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

- 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