AQA
Questions matter

Economics

Answers and commentaries

AS (7135)

Paper 2: The national economy in a global context

Marked answers from students for questions from the June 2022 exams. Supporting commentary is provided to help you understand how marks are awarded and how students can improve performance.

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Contents

The below content table is interactive. You can click on the title of the question to go directly to that page.

Answers and commentaries

This resource is to be used alongside the AS Economics Component 7135/2 The national economy in a global context June 2022 Question paper and inserts.

Context 1

Economic growth

10 mark question

Question 25

Extract B (line 2) states: '...there were signs that economies were in the midst of a global slowdown'.

Explain how a global slowdown can affect employment in the UK.

[10 marks]

Mark scheme

The levels of response grid below should be used when marking the 10 mark questions.

Level of response	**An answer that:**	**Max 10 marks**
Level 3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • may include a relevant diagram to support their explanation.	**8–10 marks**
Level 2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present	**4–7 marks**

	• includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram to support their explanation.	
Level 1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.	**1–3 marks**

Relevant issues include:

- meaning of global slowdown/employment/recession
- higher unemployment abroad
- lower incomes/falling demand/falling investment abroad
- fall in demand for UK exports – consumer goods/capital goods/raw materials
- fall in AD/negative multiplier/accelerator effects
- confidence/gloomy expectations
- firms unwilling to invest/fewer jobs created/falling employment
- short-term/long-term effects.

Student responses

Response A

The global slowdown means worldwide that growth rates in real GDP or output are also decreasing. This existed prior to the Covid-19 crisis, and the problem was only exacerbated by it. The global slowdown could be a result of a fall in aggregate demand internationally, partially due to the Covid pandemic where 'consumption abruptly fell and production in some industries completely stopped'. This affects the UK as it means there is less demand for goods and services produced in the UK

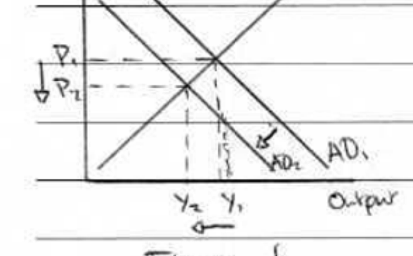


Figure 1

not only domestically but also as an export. As a result, due to the aggregate demand fall worldwide and in the UK (which is increased by the fall in exports), this impacts employment. In Figure 1, as AD falls from AD1 to AD2, it causes prices to fall from P1 to P2, and output to fall from Y1 to Y2. Due to an insufficient aggregate demand and reduced output, firms can't afford to employ people at

Extra space

the rate of full employment. This is called cyclical unemployment, and whilst it should correct itself when the economy leaves its negative output gap, if the recession is persistent and sustained then it could lead to an erosion of skills, collapses in certain industries and long term unemployment. Additionally, global slowdown could be due to a shift towards new industries ~~such as~~ which are more heavily reliant on technology. This ~~damages~~ weakens more traditional industries which are large employers, such as diesel and petrol cars, but doesn't replace the jobs lost. This can result in both structural and technological unemployment in the UK. This is more of a dangerous long term issue, as structural unemployment means that there is a gap between the supply and demand for labour, so people lack the skills. It can be very expensive and time consuming to give people the skills they need, so often they will stay unemployed.

* Especially seeing as UK and Eurozone annual output fell by 10.2% during 2020, with Eurozone nations being one of the UK's largest trading partners, this is particularly consequential.

This is a Level 3 response

This question is marked using a level of response mark scheme that assesses knowledge and understanding, application and analysis. When awarding the mark, a judgement is made regarding the overall quality of the response.

