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

- the rate of unemployment that remains when the labour market is in equilibrium — mainly frictional and structural unemployment (2 for a clear definition; 1 for a partial idea)

2.2

- an inverse (trade-off) relationship between unemployment and inflation — lower unemployment comes with higher inflation (2 for a clear statement; 1 for a partial idea)

2.3

- vertical (at the natural rate) (1)

3.1 C

- The long-run Phillips curve is vertical at the natural rate

3.2

- *[6]* AO1 1 + AO3 up to 5 — to cut unemployment, a government raises aggregate demand
- firms hire more, but stronger demand pushes up wages and prices
- inflation rises
- so in the short run lower unemployment is bought at the cost of higher inflation (a movement along the short-run Phillips curve)

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Short run:** raising demand can cut unemployment below the natural rate for a while. **Long run:** once workers expect higher inflation, they demand higher wages
- unemployment returns to the natural rate while inflation stays high
- the long-run Phillips curve is vertical. Judgement: demand policy cannot permanently lower unemployment below the natural rate; only supply-side policies that cut the natural rate (better skills, more flexible labour markets) can — it depends on tackling frictional and structural unemployment