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

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

2.2

- any one developed conflict, e.g. growth vs inflation; growth vs the balance of payments; low unemployment vs low inflation (2 for a developed conflict; 1 for naming two aims)

2.3

- a demand-side policy works on aggregate demand (fiscal/monetary); a supply-side policy works on aggregate supply / productive capacity (2 for a clear difference; 1 for a partial idea)

3.1 B

- Fast growth raises AD, which can pull up prices (inflation)

3.2

- *[6]* AO1 1 + AO3 up to 5 — cutting unemployment usually means raising AD
- as the economy nears full capacity, "too much money chases too few goods"
- demand-pull inflation rises
- so lower unemployment can come at the cost of higher inflation (the short-run trade-off)

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Difficulty:** objectives conflict (growth ↔ inflation, growth ↔ balance of payments), so pursuing one can harm another. **But:** supply-side policy can raise growth *and* cut inflation, easing the trade-off, and priorities shift with the economic situation. Judgement: a government can rarely meet *all* aims fully at once, so it sets priorities; supply-side measures help, but trade-offs usually remain