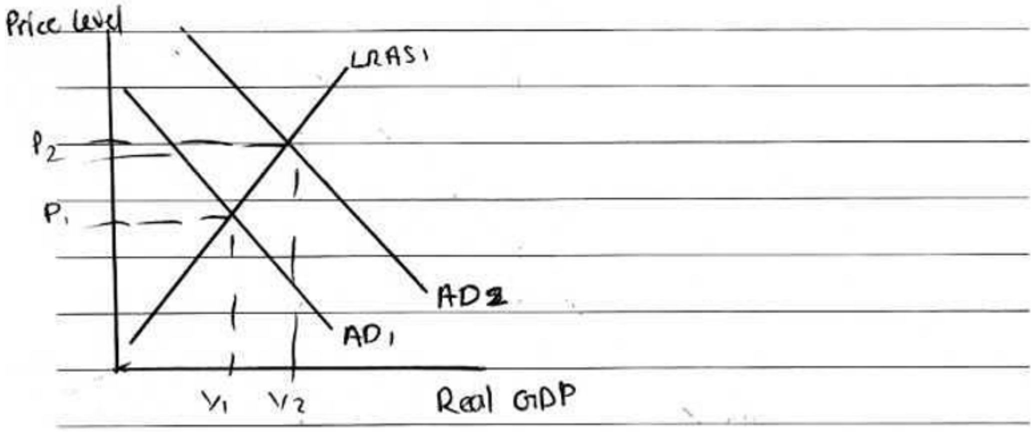
This answer scores 10 marks out of 10. The student has clearly focused on the impact of a global slowdown. They start by considering the causes of a global slowdown, explaining the impact of the Covid pandemic on different components of aggregate demand.

There are well developed, logical chains of reasoning which use a diagram to illustrate a fall in aggregate demand. The student continues by analysing the consequences on employment in the UK. It is well organised – the student focuses on cyclical and then structural employment, using data from the extracts and their own knowledge of the UK economy to support the response.

10 marks

Response B

Global slowdown can affect employment in the UK as ~~price stability is easier to achieve~~ ~~and~~ the growth rates ~~were~~ are low. This will mean that ~~the~~ economic growth is low which means overall has a negative impact on the economy. This affects employment in the UK ~~as the~~ having a negative impact as if growth rates are low the businesses, like ~~shops~~, restaurants, retailers, and other firms will be struggling and some will even have to shut down as they aren't bringing enough income. This will cause there to be less jobs available therefore employment will decrease as the ~~peo~~ amount of people who need jobs will be a lot highere than the amount of jobs that are available.



This is a Level 1 response

The student demonstrates some limited knowledge and understanding of the impact of a global slowdown on employment in the UK. There is some limited analysis but it is brief. A diagram is included but not referenced and given no credit. Overall, a high Level 1 response.

3 marks

Response C

A Global Slowdown is when the UK have a major problem which Could affect us globally. The way global Slowdown Can affect employment in the UK would be that if their was any major Scenario, this would have a huge Impact on businesses Which could lead to lack of employment. Global Slowdown could have a huge Impact on job availability, too many workers working from home. Another reason would be that global Slowdown would mainly affect bigger ~~countries~~ Companies.

This is a Level 1 response

This answer scores 1 mark out of 10. The answer is very brief and lacks focus on how a global slowdown can affect employment in the UK. There is limited knowledge and understanding of economic terminology, concepts and principles.

1 mark

25 mark question

Question 26

Extract C (lines 2–4) states: '...the Prime Minister, Boris Johnson, had promised to make the 2020s a "decade of prosperity and opportunity." If this is to be achieved, it will be essential to find ways to boost both short-run and long-run growth'.

Use the extracts and your knowledge of economics to evaluate different policies that can be used to increase the long-run rate of growth of the UK economy.

[25 marks]

Mark scheme

The levels of response grid below should be used when marking the 25 mark questions.

Level of response	**Response**	**Max 25 marks**
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21–25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16–20 marks**

3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments and/or data.	**11–15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited, application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes attempted evaluation which is weak and unsupported.	**6–10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1–5 marks**

Areas for discussion include:

- economic growth
- short-run growth versus long-run growth
- determinants of long-run trend rate of growth
- supply-side policies
- fiscal policy and its influence on the supply side of the economy
- advantages and disadvantages of various supply-side policies
- the role of monetary policy in helping to increase the long-run rate of growth
- the importance of confidence/uncertainty
- demand-side factors affecting long-run growth
- supply-side factors affecting growth
- consideration of the amount of spare capacity within the economy
- the role of the private sector in helping to achieve economic growth
- multiplier/accelerator effects
- consideration of the economic cycle
- consideration of limitations, such as import taxes, Brexit, the size of the budget deficit
- the importance of external influences, such as 'the global slowdown'
- consideration of the context of the UK economy, such as 'a decade of prosperity and opportunity'.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response the question.

