Quick Answers

Question 1

Discuss whether or not the use of supply-side policy measures by a government will reduce firms' average costs of production.

Up to 5 marks for why they might:

- Education and training (1) should increase labour productivity (1) this could reduce labour costs (1)
- A cut in income tax (1) may reduce upward pressure on wages (1)
- A cut in indirect taxes (1)
- Privatisation (1) may make firms more efficient (1) especially if there is competition in the market (1)
- Deregulation (1) may reduce the cost of complying with rules and regulations (1)
- Subsidies (1) may enable firms to buy more efficient machinery (1) train workers (1) may be able to take advantage of economies of scale (1)
- Remove tariffs (1) enable firms to get raw materials at lower prices (1)
- Spending on infrastructure (1) reducing transport costs (1)

Up to 5 marks for why they might not:

- Education and training may not be in the areas in demand (1) may not increase workers' skills (1) some workers who are educated / trained may emigrate (1)
- Wages of workers may rise by more than productivity (1) increasing labour costs (1)
- Privatised firms may become private sector monopolies (1) this will reduce pressure on them to keep costs down (1)
- Subsidies may be given to reduce unemployment / maintain employment (1) additional workers may be less productive (1) may experience diseconomies (1)
- There may be corruption (1)

Guidance

- Maximum of 5 marks if only one policy measure discussed

Question 2

Identify two supply-side policy measures.

- a cut in income tax
- a cut in corporation tax
- a cut in unemployment benefit
- education
- training
- privatisation
- deregulation
- subsidy
- legislation to reduce trade union power

Guidance

- Accept measures that could increase total supply e.g. lower indirect taxes and reduced interest rate

Question 3

Discuss whether or not building more roads in Manila will benefit the Philippine economy.

Up to 4 marks for why it might:

- reduce traffic congestion (1) lowering journey times / transport costs (1) helps tourism (1)
- productivity may rise (1), reduce costs of production (1) encourages higher output / economic growth (1)

- government expenditure on roads (1) leads to higher employment (1) and higher spending / total demand (1)
- MNCs may be attracted into the country (1) reducing unemployment (1)
- lower average costs (1) may increase international price competitiveness (1) increasing exports (1) improving the current account position (1)

Up to 4 marks for why it might not:

- shortage of land (1) opportunity cost in terms of how the land is used (1)
- opportunity cost (1) could have been used for education / health (1)
- government may have to raise taxes to fund the road building (1) and taxes are already high (1)
- may increase the number of cars on the roads (1) may not reduce traffic congestion in the long run (1)
- during the building process there will be disruption to drivers and production (1)
- more roads lead to increase in negative externalities (1) example (1) lowering standard of living (1)
- rapid growth in population (1) land more expensive to build roads (1)
- additional expenditure if at full employment (1) could lead to demand-pull inflation (1)

Question 4

Define deregulation.

The removal of rules/regulation (2).
Less government intervention (1) to encourage competition (1).
Actions making it easier for businesses to enter / operate in an industry (1).
Supply-side policy (1) to increase competition (1).

Question 5

Analyse how education and subsidies can increase a country's economic growth rate.

Coherent analysis which might include:

- Education/training may increase qualifications/skills (1) raising the productivity of workers (1) increasing the mobility of workers (1) attracts MNCs (1) reduces unemployment (1) raising the quality (1) and quantity of output (1)
- Subsidies will lower firms' costs of production (1) encouraging firms to increase their production (1) increasing supply (1) lowering price (1) a higher output is likely to be bought and sold (1)
- Subsidies for consumers e.g. education/health (1) may help in gaining skills/jobs and being more productive (1)

Question 6

Discuss whether or not an economy would benefit from less government regulation.

