A-LEVEL ECONOMICS • EXERCISE SHEET

5.4 Supply-side policy

Name: ____________ Class: ________ Date: __________ **Total: 26 marks**

KEY WORDS supply-side policy 供给侧政策 • privatisation 私有化 • market-based and interventionist 市场化与干预型 • deregulation 放松管制 • training 培训

Objective

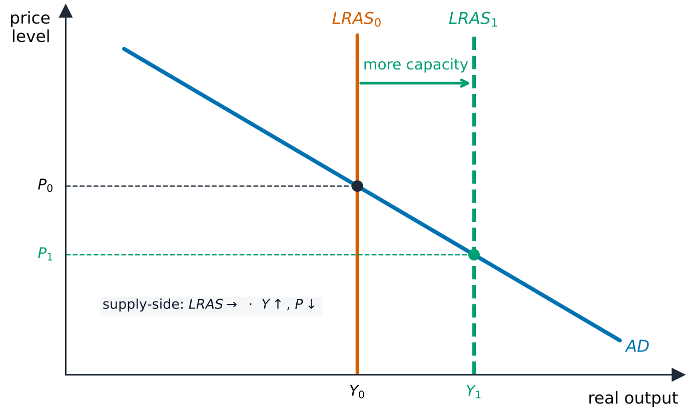
Build the skills to answer exam questions on **supply-side policy** 供给侧政策 — **market-based and interventionist** 市场化与干预型 measures, their effect on **LRAS** 长期总供给, and their effectiveness.

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 Worked examples

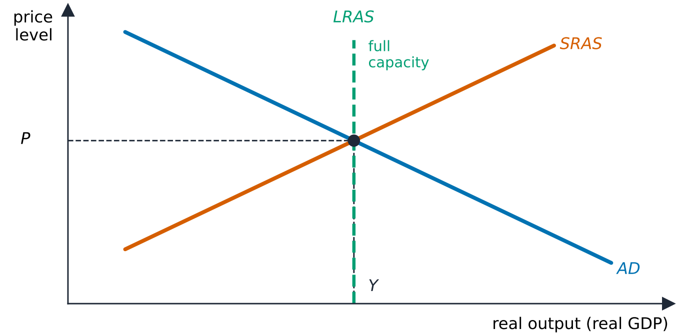
■ **Raising productive capacity**



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

- **Supply-side policy** 供给侧政策 raises **productive capacity** 生产能力 (shifts LRAS right).

- **Market-based:** cut income tax/benefits (work **incentive** 激励), **privatisation** 私有化, **deregulation** 放松管制.
- **Interventionist:** education/**training** 培训, **infrastructure** 基础设施, support for research.



short-run equilibrium: $AD = SRAS$ · long-run capacity: vertical $LRAS$

*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]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 policy that aims to raise the economy's productive capacity by improving how markets work and raising productivity (shifting LRAS right) (2 for a clear definition; 1 for a partial idea).

2.2 market-based: cut income tax / privatisation / deregulation; interventionist: education and training / infrastructure / research support (1 + 1).

2.3 LRAS shifts to the right (1).

3.1 **C**. Privatisation is a market-based supply-side policy.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (LRAS shifts right; price level falls, output rises) + AO2/AO3 up to 3 — training raises workers' skills → higher productivity (output per worker) → the economy can produce more → LRAS shifts right, giving higher output and lower prices.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** supply-side policy can raise growth *and* lower inflation with no trade-off, and improves long-run capacity. **Against:** it is slow (education pays off over years), costly, uncertain, and some measures (cutting benefits) widen inequality; demand must also be strong enough to use the extra capacity. Judgement: supply-side policy is the most effective route to *sustained* growth, but works best combined with demand-side support — its success depends on time and how well it is targeted.