Econ paper 2

Q21 — Define 'price stability' (Extract B, line 3) [3 marks]

Price stability refers to a situation where the general price level changes only slowly and predictably over time, meaning inflation is low and stable. This reduces uncertainty for consumers and firms.

Q22 — Value of UK GDP in 2018 [4 marks]

UK GDP in 2017 = £2,073 billion
UK growth rate in 2018 (Extract A) = 1.4%

GDP in 2018 = 2,073 × (1 + 0.014)
GDP in 2018 = 2,102.0 billion

To the nearest billion: **£2,102 billion**

Q23 — Two significant comparisons between UK and Germany growth rates [4 marks]

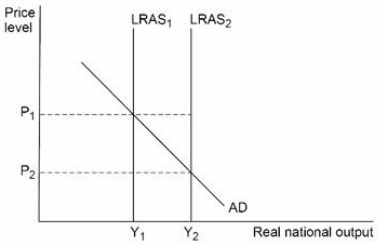
Germany's growth rate was higher than the UK's in 2016 and 2017. For example, in 2017 Germany grew by 2.5% while the UK grew by 1.9%, showing stronger economic performance in Germany during this period.

However, from 2018 to 2019 the UK grew faster than Germany. In 2019 the UK grew by 1.4% compared to Germany's 0.6%, suggesting Germany experienced a sharper slowdown.

Draw an AD/AS diagram to show the long-run impact of improved factor mobility on the price level and national income.

[4 marks]

The correct diagram involves an AD/AS diagram illustrating a shift to the right of the LRAS curve. It is not necessary to include the SRAS curve. The use of the Keynesian model is acceptable and should be rewarded.



Q2

4 — Long-run impact of improved factor mobility (AD/AS) [4 marks]

Q25 — How a global slowdown can affect employment in the UK (10 marks, chain-of-analysis)

First point:
Extract B states there were signs of a global slowdown → global demand for UK exports falls → UK firms receive fewer overseas orders → firms' revenues decline → firms reduce production → fewer workers are needed → unemployment rises in export-dependent industries.

Second point:
Global slowdown increases uncertainty in the world economy → Extract B mentions damaged business confidence → firms delay or cancel investment plans → slower capital formation reduces productivity growth → firms expand less or downsize → job creation falls → cyclical unemployment increases in the UK.

Third point:
Rising global trade tensions reduce international trade → UK firms face higher costs and weaker demand → profit margins fall → firms seek to cut costs → labour is reduced → employment levels fall, particularly in manufacturing and trade-related sectors.

Q26 — Evaluate policies to increase the long-run growth rate of the UK economy (25 marks, chain-of-analysis)

Introduction:
Extract C states that achieving a "decade of prosperity and opportunity" requires boosting both short-run and long-run growth. Long-run growth depends on increasing the productive capacity of the economy, mainly through supply-side policies such as investment, education and infrastructure.

Point 1:
Investment in education and training increases human capital → Extract C states higher education funding improves factor mobility → workers gain better skills → labour productivity rises → firms become more efficient and competitive → higher productivity increases potential output → long-run aggregate supply shifts right → sustainable economic growth increases without inflationary pressure.

Evaluation of point 1:
However, education and training policies take many years to show results → short-term growth effects are limited → poorly targeted training may not match labour market needs → productivity gains may be smaller than expected → reducing the overall impact on long-run growth.

Point 2:
Government investment in infrastructure supports long-run growth → Extract C mentions spending on roads, rail and broadband → improved transport reduces business costs → faster digital connectivity improves efficiency → firms are encouraged to invest → capital accumulation

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increases → productivity rises → long-run aggregate supply expands → economic growth accelerates.

Evaluation of point 2:
However, infrastructure spending is expensive and often funded through government borrowing → this may increase public debt → future taxes may need to rise, as Extract C suggests → higher future taxes could reduce incentives to work and invest → limiting long-term growth benefits.

Conclusion:
Policies such as education, training and infrastructure investment are essential for increasing the UK's long-run growth rate because they raise productivity and expand productive capacity. However, these policies take time and require effective targeting and sustainable funding. Overall, a balanced supply-side strategy is most likely to deliver long-term prosperity.

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