

5.4 Supply-side policy

Name: _____ Class: _____ Date: _____

Total: 26 marks

KEY WORDS supply-side policy

• market-based and interventionist

• privatisation

• deregulation

• training

Objective

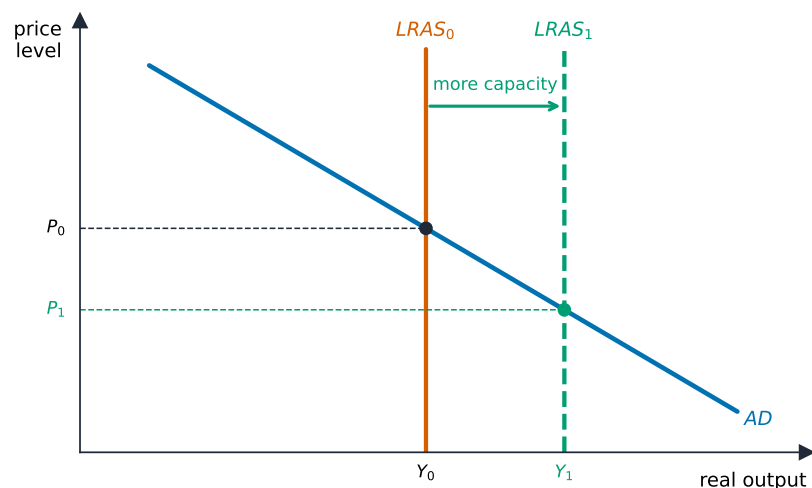
Build the skills to answer exam questions on **supply-side policy** – **market-based and interventionist** measures, their effect on **LRAS**, and their effectiveness.

You must be able to:

- define supply-side policy and give market-based and interventionist examples
- show its effect on LRAS
- analyse its strengths and weaknesses

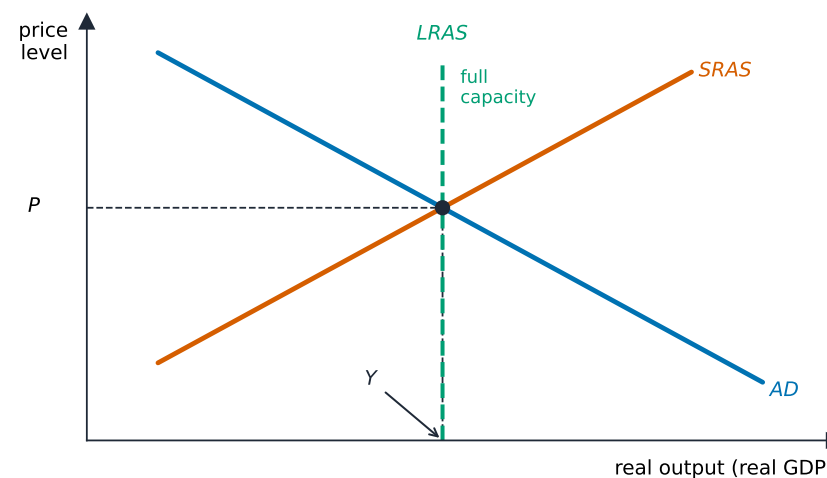
1 Key knowledge and worked examples

■ Raising productive capacity



*Growth **and** lower inflation – no trade-off*

- **Supply-side policy** raises **productive capacity** (shifts LRAS right).
- **Market-based:** cut income tax/benefits (work incentive), **privatisation**, **deregulation**.
- **Interventionist:** education/**training**, **infrastructure**, support for research.



*On AD-AS: supply-side success raises real output **and** lowers the price level – no inflation trade-off*

Answer shapes: an **Explain** [up to 8] answer may use an LRAS diagram (AO3); **Discuss** [12] adds a judgement (AO4).

2 Practice

2.1 Define the term *supply-side policy*. [2]

2.2 State one market-based and one interventionist supply-side policy. [2]

2.3 State the effect of a successful supply-side policy on LRAS. [1]

3 Exam-style questions

3.1 Which is a **market-based** supply-side policy? [1]

- ☐
- A government spending on training

B building new infrastructure

C privatising a state-owned firm

D raising unemployment benefits

3.2 Using a diagram, explain how investment in education and training can raise an economy’s productive capacity. [8]

3.3 Discuss whether supply-side policy is the best way to achieve long-term economic growth. [12]