Up to 5 marks why it might:

- More freedom (1) less red tape / bureaucracy (1) easier to set up new firms (1) more competition (1) decrease cost of production (1) decrease price (1) including exports (1) increase quantity demanded (1) increase total revenue (1) increase profits (1) more investments (1) increase demand for labour (1) less unemployment (1) decrease current account deficit (1) increase aggregate demand (1) increase economic growth (1)
- More control over prices (1) resulting from removal of e.g. a maximum price (1)

Up to 5 marks why it might not:

- Less labour regulations would reduce job security (1) more exploitation of workers (1) e.g lower wages / longer working hours (1) more inequality (1)
- Less environmental regulations would increase pollution (1) e.g. air pollution / water pollution (1) health standards of society reduces (1)
- Less antitrust/anticompetitive regulations will create monopolies (1) small firms can't compete (1) higher prices (1)
- Less protection of domestic firms from e.g. embargo (1) domestic firms may go out of business (1)
- Discourage consumption of harmful products (1) e.g. smoking ban (1)

- External costs may be ignored (1) e.g. air pollution, noise (1)
- It may mean that there is less consumption of beneficial (merit) goods (1) e.g compulsory state education (1)

Question 7

Analyse how supply-side policy measures may reduce unemployment.

- Supply-side policy measures increase productive capacity within the economy (1).
- Education and training (1) could raise the skills of workers (1) labour productivity could rise (1) firms may be encouraged to take on more workers (1).
- A cut in income tax (1) may increase total (aggregate) demand (1) causing firms to produce more (1) and so take on more workers (1) it may also have an incentive effect (1).
- A cut in unemployment benefit (1) may encourage more of the unemployed to take jobs (1) if wages are now higher than benefits (1).
- Privatisation (1) could result in an expansion of firms (1) if they are more competitive (1) and so they may take on more workers (1).
- Subsidies (1) will lower costs of production (1) encouraging firms to expand (1) employ more workers (1).
- Trade Union reforms (1) may encourage firms to employ more workers (1) e.g. cheaper / more flexible labour force (1).

Guidance

- These must be measures introduced by a government.

Question 8

Define supply-side policy

- Policy which is designed to increase the total (aggregate) output / supply / productive capacity of an economy (2)

- Policy aimed at making markets work more efficiently (1) to encourage economic growth (1)

Question 9

Discuss whether or not infrastructure projects will benefit the economy.

Up to 5 marks for why they might:

- Infrastructure projects will employ workers directly (1)
- May help reduce firms' production costs (1) example (1) increasing profits (1) increasing output (1) increasing employment (1) encouraging investment (1) increasing total (aggregate) demand (1)
- Creates external economies of scale (1) reducing costs for firms within an industry e.g. better transport servicing an industry (1) improving efficiency (1)
- May attract MNCs to the country (1)

Up to 5 marks for why they might not:

- High cost of infrastructure projects (1) may need to raise taxes (1) or borrow large amounts (1) opportunity costs (1) funds could have been spent on e.g. health care (1)
- External costs (1) e.g. pollution, habitat destruction (1)
- Risk of inflation (1) due to increased government spending (1)
- Short run costs may occur e.g. congestion (1) but long run benefits may arise e.g. faster travel times (1)

Question 10

Analyse the contribution that education can make in an economy

- Education enables the population to develop the knowledge (1) skills (1) for future development (1) better skills may improve productivity (1) increased output / economic growth (1) improved quality of output (1) better skills may attract foreign investors / MNCs to the country (1)

- Educated people have better job opportunities (1) potentially enabling them to earn higher incomes (1) leading to increased consumption (1) which reduces poverty / improves living standards (1)
- Increased consumption could lead to higher demand in the economy (1) increasing output (1)
- Education enables the economy to move to a tertiary based economy (1) tertiary based economy relies heavily upon a well-educated population (1)
- Education enables women to play a more active role in the economy (1) enabling them to find jobs (1) and earn a living independently (1)
- Education enables people to start their own business (1) increasing output (1)
- Education provides employment e.g. teachers, janitors (1)
- More highly educated people may be more concerned about the environment (1) may reduce external costs (1)
- More highly educated people may be healthier (1) reducing costs of healthcare / raising productivity (1)

Question 11

Discuss whether or not a government should raise the school leaving age.

