



National
Qualifications
2017

X722/75/11

Economics

TUESDAY, 30 MAY
9:00 AM – 10:30 AM

Total marks — 70

SECTION 1 — 30 marks

Attempt ALL questions.

SECTION 2 — 40 marks

Attempt ALL questions.

You may use a calculator.

Write your answers clearly in the answer booklet provided. In the answer booklet you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.

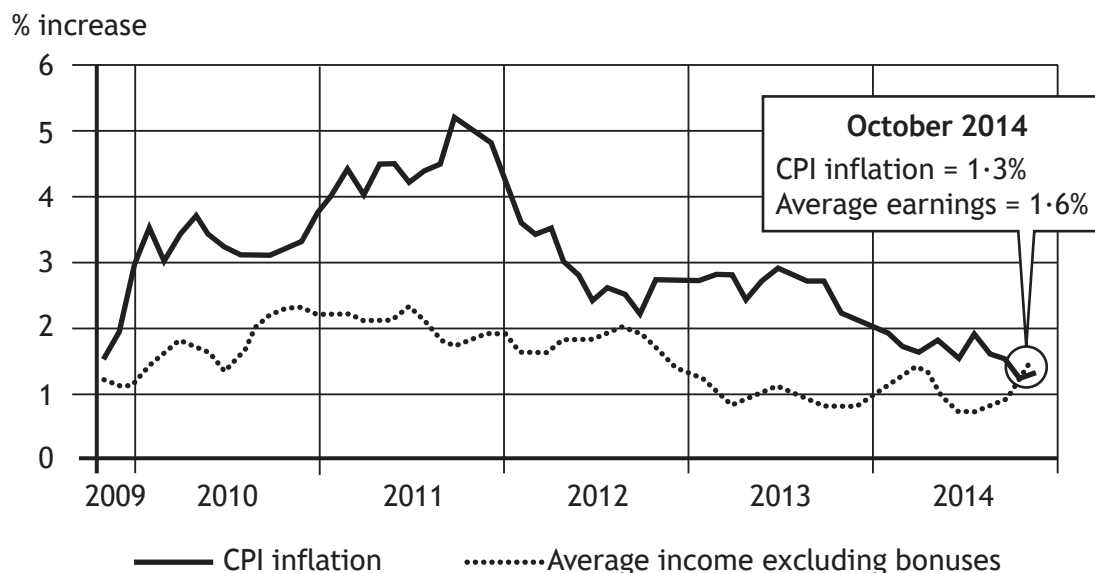


* X 7 2 2 7 5 1 1 *

SECTION 1 — 30 marks

Attempt ALL questions

1. Average Weekly Income and Inflation



Source: ONS

- (a) In the diagram above the rate of CPI inflation reached a peak in September 2011.
Over the following 12 months, outline what happened to:
 - (i) CPI inflation; 1
 - (ii) prices. 1
- (b) Explain what happened to real income in October of 2014. 1
- (c) Describe the effects of this change in real income on:
 - (i) UK consumers; 2
 - (ii) the UK government. 2
- (d) Outline 2 reasons why consumers may decide to save rather than spend their income. 2
- (e) Wages are the return to the factor of production **labour**.
Identify the returns to 2 other factors of production. 2
- (f) Draw a fully labelled diagram to show the circular flow of income in a closed economy. 4

2. DIAGEO AND THE DISADVANTAGES OF BEING A MULTINATIONAL

There are many difficulties and challenges that a **multinational** (MNC) faces. In 2014–2015, UK drinks manufacturer Diageo had problems maintaining their sales in China. The strength of sterling only made matters worse as it affected exports to other emerging economies.

Although sales to China have now recovered, the problem of changing exchange rates still persists. Diageo lost out when sterling was strong and they are still losing out even though sterling is now weak. Diageo's sales are down 5%. The reason is that other currencies — such as the Euro — are even weaker than the pound.

www.managementtoday.co.uk

Adapted from an article by Adam Gale, 28/1/16

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|-----|------|---|---|
| (a) | (i) | Define what is meant by a multinational. | 1 |
| | (ii) | Outline 3 reasons why multinationals may decide to locate in developing countries . | 3 |
| (b) | | Describe an example of an opportunity cost for a multinational. | 1 |
| (c) | | Outline 2 economic features of “emerging economies”. | 2 |
| (d) | (i) | Explain the effects on UK exports of sterling being strong. | 2 |
| | (ii) | Other than exchange rates, outline 3 determinants which may affect the demand for a firm's products. | 3 |
| (e) | (i) | Describe what is meant by the Eurozone. | 1 |
| | (ii) | Explain 2 benefits of being a Eurozone member. | 2 |

[Turn over

SECTION 2 — 40 marks

MARKS

Attempt ALL questions

3. Christmas time has always needed a little sparkle and the market for Christmas tree lights is providing it. Due to a surplus, a leading supermarket has reduced the price of tree lights.
- (a) Describe what is meant by the market for Christmas tree lights. 2
 - (b) Describe why demand usually falls as price rises. 2
 - (c) Describe, using a diagram, how the market for Christmas tree lights would return to equilibrium following a surplus. 4
 - (d) Suggest 2 reasons why the government might wish to tax Christmas trees. 2
4. The total revenue of a mobile phone firm has recently increased.
- (a) Describe total revenue and average revenue. 2
 - (b) Draw a diagram showing a firm's average total cost, average variable cost and average fixed cost. 3
 - (c) (i) Draw a diagram to show the effect of an increase in supply on the equilibrium price and quantity of mobile phones. 3
 - (ii) Suggest 2 possible causes of this increase in supply. 2
5. (a) Outline 2 economic aims of the UK Government. 2
- (b) Describe, using examples, direct and indirect taxes. 4
- (c) (i) Identify an industry which makes a significant contribution to Scotland's GDP. 1
- (ii) Explain a reason for Scotland specialising in this industry. 1
- (d) Suggest 2 ways that the **Scottish government** might attract foreign businesses to locate in Scotland. 2
6. (a) Describe 2 types of aid given to developing economies. 2
- (b) Describe advantages and disadvantages to individuals of international trade. 4
- (c) Explain the benefits of a country introducing barriers to trade. 3
- (d) The exchange rate was £1:\$2 and now is £1:\$1. State whether a UK holidaymaker going to the USA today is better or worse off. 1

[END OF QUESTION PAPER]

ACKNOWLEDGEMENTS

Section 1 Question 1 – Graph is adapted from ONS. Contains public sector information licensed under the Open Government Licence v3.0.

Section 1 Question 2 – Article is adapted from “Diageo and the disadvantages of being a multinational” by Adam Gale, taken from *Management Today*, 28 January 2016.

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