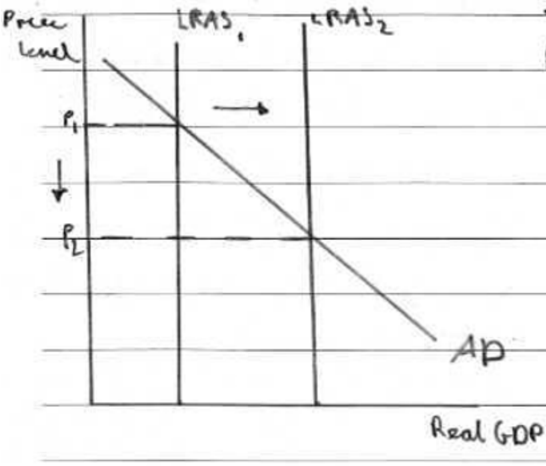
Student responses

Response A

Economic Growth can be defined as an increase in the countries productive potential, with a right ward Shift in the economics productive potential frontier. In the Long run, economic growth can be demonstrated by a rightward Shift in the Long Run aggregate Supply curve on an AD/AS diagram.

Extract C states "the bank of Englands Monetary Policy comittee announced a cut in bank rate by 0.1%". ~~Dem~~ Demonstrating the employment of an expansionary monetary policy. An expansionary monetary policy is the use of lowering interest rates to increase aggregate demand. Expansionary monetary policy can be employed via transmission mechanisms like lowering credit card interest rates, lowering savings rates, lowering business loan rates and lowering mortage rates. All these transmission mechanism bolster Aggregate demand as they all increase one or more factors of aggregate demand like lower credit card interest rates increasing the incentive for consumers to borrow and increasing their marginal propensity to consume, Since Consumer Spending is a factor of agregate demand, the

AD curve will Shift to the right. Inducing Short run economic growth. However expansionary monetary policy is a demand side policy with its main objective being to Stimulate AD, Despite this it does have some supply side side effects, ~~An~~ A decrease in business loan interest rates, ~~allows~~ create an incentive for businesses to loan and borrow money. This money can be used ~~to~~ for investments into capital. This increases the quantity and quality of capital as firms can buy more capital and buy more technologically advanced capital. Increasing quality and quantity of capital causes a right ward shift in a LRAS curve, hence demonstrating growth in the long run. However an expansionary monetary policy can cause tradeoffs between policy like high demand pull inflation dependent on size of output gap, if close to full employment, an expansionary monetary policy may be ineffective and lead to overshooting of employment target. Also the size of the cut, since Extract E says there will be a cut to 0.1%, I believe there will be a big enough cut to induce increased economic activity



Extra space However, In order to really boost Long run aggregate supply I believe the ~~gp~~ employment of some interventionist and labour market reforms would be more effective, due to the supply side nature of these policies. The government should employ a reduction of ~~business~~ corporate tax and income tax and increase spending on training and education to ~~Spdr~~ cause a rightward shift in LRAS. A reduction of corporate tax will allow businesses to spend more on ~~technol~~ investment. Increased investment, increases quantity of capital as firms can buy more whilst increasing quality as firms cause buy more advanced technological capital. Overall causing a ~~fasters~~ rightward shift in LRAS. An increase on gov spending ~~EA~~ on training and education will allow workers to gain important

Skills and Specialisation to increase quality of labour, in turn Shifting LRAS to right. However Supply side policies have downsides like time lags, as it would take some time to fully educate workers and it being expensive to enforce as an increase in government spending and decrease in taxation will lead to a growing budget deficit. Some labour market reforms like reduction in benefits come at a cost to the Stakeholder as well, decreasing quality of life of workers,

Whilst the use of an expansionary monetary policy would induce lots of growth in the Short run, I believe the use of Supply side policies would be most effective at Stimulating Long run economic growth. This is because Supply Side policies create non-inflationary growth, allowing for lower policy conflicts as it can increase employment, reduce inflation, Stimulate Strong, Stable and sustainable growth. While an expansionary may induce the multiplier effect, it will cause high demand pull inflation, out shooting the inflationary policy objective target. [redacted] Backed up by extract E as it states the government is investing 900 bn in SSP.

This is a Level 5 response

The student begins by explaining long-run economic growth. Defining the key terms in the essay is a good way to ensure focus and in this case helped the student to focus on long-run growth rather than growth in general. There is good understanding of economic terms and principles throughout the essay. Key terms are defined and the chains of reasoning are well developed and logical. The student shows a clear knowledge and understanding of monetary policy – using the transmission mechanism to fully analyse expansionary monetary policy. Evaluation is supported by reference to the extracts.

