Output measures, spending and the multiplier / Inflation, unemployment and policy judgement

Pearson Edexcel · International GCSE · Economics

Supported transfer: Output measures, spending and the multiplier / Inflation, unemployment and policy judgement

Scope and prerequisite teaching

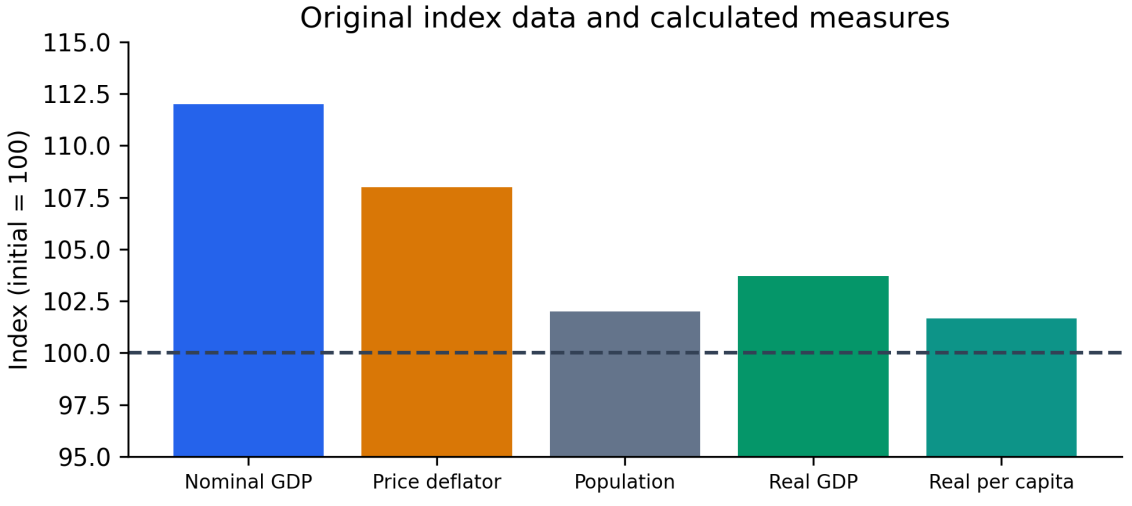
Issue 3, February 2026. Supported mapped specification objectives; qualification rubric reviewed June 2025.

This focused rehearsal adopts the linked native explanations; it does not replace them or certify a whole qualification. Supported objective IDs: 2.1.1a, 2.1.1b, 2.1.1c, 2.1.1d, 2.1.1e, 2.1.1f, 2.1.2a, 2.1.2b, 2.1.2c, 2.1.2d, 2.1.3a.

Native prerequisites: 0304, 0602, 0603, 0604, 0605, 0606, 0607, 0608, 0609, 0610, 0611, 0612.

Key terms

nominal GDP ; **real GDP** ; **per capita** ; **aggregate demand** ; **disinflation** ; **deflation** ; **fiscal policy** ; **supply-side policy** .



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Output measures, spending and the multiplier

Nominal GDP includes price changes; real GDP adjusts them; per-capita GDP also accounts for population. GDP and GNI differ in their income boundary. Comparisons need consistent dates, definitions and purchasing-power treatment where applicable. Extra spending can raise output if firms have spare capacity.

■ Worked case

An original economy's nominal GDP index rises from 100 to 112, its deflator from 100 to 108 and its population index from 100 to 102. Calculate real and real-per-capita changes.

Real GDP growth factor=nominal factor/price factor=1.12/1.08=1.037037. Real growth=(1.037037−1)×100%=3.70%. Real-per-capita factor=real factor/population factor=1.037037/1.02=1.016703. Per-capita real growth=(1.016703−1)×100%=1.67%. Dividing indices avoids treating an approximation as exact. Neither figure gives income distribution, unpaid output or environmental quality.

■ Independent transfer

An economy has spare capacity but firms import many extra components. Explain one possible benefit and one limit of increased spending.

■ Checked original model

Increased demand may raise domestic output and employment when firms can respond. Imported components support production but some spending goes to foreign producers. Bottlenecks can raise prices. Judge output, employment and prices together and state the relevant conditions.

Inflation, unemployment and policy judgement

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.

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■ Worked case

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.

■ Independent transfer

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

■ Checked original model

Training can improve skills and employability over time, especially where structural mismatch exists. It cannot by itself guarantee vacancies when firms lack demand, and completion/placement take time. Appropriate temporary demand support could complement training if finances, inflation and delivery allow, while targeted design checks actual vacancies and access. Evaluate employment outcomes rather than course enrolments alone. Explain trade-offs with budget, distribution and stability; this is authored evaluation, not a prescribed official essay formula.

Evidence and assessment limits

The tasks and marking points here are original, not official questions or mark schemes. The exam format follows the Issue 3 specification and the June 2025 4EC1/01 and 4EC1/02 papers and mark schemes: two 90-minute 80-mark papers, each four compulsory 20-mark questions mixing 1-mark multiple choice, 1–2-mark define/state/calculate, 6-mark analyse, 9-mark assess and 12-mark evaluate items that require reference to the supplied data; extended answers are level-marked (6-mark: 1–2/3–4/5–6; 12-mark: 1–4/5–8/9–12 with an AO4 judgement at the top). Assessment objectives weigh AO2 application at about half of the qualification.

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