

4.1 Inflation, unemployment and policy judgement

Name: _____ Class: _____ Date: _____ **Total: 6 marks**

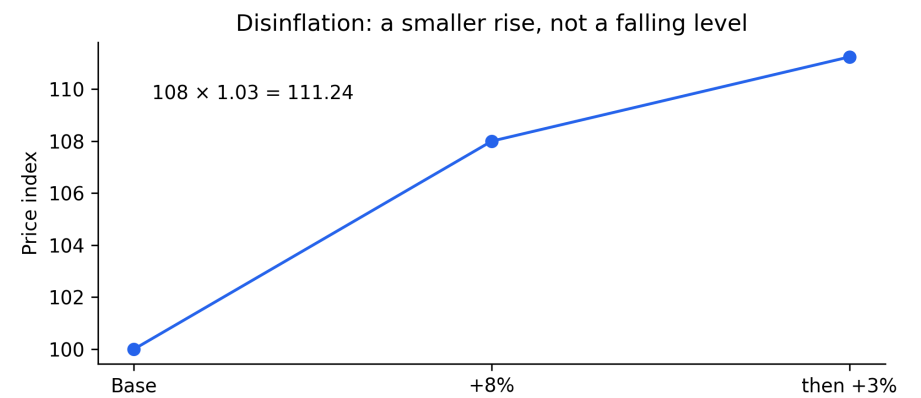
KEY WORDS disinflation • deflation • fiscal policy
• supply-side policy

Objective

Apply the supported native methods to original data and justify a qualified transfer conclusion.

1 Key knowledge and worked examples

Disinflation means slower price rises; deflation means a falling general price level. Unemployment requires the applicable labour-force definition; an inactive person is not automatically unemployed. Fiscal policy affects spending/taxation, monetary policy affects interest/monetary conditions, and supply-side measures target productive capability or incentives. The cause of the problem and lags matter.



In a fictional economy, inflation falls from 8% to 3% while imported energy remains costly. Evaluate the claim that prices fell and that a higher policy rate repairs the energy shortage.

Positive inflation at 3% means the general price level still rises, more slowly than at 8%. A higher rate can reduce interest-sensitive spending, shifting AD left relative to

the counterfactual; it does not itself increase energy supply. It may limit second-round demand pressure but can reduce output and employment. Effects depend on debt, confidence, exchange-rate responses and transmission lags. Compare targeted support or feasible supply measures, considering finance, incentives and implementation. A conditional judgement weighs the source of inflation and the cost of weak demand rather than declaring rates universally effective.

2 Practice

2.1 For the worked case, state the method, show its application and give a limitation.^[3]

3 Exam-style questions

3.1 A training programme is proposed during a demand-driven downturn. Give a short-run limitation, a longer-run mechanism and a qualified policy mix. ^[3]