

## Quick Answers

### Question 1

**Discuss whether or not increasing government spending will enable a government to achieve its aims for the economy.**

**Up to 5 marks for why it might:**

- Government spending will increase total (aggregate) demand (1) this may encourage firms to produce more (1) economic growth may increase (1) deflation may be avoided (1) and unemployment may fall (1) the poor may gain jobs (1) making income more evenly distributed (1)
- Government spending on healthcare (1) may raise living standards / life expectancy (1)
- Government spending on education (1) may improve environmental standards (1)
- Government subsidies (1) may increase labour productivity (1) costs of production may fall (1) lowering cost-push inflation (1) increasing international competitiveness (1) improving the current account position (1)
- Government spending on state benefits (1) may reduce income inequality (1) may raise living standards (1)

**Up to 5 marks for why it might not:**

- Higher government spending may cause inflation (1) if total supply does not rise in line with total demand (1)
- Some of the higher income created may be spent on imports (1) this may increase a current account deficit (1)
- An increase in government spending on unemployment benefits (1) may increase voluntary unemployment (1)

### Question 2

**Identify two macroeconomic aims of the Philippine government.**

Economic growth (1) full employment (1).

### **Guidance**

Also accept raised labour productivity and low unemployment.

If more than two are given, consider the first two only.

### **Question 3**

#### **Analyse two possible conflicts between government aims**

Lower unemployment vs. price stability (1) lower unemployment means higher incomes (1) increasing total demand (1) creating demand-pull inflation (1) lower unemployment means less spare capacity (1) wage demands increase (1) wage-price spiral (1)

Economic growth vs. price stability (1) production increases (1) faster than the increase in resources (1) increase in total demand leads to higher prices rather than increased output and employment (1)

Economic growth vs. environmental protection (1) output increases (1) consumption increases (1) causing a rise in external costs (1) example e.g. pollution, destruction of habitats (1)

### **Guidance**

- Maximum of 4 marks if only one conflict analysed

### **Question 4**

**Discuss whether or not government policy measures to reduce unemployment will cause inflation.**

**Up to 5 marks for why they might:**

- Increased government spending and/or lower taxes / expansionary fiscal policy (1) lower interest rates and/or increased money supply / expansionary monetary policy (1) will increase total (aggregate) demand/spending (1) may reduce cyclical unemployment / more workers may be employed to meet the higher demand (1) but may cause demand-pull inflation (1)

- Higher demand may also cause cost-push inflation (1) as demand for workers rises (1) firms may compete for workers (1) causing wage rates to rise (1)

**Up to 5 marks for why they might not:**

- An increase in demand may not push up prices if unemployment is initially high (1) firms will be able to attract more workers by just offering jobs (1) they will not have to raise wages (1)
- The government may use supply side policy measures to reduce unemployment (1) e.g. improved education and training/privatisation/deregulation (1) such policy measures may reduce costs (1) may increase total (aggregate) supply by as much as total (aggregate) demand (1)
- The government may use price controls (1)