Solutions

Marking: **K** = knowledge, **App** = using the data or case, **An** = analysis (explaining each step: cause, then effect), **Ev** = evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer. Longer answers are marked in levels: the top level needs clear analysis **and** a judgement with a reason.

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

2.1

- 15×1.6
- \$**24**bn

2.2

- 0.04×750
- \$**30**bn

2.3

- interest rate cut: demand-side
- training subsidies: supply-side

3.1

Any three (K each, explained): time lags in deciding and spending; the multiplier may be smaller than expected; people may save tax cuts; higher borrowing may raise interest rates and crowd out private investment; spending may go on imports; poor information about the state of the economy

3.2

- one policy often helps one objective but harms another (An)
- using a second policy can offset the harm, e.g. supply-side policy to stop growth causing inflation (An)
- different problems have different causes, so they need different tools (An)

3.3

(a) $4 - 6$; $-$**2**%

(b) higher rates make borrowing dearer and saving more rewarding, so consumption and investment fall (An); lower AD reduces pressure on prices (An); but firms sell less, so they need fewer workers (An); this inflation comes from higher costs, so cutting demand lowers output a lot for a small fall in inflation (An)

(c) points to include:

- the problem is cost-push, so demand-side policy has a hard choice: cut inflation or cut unemployment (An)
- supply-side policies (energy efficiency, other energy sources, training) deal with the cause but are slow (An)
- a lower exchange rate may help the current account but raises import prices and inflation (An)
- targeted help for energy costs can ease the effect on households (An)
- judgement: a mix of moderate interest rate rises to keep expectations in check, plus supply-side policy on energy; no single policy can fix all three (Ev)

Levels: **top** (6–8) clear analysis, each step explained, and a judgement with a reason; **middle** (3–5) some analysis, judgement weak or missing; **bottom** (1–2) relevant points, little explanation.