gain full marks.</p> <p>Award 1 mark for a basic definition (an increase in total output) and 1 further mark for a relevant characteristic or development eg GDP.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(d)	<p>land - the ground on which the computer tablet plant factory is built (1) or raw materials used to make tablets (1)</p> <p>labour - the workers who produce the computer tablets (1)</p> <p>capital - the machinery that is used in the production of the computer tablets (1)</p> <p>enterprise - the decision making and risk taking of entrepreneurs who are the people who set up and runs the computer tablet business (1)</p>	3	<p>Award one mark per valid description of each factor of production related to tablet computers.</p> <p>No identification marks.</p>
(e)	<p>This occurs due to:</p> <ul style="list-style-type: none"> <li>• income effect - as price falls consumers are able to afford more tablet computers</li> <li>• substitution effect -as the price of a tablet falls it becomes cheaper than alternatives and consumers will switch to buying tablets (vice-versa)</li> <li>• law of diminishing marginal utility - for each additional unit consumed (1) extra satisfaction falls (1)</li> </ul>	2	<p>2 marks for valid explanation of any of:</p> <ul style="list-style-type: none"> <li>• Income effect</li> <li>• Substitution effect</li> <li>• Law of diminishing marginal utility</li> </ul> <p>Description of the law of demand = 0 marks.</p>

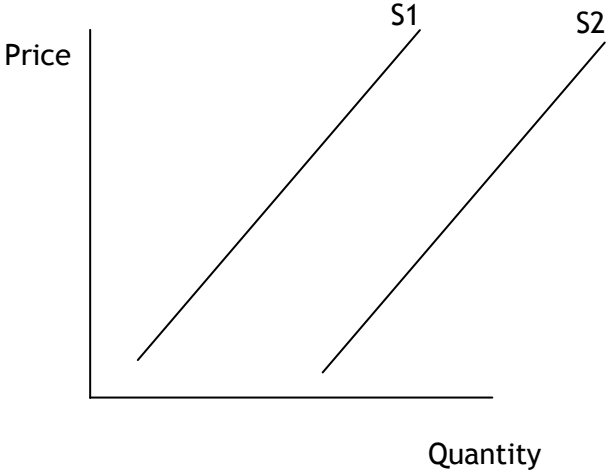
Question		Expected Answer(s)	Max Mark	Additional Guidance
	(f)	<ul style="list-style-type: none"> <li>• increased advertising/publicity</li> <li>• increase in tablet computer functionality (eg full internet access)</li> <li>• a fall in the price of tablets</li> <li>• health warnings proved to be wrong</li> <li>• fashion</li> <li>• seasonal demand</li> <li>• increased price of substitutes (eg laptops)</li> </ul>	2	<p>Award 1 mark for each straightforward description of how 2 factors could increase the demand for tablets.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>

