

Exercise walk-through

4.1

Inflation, unemployment and policy judgement

Pearson Edexcel · International A-Level · Economics

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The method

Method — Worked example

Disinflation means slower price rises; deflation means a falling general price level. Unemployment requires the applicable labour-force definition; an inactive person is not automatically unemployed. Fiscal policy affects spending/taxation, monetary policy affects interest/monetary conditions, and supply-side measures target productive capability or incentives. The cause of the problem and lags matter. In a fictional economy, inflation falls from 8% to 3% while imported energy remains costly. Evaluate the claim that prices fell and that a higher policy rate repairs the energy shortage. Positive inflation at 3% means the general price level still rises, more slowly than at 8%. A higher rate can reduce interest-sensitive spending, shifting AD left relative to the counterfactual; it does not itself increase energy supply. It may limit second-round demand pressure but can reduce output and employment. Effects depend on debt, confidence, exchange-rate responses and transmission lags. Compare targeted support or feasible supply measures, considering finance, incentives and implementation. A

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Exercise 3.1

3.1 A training programme is proposed during a demand-driven downturn. Give a short-run limitation, a longer-run mechanism and a qualified policy mix. [3]

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3.1 Training can improve skills and employability over time, especially where structural mismatch exists. It cannot by itself guarantee vacancies when firms lack demand, and completion/placement take time. Appropriate temporary demand support could complement training if finances, inflation and delivery allow, while targeted design checks actual vacancies and access. Evaluate employment outcomes rather than course enrolments alone. Explain trade-offs with budget, distribution and stability; this is authored evaluation, not a prescribed official essay formula. Authored points for judgement, case-linked reasoning and justified qualification. Accept supported alternatives.