Solutions

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

Each answer shows the steps, then the **result**.

2.1

- by the percentage change in the consumer price index (CPI) (1)

2.2

- supply-side policy (1)

2.3

- any two of: economic growth; price stability; full employment; balance-of-payments stability (1 + 1)

3.1 C

- Spending on education and training raises capacity — a supply-side policy

3.2

- *[6]* AO1 1 + AO3 up to 5 — demand-side policies (fiscal, monetary) act quickly on AD to manage the short run (a recession or inflation), but they can cause inflation or worsen the balance of payments; supply-side policy raises long-run capacity and productivity
- combining them manages the short run while building lasting growth

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** monetary policy is flexible and effective at controlling demand-pull inflation. **Against:** it works with long lags, is weak in a deep slump, cannot fix structural unemployment or a supply-side problem, and a single rate cannot target every objective at once. Judgement: monetary policy alone cannot meet all objectives — it must be combined with fiscal and supply-side policy; its limits depend on the economic situation