Solutions

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

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

2.1

market-based: increases competition or incentives in markets, with little direct government spending, e.g. deregulation, lower corporate tax; interventionist: the government directly invests to improve supply, e.g. spending on education, infrastructure, R&D

2.2

any two: faster, cheaper transport lowers firms' costs; better links make markets larger and attract investment; reliable power and internet raise productivity

2.3

training gives workers the skills firms need, reducing structural unemployment; the quantity and quality of labour rises, so LRAS shifts right; real GDP rises while the price level stays the same or falls; correctly labelled diagram with $\text{LRAS}_1 \rightarrow \text{LRAS}_2$

2.4

higher after-tax pay means workers can earn the same income with fewer hours (income effect), which may offset the incentive to work more (substitution effect); many workers cannot easily change their hours; high earners may already work long hours, and pay may not be the main motive

2.5

private owners seek profit, so they have an incentive to cut costs and waste; they may face more competition and invest in new technology; risk: a private monopoly may raise prices or cut unprofitable services

3.1

(a) government policies that aim to increase the productive capacity (potential output) of the economy; by improving the quantity, quality or efficiency of factors of production / shifting LRAS right

(b) training and education match skills to jobs, reducing structural unemployment; R&D support and infrastructure raise productivity; spending also raises AD in the short run; but there are long time lags before the benefits appear; high cost: opportunity cost or more government debt; the government may pick the wrong industries or skills; judgement: suited to structural problems, but needs time and careful design

3.2

award up to [8]: lower benefits increase the incentive to search for and accept work; weaker unions mean wages adjust more easily, so firms may hire more; lower labour costs raise competitiveness and attract investment: LRAS shifts right; low cost to the government compared with interventionist policies; but they increase inequality and in-work poverty; less job security may lower worker morale and consumer spending; if unemployment

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is mainly cyclical or structural (skills), these policies do little; judgement: may raise flexibility but at an equity cost; best combined with training

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