Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

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

2.1

budget deficit: government spending is greater than revenue in one year; government debt: the total amount owed, built up from past deficits

2.2

any two: investment in physical capital / infrastructure; education and training (human capital); new technology; better institutions

2.3

actual growth: a movement from a point inside the PPC towards the curve, using unemployed resources; potential growth: an outward shift of the PPC, from more or better resources or technology; correctly labelled diagram showing both

2.4

growth $= 12.5 \div 250 \times 100 =$ **5**%; debt ratio $= 150 \div 250 \times 100 =$ **60**%

2.5

new debt = 156 bn; ratio $= 156 \div 262.5 \times 100 \approx$ **59.4**%; GDP grew by 5% while debt grew by only 4%, so debt fell as a share of GDP

3.1

(a) an increase in real GDP; over a period of time, usually a year

(b) growth raises incomes, jobs and tax revenue for schools and health care; but pollution harms health and quality of life; widening inequality means many people gain little; resources may be used up, harming future generations: not sustainable; judgement: growth is necessary but not enough; its quality and distribution matter

3.2

award up to [8]: high debt means large interest payments: opportunity cost for public services; risk of lower credit ratings and higher borrowing costs; cutting the debt keeps room to act in the next crisis; but quick cuts reduce AD; with the multiplier, GDP falls further; lower GDP can raise the debt ratio and unemployment; better to cut slowly as the economy recovers and grows; growth faster than interest rates lowers the ratio without big cuts; judgement depends on the interest rate, who holds the debt, and the state of the recovery