Exercise walk-through

Supply-side policy ▪ 4.4

eXercise

You must be able to

- define supply-side policy
- give examples of supply-side measures
- analyse the strengths and weaknesses of supply-side policy

Method — Raising productive capacity

- **Supply-side policy 供给侧政策**: raises the amount the economy *can* produce (improves factors).
- **Measures: education and training** (higher **productivity 生产率**), **privatisation 私有化**, **deregulation 放松管制**, **incentives 激励** (lower taxes).
- **Strength:** can raise growth *and* lower inflation. **Weakness:** works slowly.

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

Method — Raising productive capacity

Investment in capital drives long-term growth

Method — Raising productive capacity

Fiscal

government spending & taxes

Monetary

interest rate & money supply

Supply-side

raise capacity & productivity

Exam: fiscal = G & T; monetary = interest rate / money; supply-side = capacity & productivity

The three sets of policy tools

Practice 2.1 ▪ 2 marks

Define the term *supply-side policy*.

Solution 2.1

Method: Raising productive capacity

Worked steps

policy that aims to raise the amount the economy can produce by improving the quantity and quality of the factors of production (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

Identify two supply-side policies.

Solution 2.2

Method: Raising productive capacity

Worked steps

any two of: education and training; privatisation; deregulation; lower-tax incentives $(1 + 1)$.

Practice 2.3 ▪ 1 mark

State one weakness of supply-side policy.

Solution 2.3

Method: Raising productive capacity

Worked steps

it works slowly (results take years) (1).

Exam-style 3.1 ▪ 1 mark

Which is a **supply-side** policy?

A raising interest rates

B spending on education and training

C raising income tax

D cutting government spending

Solution 3.1

Method: Raising productive capacity

A raising interest rates

B spending on education and training ✓

C raising income tax

D cutting government spending

Worked steps

B. Spending on education and training is a supply-side policy.

Exam-style 3.2 ▪ 4 marks

Explain how spending on education and training can raise an economy's output.

Solution 3.2

Method: Raising productive capacity

Worked steps

[4] K 1 + An up to 3 — education and training give workers better skills → they become more productive (each makes more) → the economy can produce more goods and services → so its output (and capacity) rises.

Exam-style 3.3 ▪ 6 marks

Analyse why supply-side policy can raise growth and lower inflation at the same time.

Solution 3.3

Method: Raising productive capacity

Worked steps

[6] K/App/An — supply-side policy raises the economy's productive capacity (more and better factors) $\rightarrow$ the economy can make more goods $\rightarrow$ this raises output and growth, *and* because more is supplied, prices are held down rather than pushed up $\rightarrow$ so unlike demand-side policy, it can raise growth *and* lower inflation together $\rightarrow$ its drawback is that it works only slowly.