Question 19 (Answer: **C**)

- Fiscal policy is the use of government spending and taxation.
- So changes in tax rates or in public spending are fiscal.
- Interest rates and the money supply are monetary; labour market reform is supply-side.

3(a)	**Identify <u>two</u> fiscal policy measures.** • government spending (1) • taxation (1)

3(b)	**Explain <u>two</u> influences on productivity.** Logical explanation which might include the following. Quality of factors of production (1) better quality improves efficiency / poor quality reduces efficiency (1). Working conditions / wages (1) influencing worker motivation (1) technology (1) machine speed / effects on capital productivity (1) education (1) skilled workers / effects on labour productivity (1). Healthcare (1) healthier workers capable of producing higher output / sick workers take time off work (1). Effectiveness of institutions (1) amount of bureaucracy affects efficiency (1) use of resources (1) whether wasted or used efficiently (1).

3(c)	**Analyse reasons why central banks are important for an economy.** Coherent analysis which might include: • control inflation (1) by implementing monetary policy (1) such as changes in interest rates (1) prevent prices from rising too much (1) prevents deterioration of purchasing power / affordability of goods and services (1) prevent deflation (1) • maintain financial stability (1) monitoring health of banks (1) preventing collapse of banks (1) assuring savings are protected (1) ensuring consumers have access to credit (1) ensuring liquidity of the economy (1) • provision of economic information (1) which can help decision-makers (1) • buying / selling currency (1) to influence exchange rates (1) • lenders of last resort (1) providing liquidity to commercial banks (1).

3(d)	**Discuss whether or not deflation is a problem for an economy.** In assessing each answer, use the table opposite. Why it might be a problem: • decreases confidence in the economy • deflationary cycle • loss of jobs • delays in spending reduce demand • lower profits for firms from lower prices.

3(d)	Why it might not be a problem: • decreases prices, increasing affordability for consumers • if it is caused by decreases in cost, problems for the economy are less significant • increase in international competitiveness • it depends on the extent and duration of the deflation.

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4(a)	**Identify <u>two</u> policy measures a central bank could use to maintain price stability.** Two from: the rate of interest (1) the money supply (1) the exchange rate (1) quantitative easing / tightening (1).
4(b)	**Explain <u>two</u> benefits to an economy of full employment.** Logical explanation which might include the following. • High output / GDP (1) maximum use of labour resource. • High tax revenue (1) government could spend on e.g. education / healthcare (1). • Low spending on state benefits (1) can keep taxes low / money saved can be spent on other things (1). • Low poverty / increase incomes (1) enable people to purchase basic necessities / which could increase living standards (1).

4(c)	**Analyse how an increase in government spending on building houses could reduce unemployment.** Coherent analysis which might include the following. An increase in government spending on building homes may increase demand for building workers (1) may increase demand for building materials (1) demand for building materials workers / other workers related to building industry (1) labour is a derived demand (1) reduce structural unemployment (1) increase incomes (1) increase consumer expenditure (1) increase total demand (1) reduce cyclical unemployment (1) increase GDP / economic growth (1) may increase quality of homes (1) improve health (1) fewer workers may lose their jobs because of illness (1) increase labour productivity which may increase demand for labour (1) increase supply of houses (1) reduce price of houses (1) improve mobility of labour (1).

4(d)	**Discuss whether or not an increase in a country's economic growth rate will increase its HDI value.** In assessing each answer, use the table opposite. Why it might: • increase in GDP may increase GDP per head if increase in GDP is greater than any rise in population • higher GDP per head may increase spending on good nutrition / good housing and as a result increase life expectancy • higher GDP per head may increase tax revenue, enabling a government to spend on education and healthcare • higher GDP per head may enable families to keep their children in education for longer. Why it might not: • higher GDP per head may result in more spending on demerit goods, lowering life expectancy • may lead to inflation hindering access to healthcare and education and increase inequality in the distribution of income • may be the result of higher military expenditure which will not increase HDI • income may become more unevenly distributed, meaning life expectancy and years of education of the poor may fall • more pollution may be created, lowering life expectancy • working hours and stress may increase, lowering life expectancy.

4(d)	

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Question 15 (Answer: **A**)

- Capital-intensive means using relatively more machinery and less labour.
- A firm switches that way when labour becomes relatively more expensive.
- So higher wages or stronger unions would push it; higher *interest rates* would make capital dearer and push the other way.

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Question 20 (Answer: **D**)

- Supply-side policy raises the economy's productive capacity.
- Education, training, infrastructure and lower business taxes all do that.
- Increasing the money supply is monetary policy, which works on demand.

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Question 29 (Answer: **A**)

- To stop a currency falling, the central bank must raise the demand for it.
- Higher interest rates attract foreign deposits, so demand for the currency rises.
- It can also buy its own currency using foreign reserves.