4.4 Supply-side policy

Name: ____________ Class: ________ Date: __________ **Total: 15 marks**

Objective

Build the skills to answer exam questions on **supply-side policy** 供给侧政策—policies that raise what the economy *can* produce (**education and training, privatisation, deregulation, incentives** 教育培训、私有化、放松管制、激励).

You must be able to:

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

1 Worked examples

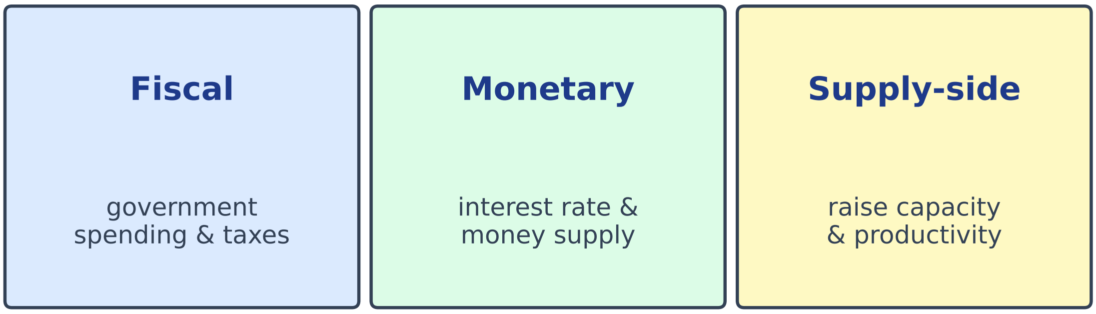
■ Raising productive capacity

Supply-side policy improves the quantity and quality of factors of production

Image: source

- **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.



Supply-side policy is the third toolkit, alongside fiscal and monetary policy

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

2 Practice

2.1 Define the term *supply-side policy.* [2]

2.2 Identify two supply-side policies. [2]

2.3 State one weakness of supply-side policy. [1]

3 Exam-style questions

3.1 Which is a **supply-side** policy? [1]

- **A** raising interest rates
- **B** spending on education and training
- **C** raising income tax
- **D** cutting government spending

3.2 Explain how spending on education and training can raise an economy's output. [4]

3.3 Analyse why supply-side policy can raise growth and lower inflation at the same time. [6]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **4.4 Supply-side policy** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/11 N25 —Q17 (supply-side policy)
- 0455/11 N25 —Q20 (supply-side measures)
- 0455/11 N25 —Q28 (productivity / policy)

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 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).

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

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

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

3.2 *[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.

3.3 *[6]* K/App/An —supply-side policy raises the economy's productive capacity (more and better factors) → the economy can make more goods → this raises output and growth, *and* because more is supplied, prices are held down rather than pushed up → so unlike demand-side policy, it can raise growth *and* lower inflation together → its drawback is that it works only slowly.