Solutions

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

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

2.1

current: day-to-day spending on running services, e.g. teachers' wages, medicines; capital: spending on long-lasting assets, e.g. roads, hospitals, schools

2.2

in a recession more people lose jobs and receive benefits, so government spending rises automatically; this supports household income and spending, so AD falls less

2.3

lower income tax raises disposable income; consumption rises, so AD shifts right; real GDP rises towards potential output and unemployment falls; correctly labelled diagram with $\mathrm{AD}_1 \to \mathrm{AD}_2$, $Y_1 \to Y_p$

3.1

(a) any two: construction firms and their workers; steel and other suppliers; passengers and businesses using the railway later; the unemployed who find jobs

(b) G adds directly to AD, with a multiplier effect on income and jobs; it also raises long-run capacity (LRAS) by improving transport; but large projects take time to plan and start, so the effect may come after recovery; borrowing raises debt and may crowd out private investment if interest rates rise; judgement: effective if projects are ready and the recession is deep with idle resources

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