The next argument focuses on how interventionist and labour market reforms can increase the long-run growth of the UK economy. There is a clear judgement that supply-side policies would be more effective than monetary policy in achieving this aim. The student justifies this decision with good skills of analysis, selecting specific supply side policies and explaining how they would raise productive capacity.

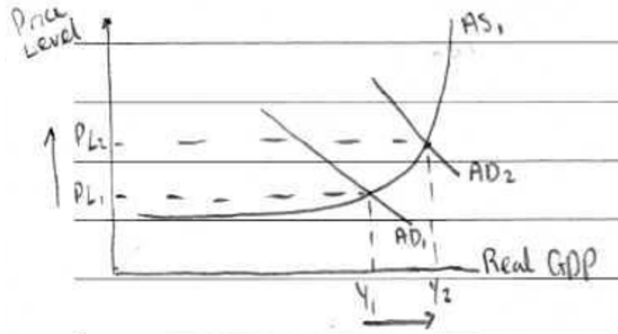
The final conclusion is fully focused on the demands of the questions and makes a clear, supported judgement, considering both short run and long run growth. An excellent response fully deserving top marks.

25 marks

Response B

Growth is measured by real GDP which is Gross Domestic Products. Policies that can be used is monetary policy ~~which~~, fiscal policy, or supply-side policy. Monetary policy is the use of interest rates, ~~or~~ money supply, or exchange rates to ~~meet~~ achieve the target inflation rate of 2% or other macroeconomic objectives.

Monetary policy can be used to increase the long-run rate of growth of the UK economy. Interest rate is the reward of saving and the cost of spending and borrowing expressed as a percentage. In extract C it states, "Monetary Policy Committee announced a second emergency cut in bank rate to 0.1%". This suggests that lowering the bank rate which will decrease interest rates could help increase growth. This is because if interest rates fall, then there are more consumers willing to borrow which will increase consumer confidence and spending and therefore ~~a fall in~~ an increase in national output.



As shown in the diagram, there's a shift in aggregate demand from AD_1 to AD_2. This then results in an increase in real GDP from Y_1 to Y_2 as well as an increase in price level from PL_1 to PL_2. This will help increase growth in the long-run because if this is sustained until consumers can spend more, then according to the ~~trans~~ transmission ~~me~~ mechanism, it suggests ~~that~~ that following a reduce in interest rates, then consumers are more able and willing to spend on assets which will increase aggregate demand. Also according to the wealth effect if households and producers have an increase in wealth and income then that means that they have more to spend ~~on~~ on other goods and services to stimulate growth. However, the issue with reducing interest rates is that there will be a rise in inflationary pressure which means an increase in the general price level. As shown in the diagram where PL_1 ~~t~~ rises to PL_2, this is demand-pull inflation where an increase in demand means ~~a~~ it drive up the prices causing inflation. Therefore it can be argued that this isn't the most effective way of increasing growth and that perhaps other policies or unconventional forms of monetary policies have to be used in order for stable growth.

Supply-side policy can also be used to increase long-run rate of growth of the UK economy. In ~~the~~ extract C it states "£600 billion is to be spent on infrastructure" and "increase in funds for available for education and training should help improve factor mobility". This suggests that more government spending on education or training is needed to help increase growth. It can help reduce unemployment as there's

Extra space more opportunities open for people to be able to gain the needed skills for a job. This then helps improve factor mobility and ~~ensure~~ ensure the labour force has the skills the economy needs. This means that the government needs ~~to~~ to have value judgments on whether the ~~spend~~ money is well spent to make sure growth is stable in the long-run. There is also the issue of how much is spent each year so that means they'll have to increase taxes for more government spending.

This is a Level 3 response

The student begins by explaining economic growth and the policies that may be used to increase economic growth but is not specific about long-run growth. The student's first point analyses the impact of monetary policy on growth. Again, there is a lack of focus on the demands of the question. The student only discusses the impact of expansionary monetary policy on aggregate demand and does not consider long-run growth. The evaluation of monetary policy considers the inflationary effects of an increase in aggregate demand.

The next argument focuses on supply side policies. There are clear, logical chains of reasoning and some use of the extracts to analyse how the policies increase the long-run productive potential of the UK economy. There is fairly superficial evaluation of supply side policies at the end of the paragraph that are not supported by data or explained in any detail.

