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H/W- Answers

Evaluation point you could use for the micro 25 marker as discussed

Point 1 - Evaluation:

High taxes raise fuel costs → may cause political backlash (e.g., Gilets Jaunes in France).
Oil demand is inelastic → large tax needed for big effect → regressive impact on low-income households.

Point 2- Evaluation

Subsidies expensive → increases government spending.
May distort markets → risk of "picking winners".
Long-term impact slow → oil still needed in the short run.

Q31 (10 marks)

Explain how a fall in a country's international competitiveness may affect economic growth.

Introduction

International competitiveness refers to a country's ability to sell its goods and services at attractive prices and quality in global markets. A fall in competitiveness can affect both aggregate demand and long-term productive capacity.

Point 1 — Reduced exports → lower aggregate demand

If UK goods become less competitive due to higher prices or lower quality, exports will fall. This reduces aggregate demand because exports are a component of AD. Lower AD leads to lower real GDP growth and possibly higher unemployment.

Chain:
Competitiveness ↓ → exports ↓ → AD ↓ → GDP ↓ → slower economic growth.

Point 2 — Worsening balance of trade → leakages from circular flow

A fall in competitiveness may increase imports as consumers switch to cheaper foreign goods. This worsens the balance of trade and creates a leakage from the circular flow of income, reducing national income.

Chain:
Imports ↑ → X-M worsens → national income ↓ → growth ↓.

Q32 (25 marks)

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Evaluate policies that may be used to achieve a sustained improvement in the UK's balance of trade in goods and services.

Introduction

The balance of trade depends on the competitiveness, productivity and demand conditions at home and abroad. A sustained improvement requires long-term changes in export performance and import competitiveness. Policies may include supply-side measures, exchange rate policy, and demand-side adjustments.

Point 1 — Supply-side policies to improve competitiveness

Improving productivity through education, training and investment in modern technology makes UK goods higher quality and lower cost. Extract F mentions that better-skilled workers can produce competitive, high-quality goods sought globally. This improves exports and reduces reliance on imports.

Evaluation:
Supply-side policies take many years to work and require high government spending. They may be ineffective if global demand is weak or if UK industries face strong foreign competition.

Point 2 — Reducing corporation tax / investment incentives

Lower business taxes encourage firms to invest more, improving efficiency and innovation. This can raise export competitiveness and improve the trade balance. Extract F highlights how corporation tax changes can influence exporting firms.

Evaluation:
Lower taxes reduce government revenue and may worsen public finances. Firms may also use tax savings for dividends rather than investment, limiting effectiveness.

Exam Paper 1 2023 Section A Answers

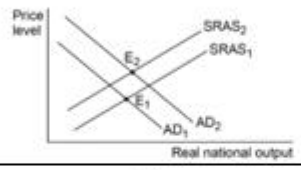
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KEY LIST

1	**A** (Alternative uses for resources)	**11**	**D** (Higher profits providing an incentive to increase output)
2	**A** (–0.4)	**12**	**B** (monopoly power of Fresh Co increases.)
3	**B** (G)	**13**	**B** (The social optimum output is greater than the free market output because the private benefit is less than the social benefit.)
4	**C** (opportunities for internal economies of scale.)	**14**	**A** (A reduction in labour costs)
5	**D** (involved a normative judgement.)	**15**	**D** (Demand is price inelastic and supply is price inelastic.)
6	**C** (the mean income may be higher or lower in country Z compared with country W.)	**16**	**B** (Production of healthcare addresses the basic economic questions of 'how' and 'for whom')
7	**B** (Advertising to establish a brand)	**17**	**D** (A subsidy of P_2 minus P_3 per unit)
8	**D** (2.5)	**18**	**B** (are an inferior good.)
9	**B** (£290)	**19**	**C** (Point H.)
10	**C** (consumed together with another good.)	**20**	**C** (The extent to which firms differentiate their products)

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Exam Paper 2 2023 Section A Answers

1	**B** (Exports)	11	**A** (cut government borrowing.)
2	**C** (Resources are fully employed)	12	**B** (Real national income increased)
3	**D** (The value of money rose between 2008 and 2011.)	13	**C** (government.)
4	**C** 	14	**B** (Government grants for firms with growth potential)
5	**A** (Corporation tax)	15	**C** (Rising, Absent, Increasing)
6	**C** (£42bn.)	16	**A** (A decrease in employment)
7	**A** (Firms' capacity utilisation)	17	**D** (positive supply-side shock.)
8	**D** (Increased expenditure on training and an investment subsidy)	18	**C** (An increase in the budget surplus and a switch from spending on pensions to spending on new airports)
9	**C** (the pattern of economic activity has changed.)	19	**C** (Productivity rising faster than money wages)
10	**A** (W)	20	**A** (inflation in other countries.)