Up to 5 marks for why it should:

- More time in education may increase workers' skills (1) raise qualifications (1) reduce unemployment (1) raise productivity (1) increase output / increase economic growth (1) raise wages / increase living standards / increase HDI / reduce poverty (1) lower costs of production / improved quality of products (1) increase net exports / raise exports / lower imports (1) improve the current account position (1)
- May improve life expectancy / health (1) by making people better informed (1)
- May attract more MNCs to set up in the country (1) reduce their training costs / raise the quality of their output (1)

Up to 5 marks for why it should not:

- May increase government spending (1) it will involve the use of extra resources (1) there will be an opportunity cost involved (1) example (1)
- In the short run the labour force will be reduced (1) lower potential output (1)
- A greater quantity of education does not necessarily mean a rise in quality of education (1)
- Some of those who receive the extra years, of schooling may not take full advantage of these (1) which may disrupt the learning of others (1)
- The dependency ratio may rise (1) tax rates may have to be increased (1)
- Families may not be able to afford the extra years schooling (1)

Guidance

- Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is expected.

Question 12

Explain two policy measures a government could introduce to encourage families to have more children

- Provide child benefit/subsidy/child bonus (1) to help cover the cost of raising children (1)
- Increase maternity/paternity leave (1) to make it easier for people to combine work and parenthood (1)
- Increase tax benefits/allowances to parents (1) to increase their disposable income (1)
- Subsidise child care (1) to make it easier for people to combine work and parenthood (1)
- Provide free state education/healthcare (1) to reduce the cost of raising children (1)
- Lower interest rate (1) may enable parents to buy a larger house (1)

Question 13

Explain TWO supply-side policy measures

- Improvements in education/training (1) to raise skills/labour productivity (1)
- Cutting income tax (1) to encourage the reward for working (1)
- Cutting corporation tax (1) to encourage enterprise/increase investment/lower costs of production (1)
- Privatisation (1) transferring assets from the public to the private sector/to stimulate competition/improve efficiency (1)
- Deregulation (1) removing rules and restrictions/increase competition/lower costs of production (1
- Subsidies (1) may reduce costs of production/stimulate output (1)

Guidance

- 1 mark each for up to 2 identifications, plus up to 2 marks for explanation

Question 14

Discuss whether or not consumers are likely to benefit from state-owned enterprises becoming private sector firms.

Up to 5 marks for why they might:

- There may be more competition in the markets (1) this may force down prices (1) increase quality (1)
- Firms will be influenced by the profit motive (1) this may make them more responsive to changes in consumer demand (1)
- State-owned enterprises may be slow in making decisions (1) due to bureaucratic control (1) may not respond quickly enough to consumer demands (1)

Up to 5 marks for why they might not:

- State-owned enterprises might have taken into account social costs and social benefits (1) rather than just private costs and private benefits (1) main goal may be economic welfare (1)

- Private sector firms may merge (1) form monopolies (1) (use market power to) push up price (1) they may become complacent (1) lower quality (1)
- Private sector may not have sufficient finance for large-scale projects (1) consumers would lose out on the benefits (1)

Guidance

- Accept quality and prices on either side, but only one mark if given on both sides. More marks can only be awarded if a reason for change in quality/prices are given

Question 15

Discuss whether or not an increase in the role of the private sector will benefit an economy.

Up to 5 marks for the benefits:

- The profit incentive (1) will result in countries taking advantage of specialisation (1) making better use of scarce resources (1) and in doing so increasing total output (1)
- May be an increase in competition (1) lowering price (1) raising quality (1)
- More efficient allocation of resources (1) lower production costs (1) the price mechanism means there are no shortages or surpluses (1) with high consumer sovereignty (1)

Up to 5 marks for the drawbacks:

- Poverty could increase (1) as a result of rising inequality (1) and some individuals being unable to access the gains of the market economic system because they are out of work / on low incomes (1)
- Higher prices (1) private companies could exploit market power e.g. monopoly (1)
- Goods with external benefits (merit goods) e.g. healthcare may be under-provided (1) goods with external costs (demerit goods) may be over-provided e.g. tobacco.
- Market failure occurs (1) as externalities are not considered by the market mechanism (1) example (1)

Guidance

- Accept, but do not expect, reference to public goods