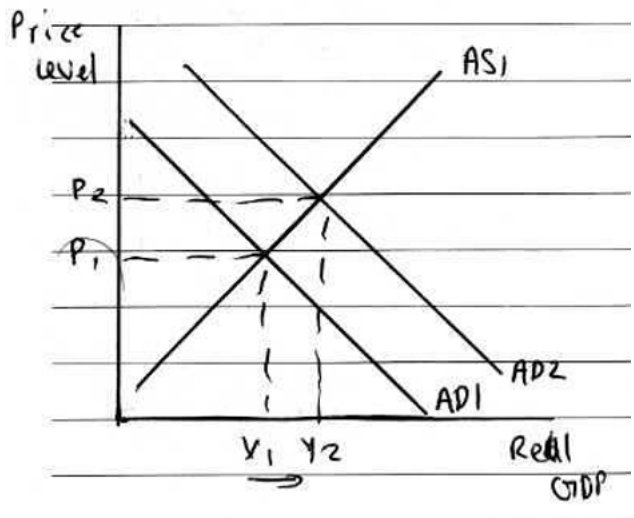
The student does not write a final conclusion and reaches the top of Level 3 overall.

15 marks

Response C

Supply side plans are plans which will help with the supply in the economy. As states in extract C this is done by the government who spend their funds on things like improving infastructure such as road, rails and electric vehicles.

Different policies that can be used to increase the long run rate of growth in the UK's economy is the monetary and fiscal policy. Monetary policy affects ~~int~~ interest rate whereas fiscal policy affects taxes. ~~Expansionary monetary policy means that~~ If the government were to use expansionary monetary policy this would mean to ~~increase interest r~~ reduce unemployment and increase inflation. This would have a positive impact on the growth of the UK's economy as less people will be jobless meaning the more income would be brought in causing a positive shift for the UK's economey.



The ~~graph~~ AD/AS graph shows AD shifting to the right which means the is a growth in the economy. This is shown from Y1 – Y2 which showcases the increase of AD..

This is a Level 2 response

The student begins with a vague definition of supply side policies. They identify monetary and fiscal policies as ways to increase the long-run rate of growth in the UK economy but are limited in their knowledge and understanding of economic terminology, concepts and principles. There is some limited analysis but it lacks focus on long-run growth, using a diagram to consider only short-run growth. The answer is brief and does not reach a final judgement, so just achieves Level 2.

6 marks

Context 2

Government spending and taxation

10 mark question

Question 31

Extract F (lines 1–2 and 8) states: 'As part of fiscal policy, government spending can be used to allocate resources to different regions and sectors of the economy and consequently, change the pattern of economic activity...Taxation also has a role to play in affecting the pattern of activity'.

Explain ways in which a government can use fiscal policy to affect the **pattern** of economic activity.

[10 marks]

Mark scheme

Use levels of response table on page 3 and 4.

Relevant issues include:

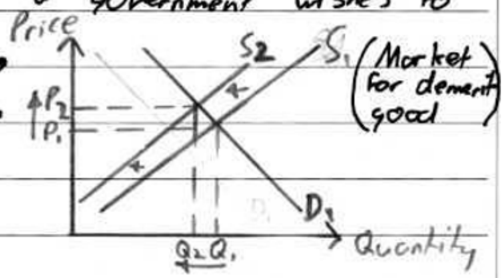
- meaning of fiscal policy/government spending/taxation
- the pattern of economic activity – some areas of the economy will expand others may contract
- direct impact of government spending - if, for example, the government spends more on the NHS more factors of production will be devoted to providing health care
- subsidies – for example, in the context of regional policy/renewable energy/the development of new technologies
- direct taxation – for example, its role in the creation of incentives to carry out R and D/innovation
- indirect taxation – for example, used to discourage the consumption of demerit goods.

Student responses

Response A

Fiscal policy is government taxation or spending in order to influence economic behaviour. The pattern of ~~spending~~ economic activity is the pattern by which consumers spend in different sectors and regions and producers produce of the country.

One way in which government fiscal policy can be used is to tax demerit goods and subsidise merit goods. If a government wishes to change a pattern of ~~spending~~ economic activity and reduce spending on demerit goods they can impose a tax ~~at~~ ~~on~~ which will disincentivise



production and shift the supply curve left (indicated on the graph as S_1 to S_2) which will increase the price (~~P1~~ P_1 to P_2) and reduce quantity (from ~~Q~~ Q_1 to Q_2), of the demerit good (such as alcohol or tobacco or any good for which has negative externalities greater than private cost). Similarly if a government wishes to subsidise a merit good

Extra space they can incentivise production, ~~reduce price a~~ which will likely lead to a reduction in price and increase in consumption.

