Solutions

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

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

2.1

the difference when real GDP is below potential output; so there is unemployment of resources / cyclical unemployment

2.2

any two: interest rates; business confidence / expected demand; technology; business taxes

2.3

oil is a key input, so firms' costs rise; SRAS shifts left; the price level rises and real GDP falls: stagflation / cost-push inflation and higher unemployment; correctly labelled diagram showing $\text{SRAS}_1 \rightarrow \text{SRAS}_2$, higher P, lower Y

3.1

(a) AS horizontal at low output, upward-sloping, then vertical at full employment output; all three sections and axes labelled

(b) in a deep recession there are many unemployed resources / spare capacity; firms can raise output without bidding up wages or costs; so AD shifts right along the flat section of AS; real GDP rises and the price level stays about the same; as the economy nears full employment, costs rise, and further AD increases cause more inflation; diagram: $\text{AD}_1 \rightarrow \text{AD}_2$ in the flat section, higher Y, same P

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