## Section 2

Question		Expected Answer(s)	Max Mark	Additional Guidance
3	(a)	<ul style="list-style-type: none"> <li>our wants for goods and services are unlimited (1)</li> <li>credit reasons, eg greed, advertising, innovation (1)</li> <li>resources are limited (1)</li> <li>land, labour, capital and enterprise needed to produce the goods and services (1)</li> <li>this is true in all countries - rich and poor (1)</li> </ul>	4	<p>Award up to 4 marks for valid explanation.</p> <p>Credit examples/description of resources. Credit reasons for wants being infinite - one mark.</p> <p>If no reference to all economies, the maximum is 3.</p>
	(b)	<ul style="list-style-type: none"> <li>cash ISAs (Individual Savings Accounts)</li> <li>instant access savings accounts</li> <li>regular savings accounts</li> <li>treasury bonds</li> <li>premium bonds</li> </ul>	2	Award 1 mark for each identification.
	(c)	<p>If the rate of interest decreases, the effects on a family would be:-</p> <ul style="list-style-type: none"> <li>mortgage payments would decrease (1), so the family would have more discretionary income at the end of each month to spend (1)</li> <li>borrowing becomes cheaper so households borrow more and spend more</li> <li>income from savings is reduced (1), so the family budget would decrease (1)</li> </ul>	2	<p>Candidates must give a description of the effect and an explanation of this effect on a family to gain full marks.</p> <p>The expected responses given are not exhaustive.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(d)	<ul style="list-style-type: none"> <li>• uncertainty in the economy ie recession</li> <li>• changing rates of Inflation</li> <li>• changing rates of income tax</li> <li>• changing rates of unemployment</li> <li>• changing interest rates</li> <li>• changes in government borrowing</li> <li>• growth</li> <li>• exchange rate fluctuations</li> </ul>	2	<p>Award 1 mark for describing an economic factor.</p> <p>Award no marks for social and/or political factors.</p> <p>Accept positive or negative effects on consumer confidence.</p> <p>The marks are coming from something <i>changing</i>.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
4	(a)	<ul style="list-style-type: none"> <li>supply refers to the quantity of a good that a firm is willing to make available sell (1)</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>for a car firm, this would be the number of cars they would be willing to produce and make available for sale (1)</li> </ul> <p>PLUS</p> <ul style="list-style-type: none"> <li>Eg a car firm makes 1 million cars available for sale (1)</li> </ul>	2	<p>1 mark for definition of supply. 1 mark for a correct example in the car market.</p> <p>DNA output, eg a car firm produces 1 million cars.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<ul style="list-style-type: none"> <li>• the firm can produce more cars in a same time, or more cheaply, or the same number of cars in a shorter time (1 max)</li> <li>• which results in a shift in the supply curve to the right (1)</li> <li>• indicating that the firm is willing to supply more at the current price level (1)</li> <li>• increase profit (1)</li> <li>• This is shown in the diagram below:</li> </ul> 	<b>4</b>	<p>1 mark for correct labelling of diagram and original supply curve.</p> <p>1 mark for showing a right-shift in the supply curve.</p> <p>2 marks for accurate explanation.</p> <p>1 mark for stating the supply curve shifts to the right <b>OR</b> showing the shift on a diagram, not both.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<p>A firm could increase its profits in the following ways:</p> <ul style="list-style-type: none"> <li>• by increasing price</li> <li>• a successful advertising campaign</li> <li>• locating a cheaper supplier for their raw materials</li> <li>• cutting staff</li> <li>• diversification</li> <li>• increasing the number of outlets</li> </ul>	2	1 mark per accurate description of how profit can be increased, by increasing revenue or decreasing costs of production.
	(d)	<ul style="list-style-type: none"> <li>• structural unemployment</li> <li>• cyclical unemployment</li> <li>• seasonal unemployment</li> <li>• residual unemployment</li> <li>• frictional/transitional unemployment</li> </ul>	2	<p>Candidates do not need to name each type of unemployment provided they are adequately described.</p> <p>No identification marks.</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
5	(a)	<ul style="list-style-type: none"> <li>• direct taxes are defined as those taxes which are taken from individuals and firms and paid straight to the government</li> <li>• taxes on income and wealth</li> <li>• examples include: income tax, national insurance contributions, corporation tax, council tax, inheritance tax and stamp duty</li> </ul>	2	<p>Award 1 mark for definition. Award 1 mark for example. The expected responses given are not exhaustive. Award any other correct answers.</p> <p>DNA direct taxes are taken <i>directly</i> from ...</p>
	(b)	<ul style="list-style-type: none"> <li>• health care - building hospitals</li> <li>• education - building schools</li> <li>• defence - spending on military equipment</li> <li>• transport - Edinburgh trams</li> </ul>	2	<p>Award 1 mark for describing an area of government spending. Description of each area required, identification is insufficient. The expected responses given are not exhaustive. Award any other correct answers.</p> <p>Do not accept capital and current expenditure unless clearly fitting into an area of Government spending.</p>
	(c)	<p>Businesses might consider the following factors:</p> <ul style="list-style-type: none"> <li>• the availability (1) and affordability of trained skilled workers (1)</li> <li>• any form of government assistance in the form of tax relief or regional grants</li> <li>• political and social stability</li> <li>• good transport to facilitate links with major markets</li> <li>• economic climate</li> <li>• cost of locating abroad</li> <li>• competition in foreign country</li> </ul>	3	<p>Award 1 mark for an accurate description. No marks for identification only.</p>

