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: education and **training**; lower **direct taxes**; **deregulation**; **privatisation**; **labour market** reform; **infrastructure**; research **subsidies**

2.2

- structurally unemployed workers have skills for industries that have **declined** (K)
- retraining gives them the **skills** growing industries need, so they can fill vacancies (An)

2.3

- $(46 - 40) \div 40 \times 100$
- $= \mathbf{15}\ \%$

3.1

B

3.2

(a)

- $3\,000\,000\,000 \div 150\,000$
- $= \$\mathbf{20\,000}$

(b)

- corporation tax is a tax on firms' **profits** (K)
- a lower rate leaves firms with more profit **after tax** (An)
- they can pay for new machines from retained profit (App)
- and investment projects give a higher return, so more are worth doing; foreign firms may also set up in the country (An)

(c) a developed chain, for example:

- training raises the **quality** of labour, so productivity rises (K)
- investment adds to the **capital** stock (App)
- the economy can produce more: its **productive capacity** grows / the PPC shifts out (An)
- firms produce more at lower cost, so real GDP rises (An)
- growth can continue without causing inflation, since supply rises with demand (An)

(d) supply-side: (An)

- vacancies need technical skills, so the unemployment is partly **structural**: apprenticeships fix the cause
- gains last; no inflation pressure

fiscal policy: (An)

- works faster on **cyclical** unemployment by raising demand
- but extra demand does not give workers the skills, and may cause inflation

judgement: (Ev) for example, supply-side policy is better here because the vacancies show a skills gap, but it takes years; a short-run boost to demand could help while the apprentices train.

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.