Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

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

2.1

any two: economic **growth**; low **unemployment**; **stable prices** / low inflation; **balance of payments** stability; **redistribution** of income

2.2

- met: **growth** (3.5 % above 3 %) and **unemployment** (4 % below 5 %)
- missed: **inflation** (5 % against 2 %)

2.3

- more people in work have more **income to spend** (K)
- **demand** for goods rises faster than firms can increase output (An)
- firms also compete for scarce workers, raising wages and costs, so prices rise (An)

3.1

D

3.2

(a)

- $6.0 - 4.5 = \mathbf{1.5}$ percentage points
- $1.5 \div 6.0 \times 100 = \mathbf{25}$ % fall

(b) two reasons, each explained (K + App each):

- unemployed workers mean lost **output**: the economy is inside its PPC
- the government pays **benefits** and receives less tax
- unemployment causes **poverty**, stress and crime in families

(c) a developed chain, for example:

- lower taxes leave households with more **disposable income** (K)
- higher government spending adds directly to **demand** (K)
- total demand rises faster than firms can raise output (An)
- firms raise prices: **demand-pull** inflation, from 2.0 % to 5.5 % (App)
- with fewer unemployed, firms compete for workers and wages rise, adding **cost-push** pressure (An)

(d) inflation as priority: (An)

- at 5.5 % it is far above a 2 % target; it erodes savings and fixed incomes and harms exports
- left alone it may rise further

growth and jobs as priority: (An)

- unemployment has just fallen and growth is 3.5 %; raising interest rates or taxes may reverse these gains

judgement: (Ev) for example, inflation should now be the priority, but tackled gently (a small rise in interest rates), because unemployment is already low and high inflation would soon harm growth and jobs too.

Level 3 (6–8): both sides analysed and a justified judgement. Level 2 (3–5): one side analysed or both explained. Level 1 (1–2): simple points.