Question			Expected Answer(s)	Max Mark	Additional Guidance
	(d)	(i)	Scotland specialises in: <ul style="list-style-type: none"> <li>• tourism</li> <li>• electronics</li> <li>• pharmaceuticals</li> <li>• scientific equipment</li> <li>• financial services</li> <li>• whisky</li> <li>• food - eg fish</li> <li>• textiles</li> <li>• oil</li> <li>• computer software</li> </ul>	1	Award 1 mark for accurately identifying an industry.
		(ii)	For example:-  electronics - skilled workforce who are highly trained and educated in this sector; (1) high levels of research and development (1)  oil - natural resource in the North Sea (1) which make high profits for oil firms (1)	2	Candidate responses will be dependent upon what industry they select in d(i).  Award 2 marks for an accurate explanation.

Question			Expected Answer(s)	Max Mark	Additional Guidance
6	(a)	(i)	<p>Features may include:</p> <ul style="list-style-type: none"> <li>• low GDP per capita</li> <li>• lack of human capital</li> <li>• lack of investment in infrastructure</li> <li>• lack of education and training</li> <li>• dependency on agricultural products</li> <li>• high unemployment</li> </ul>	2	<p>1 mark for each adequate description (ie more than a one word answer, so unemployment gains no marks, but high unemployment gains 1 mark).</p> <p>Do not accept social or political characteristics.</p>
		(ii)	<ul style="list-style-type: none"> <li>• free trade - eg reduce trade barriers</li> <li>• debt relief - allowing non repayment of debt interest</li> <li>• capital equipment - providing machinery</li> <li>• tied aid - giving cash provided it is used to buy UK exports</li> <li>• technical expertise - provide people who can help eg with engineering projects</li> <li>• education - provide teachers, books, etc</li> <li>• military aid - provide equipment or personnel</li> <li>• emergency aid - eg provide food in a drought/flood</li> </ul>	2	<p>Award 1 mark for each description of UK aid to developing countries.</p> <p>No Identification marks.</p> <p>No identification is required if sufficient description given.</p> <p>The expected responses given are not exhaustive. Award any other correct answers.</p>
		(iii)	<ul style="list-style-type: none"> <li>• free trade -gives developing countries the opportunity to compete and generate income (1) which could improve infrastructure (1)</li> <li>• debt relief -can allow developing nations to allocate resources to education or health (1) and therefore increase economic growth (1)</li> <li>• capital equipment - would help increase output (1) and therefore increase growth (1)</li> </ul>	2	<p>Award 2 marks for an explanation.</p> <p>Candidates must refer to one type of aid described in part (ii).</p>

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(b)	<ul style="list-style-type: none"> <li>• greater choice/variety as not all countries produce the same goods</li> <li>• lower prices because some countries can produce goods more cheaply than others</li> <li>• increases world competition which would lead to reduced prices</li> <li>• better quality/innovation</li> </ul>	2	<p>Award 2 marks for description.</p> <p>Do not award any marks for reference to firms or the economy.</p> <p>The expected responses given are not exhaustive.</p> <p>No identification marks.</p>
	(c)	<ul style="list-style-type: none"> <li>• tariffs - tax on imports</li> <li>• quotas - limit on volume</li> <li>• embargoes - ban commodities</li> <li>• soft loans - loan at beneficial rate</li> <li>• bureaucracy - red tape</li> </ul> <p>Indirect measures such as subsidising home industries or buy British campaigns</p>	2	<p>1 mark for each adequate description.</p> <p>Do not accept identifications.</p> <p>DNA - language barriers.</p>

[END OF MARKING INSTRUCTIONS]