Solutions

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

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

2.1

structural: a long-term mismatch between workers' skills or location and the jobs available, e.g. after an industry declines; cyclical: caused by a fall in aggregate demand in a recession

2.2

labour force = 30 million; rate = $1.8 \div 30 \times 100 = \mathbf{6}\%$

2.3

any two, explained: people on fixed incomes or savers lose purchasing power; uncertainty makes firms delay investment, slowing growth; exports become less competitive if inflation is higher than abroad; menu costs / time spent managing money

3.1

(a) a sustained fall in the general price level

(b) consumers delay purchases, expecting lower prices later; AD falls further, so firms cut output and jobs; a downward spiral of falling prices and spending; the real value of debts rises, so borrowers cut spending and some default; firms' profits fall, so investment falls; interest rates cannot go much below zero, so monetary policy loses power

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