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Exam Section B model solutions

Q27 — Define GDP per capita (3 marks)

GDP per capita is the total value of all goods and services produced in an economy (GDP) over certain perioed divided by the population. It measures average income or output per person.

Q28 — Percentage increase needed (4 marks)

Poorest region GDP per capita (North East) = £23,109

Richest region GDP per capita (South East) = £34,516

Percentage increase = ((34,516 – 23,109) ÷ 23,109) × 100 = 49.4%

Rounded to the nearest whole percent: 49%

Q29 — Two significant comparisons (4 marks)

The South East has the highest employment rate at 79.0%, while Wales has one of the lowest at 72.4%, showing large regional differences in labour market strength.

Northern Ireland has the highest inactivity rate at 26.2%, compared to the South East at 17.7%, indicating weaker labour market participation in poorer regions.

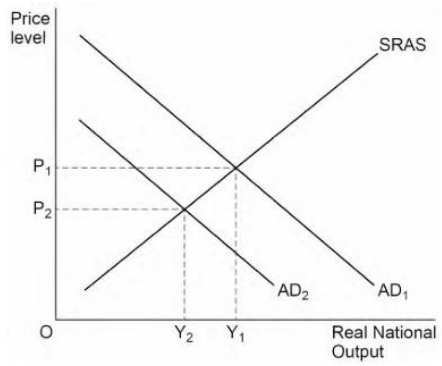
Q30 — Short-run AD/AS effect of reducing the budget deficit (4 marks)

3 0 ***Extract E*** *(lines 20–21) states: '…the government intends to cut the budget deficit to reduce borrowing'.*

Draw an AD/AS diagram to show the most likely short-run effect of reducing the budget deficit on the macroeconomy.

[4 marks]

The correct diagram involves an AD/AS diagram showing a leftward shift in the AD curve



Q31 — Why some regions suffer from structural unemployment (10 marks, chain-of-analysis)

First point:

Long-term industrial decline in poorer regions → demand for traditional manufacturing skills fell → workers' skills no longer matched modern service-sector requirements → skills became obsolete → workers could not transition to new industries → this mismatch caused persistent structural unemployment.

Second point:

Extract F states poorer regions have low literacy and poor health → poor health reduces ability to work consistently → productivity falls → employability decreases → low literacy limits access to high-skill jobs → firms avoid investing in low-skill regions → fewer job opportunities → long-term structural unemployment persists.

Third point:

Geographical immobility prevents workers from moving to where jobs are available → many high-skill jobs are in the Southeast → workers in poorer regions face high housing costs, family ties or poor transport → they remain stuck in low-opportunity areas → job vacancies elsewhere remain unfilled → mismatch between job location and worker location keeps structural unemployment high.

Q32 — Should the government increase spending in poorer regions? (25 marks, full chain-of-analysis)

Introduction:

The UK has large regional inequalities, with poorer regions showing lower GDP per capita, weaker labour markets and lower productivity. The key issue is whether increasing government spending in these areas would reduce these inequalities and support long-run growth.

Point 1:

Increasing government spending could address deep structural weaknesses → Extract F highlights low skills, poor health and weak infrastructure in poorer regions → more investment in education raises human capital → higher skills increase productivity → firms are more likely to invest because labour becomes more efficient → increased investment boosts employment and incomes → long-run aggregate supply shifts right → supporting sustainable regional growth.

Evaluation for point 1:

However, improvements in skills and infrastructure take years → benefits appear slowly → political pressure may lead to early withdrawal of funding → Extract E shows spending spread across 100+ projects, diluting impact → poor planning capacity in weaker regions may cause inefficient or wasted spending → potential impact on inequality may be smaller than intended.

Point 2:

Higher spending could stimulate regional economies through multiplier effects → poorer regions have low consumption and investment → extra government spending increases incomes → higher incomes raise consumption → local businesses see greater demand → businesses expand and hire more workers → employment growth leads to more spending → multiplier effect strengthens local economies and encourages private-sector investment.

Evaluation for point 2:

The multiplier may be weaker in poorer regions → residents might spend additional income outside the region or save it → structural issues like poor health or low skills may stop workers taking new opportunities → Extract E states the government aims to reduce its budget deficit → increased spending may conflict with fiscal goals → funding might not be sustained long enough to generate long-term improvement.

Conclusion:

Increasing spending in poorer regions is likely necessary because of deep-rooted inequalities and structural weaknesses. With effective investment, productivity can rise, employment can improve and private-sector activity can grow. However, spending must be long-term, well-targeted and efficiently delivered. Overall, additional spending should be a central part of levelling-up, but must be supported by strong planning and complementary policies to achieve lasting reductions in regional inequality.

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