Q27 — Define ‘progressive taxation’ (Extract E, line 17) [3 marks]

Progressive taxation is a tax system in which the proportion of income paid in tax increases as income rises. This means higher-income earners pay a higher percentage of their income in tax than lower-income earners.

Q28 — Median amount of funding allocated to local enterprise partnerships in the Northern Powerhouse (4 marks)

Funding amounts (£m):
12.7, 21.8, 23.7, 27.9, 37.8, 43.3, 49.7, 67.5, 69.8, 72.0, 130.1

There are 11 values, so the median is the 6th value when ordered.

Median = **£43.3 million**

Q29 — Two significant features of the funding allocated to the Northern Powerhouse (4 marks)

Funding varies significantly between local enterprise partnerships. For example, Greater Manchester receives £130.1 million, which is far higher than Cumbria, which receives only £12.7 million, showing an uneven distribution of funding.

In addition, major city regions receive more funding than smaller or rural areas. Greater Manchester, Leeds City Region (£67.5m) and Liverpool City Region (£72.0m) all receive substantially more funding than areas such as Tees Valley (£21.8m), suggesting funding is concentrated in large urban economies.

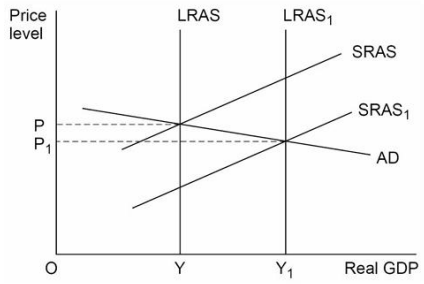
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30 ***Extract F*** *(lines 8–9) states 'This makes it even more difficult to achieve increases in productivity.'*

Draw an AD/AS diagram to show the effects of ***both*** *short-run* ***and*** *long-run productivity gains on macroeconomic equilibrium.*

[4 marks]

The correct diagram involves an AD/AS diagram illustrating both a shift to the right in the SRAS curve and a shift to the right in the LRAS curve.



31 — Explain how a reduction in corporation tax could lead to supply-side improvements (10 marks, chain-of-analysis)

First point:
Extract E states corporation tax was planned to fall to 17% → lower corporation tax increases firms' post-tax profits → higher retained profits increase internal funding → firms invest more in capital, technology and training → productivity increases → unit costs fall → firms become more competitive → long-run aggregate supply increases.

Second point:
Lower corporation tax increases the incentive for foreign direct investment → the UK becomes a more attractive location for multinational firms → inward investment increases → capital stock and technology improve → productivity rises → supply-side performance of the economy improves → supporting long-term economic growth.

Q32 — Assess the view that a more active government industrial policy will significantly improve macroeconomic performance (25 marks)

Introduction:
Extract E outlines a new, more active government industrial strategy aimed at supporting key sectors, improving productivity and reducing regional inequalities. The issue is whether increased government intervention through industrial policy will significantly improve the UK's macroeconomic performance.

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Point 1:
A more active industrial policy could improve long-term growth → Extract E states the government plans to support innovation, research and development, technical education and infrastructure → increased investment in skills and technology raises productivity → higher productivity lowers unit costs → firms become more competitive domestically and internationally → exports rise → long-run aggregate supply shifts right → leading to higher sustainable economic growth.

Evaluation of point 1:
However, Extract F highlights that benefits from policies such as technical education may take many years to materialise → short-term macroeconomic performance may not improve significantly → productivity gains could be slow → limiting the immediate impact on growth and living standards.

Point 2:
Active government policy could help reduce regional inequalities → Extract F notes strong performance in the South East but structural unemployment in regions such as the North East → targeted regional investment like the Northern Powerhouse improves infrastructure and skills → this attracts private investment → employment increases → regional productivity gaps narrow → overall macroeconomic performance improves.

Evaluation of point 2:
However, Extract F warns that government intervention may suffer from imperfect information → funds may be misallocated → inefficient projects could be funded → increasing opportunity cost → there is also concern about future spending cuts or higher taxation → which could reduce private-sector confidence and offset the benefits of intervention.

Conclusion:
A more active government industrial policy has the potential to improve macroeconomic performance by boosting productivity, reducing regional inequalities and supporting long-term growth. However, the success of such policies depends on effective targeting, long-term commitment and efficient use of resources. Overall, industrial policy can make a significant improvement, but it is not a guaranteed solution and must complement, rather than replace, market forces.

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