Points/ Structure for next week H/W- 25 Marker

Question: *Evaluate different policies that could be used to reduce the rate of unemployment in the UK.*

Introduction

Unemployment in the UK was stubbornly high at 7.7% according to Extract E, with some regions such as the North East reaching 10.4%, and youth unemployment at 21%. This suggests the presence of both demand-deficient unemployment and structural unemployment, meaning multiple policies are needed. Governments can use demand-side policies to boost output and supply-side measures to address skill gaps and regional disparities.

Point 1 — Expansionary Monetary Policy

(Linked to Extract F: interest rates kept low until unemployment falls)

Chain of analysis

- If the Bank of England keeps interest rates low, borrowing becomes cheaper for households and firms.
- This increases consumer spending as mortgage repayments fall and increases investment as "firms have postponed expansion plans" due to weak confidence (Extract F).
- Higher AD leads to higher output → firms hire more workers → demand-deficient unemployment falls.
- Boost in confidence may further encourage foreign investment (Extract F mentions missions to China).

Evaluation

1. If banks are "unwilling to lend" (Extract F), lower interest rates may not translate into higher borrowing → policy ineffective.
2. Economy may be close to supply-side limits, boosting AD risks inflation, creating conflict with the Bank's inflation target.

Point 2 — Increased Government Spending (Fiscal Stimulus)

(Linked to Extract E: examples of job creation from Jaguar Land Rover and Deutsche Bank expansion)

Chain of analysis

- Government spending on infrastructure or direct job creation increases AD.
- Creating jobs (e.g., "155,000 new jobs" reported in Extract E) raises income → increases consumption → multiplier effect boosts overall employment.
- FDI projects (Jaguar Land Rover's "1,700 jobs") suggest that government support can encourage private firms to expand output and employment.
- This helps reduce cyclical unemployment and can support struggling regions such as the North East.

Evaluation

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1. Increased government spending risks higher budget deficits, especially after a recession — may be unsustainable long-term.
2. Fiscal stimulus may not reduce structural unemployment if skills do not match available jobs; e.g., long-term unemployed (900,000 for >12 months in Extract E) may not benefit.

Point 3 — Supply-Side Policies (Training & Skills)

(Linked to youth unemployment and long-term unemployment statistics)

Chain of analysis

- Training programmes increase workers' skills, reducing occupational immobility — crucial since youth unemployment is 21% (Extract E).
- Improving human capital helps workers move into new industries created by investment (e.g., manufacturing and services roles).
- Reduces structural unemployment over time and improves long-run productivity.

Evaluation

1. Supply-side policies have time lags — skills take years to build, so unemployment may remain high in short run.
2. Effectiveness depends on quality of training; poorly targeted schemes waste resources and may not match employer needs.

Point 4 — Regional Policies

(Linked to large regional differences: North East unemployment at 10.4%, shop vacancies of 37.1% in Morecambe)

Chain of analysis

- Government can encourage firms to invest in high-unemployment regions via tax breaks, enterprise zones, improved transport links.
- This reduces geographical immobility, spreads job opportunities more evenly, and helps areas with persistently high unemployment.
- Attracts investment → increases local employment → reduces pressure on JSA claimant numbers.

Evaluation

1. Regional policies are expensive and may crowd out activity from other regions rather than create net new jobs.
2. Firms may still prefer London and the South East due to existing infrastructure, making relocation incentives less effective.

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Conclusion

A mix of demand-side and supply-side policies is required because the UK faces both cyclical and structural unemployment.

- Monetary and fiscal stimulus can reduce demand-deficient unemployment in the short run.
- But supply-side measures and regional policies are essential to tackle deep-rooted skill shortages and regional imbalances highlighted in the extracts.

Overall, the most effective strategy is a balanced approach, where short-term demand stimulus supports the economy while long-term supply-side reforms make the labour market more flexible and productive.

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