Another way the government can use fiscal policy to affect pattern of economic activity is spending in the region to boost economic activity. To increase economic activity in a region the government may spend in order to boost aggregate demand and thus economic growth in the region. For example, HS2 is a multi-billion pound investment geared at connecting the North and South of England - which (along with the multiplier and accelerator) is likely to aid economic growth in the regions it connects.

This is a Level 3 response

This question is marked using a level of response mark scheme that assesses knowledge and understanding, application and analysis. When awarding the mark, a judgement is made regarding the overall quality of the response.

This answer scores 10 marks out of 10. The student has written an answer that is well organised. They have considered ways that the government can use fiscal policy to affect the pattern of economic activity using the prompts in the extracts to develop clear, logical chains of reasoning using a diagram to illustrate how an indirect tax can reduce consumption and production. They go on to discuss how government spending on infrastructure may boost aggregate demand in a specific region. This again picks up on prompts in the extracts. Students should be encouraged to look for clues in the extracts to build their answer around. A top Level 3 response.

10 marks

Response B –

One way in which the government can use fiscal policy to affect the pattern of economic activity is through taxation. If the government were to increase income tax, household spending would decrease as households have less disposable income. This leads to a decrease in overall economic activity as AD decreases, shifting the AD curve left and leading to lower prices. Furthermore, due to lower AD, firms will be less willing to invest into the economy due to lack of incentives and multiplier/accelerator effects cannot be therefore benefited from. However, if the government was to decrease direct taxes, economic activity would increase as AD would increase leading to higher growth and inflation. On the other hand,

Extra space the government could increase indirect taxes on demerit goods which would result in less economic activity in those markets and spending being redirected elsewhere.

Another way in which the government could use fiscal policy is through government spending. Government spending ~~injectsion~~ is an injection into the national economy so therefore by increasing government spending, there will be more economic activity leading to multiplier effects which will have a positive effect on growth and income. Due to higher growth and multiplier effects, firms are more likely to invest in supply side improvements which will lead to long run growth in the economy. A decrease in government spending will lead to less activity in an economy and decreased AD and subsequent inflation.

This is a Level 2 response

The student includes some clear, well developed chains of reasoning but unfortunately, they focus on how fiscal policy affects the level of economic activity instead of how it affects the pattern of economic activity. Students need to be taught the difference between the level and pattern of economic activity.

Overall a mid-Level 2 response.

5 marks

Response C

The government can use fiscal ~~policy~~ policies such as indirect taxes to change the pattern of ~~in~~ the economic activity. For example, the 'sugar tax', this was introduced to help reduce health issues such as obesity in the UK. This tax made things more expensive for consumers and therefore led to lower consumption of goods like chocolate causing those health issues.

Another kind of tax they can use to influence businesses is corporation tax. Lowering this tax helps to ~~eng~~ encourage a greater supply of something that is in demand and needed.

This is a Level 1 response

The student's answer does focus on how fiscal policy can affect the pattern of economic activity but the answer is brief, demonstrating limited knowledge and understanding of economic terminology, concepts and principles. They have used the data but the analysis is confused. The second point adds no credit to the answer so overall, top Level 1.

3 marks

25 mark question

Question 32

Extract E (lines 4–6) states: '...the report suggested that significant increases in spending would be required to help improve the wellbeing of the UK population'.

Use the extracts and your knowledge of economics to assess the view that a long-term, significant increase in government spending would be beneficial for the UK economy.

[25 marks]

Mark scheme

Use the levels of response table on page 9 and 10.

Areas for discussion include:

- government spending/fiscal policy
- 'wellbeing of the UK population'
- beneficial to the 'UK economy'/macroeconomic policy objectives
- impact on economic growth
- impact on unemployment/employment
- impact on inflation
- impact on the balance of payments current account
- consideration of the extent of spare capacity
- consideration of 'where' the money is spent, for example, energy improvements/arts industry
- demand-side versus supply-side influence
- consideration of 'significant increase'
- impact on investment
- multiplier/accelerator effects
- consideration of the budget deficit/national debt
- consideration of possible increases in taxation
- consideration of the economic cycle
- the importance of confidence/uncertainty
- the importance of external influences.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response the question.

Student responses

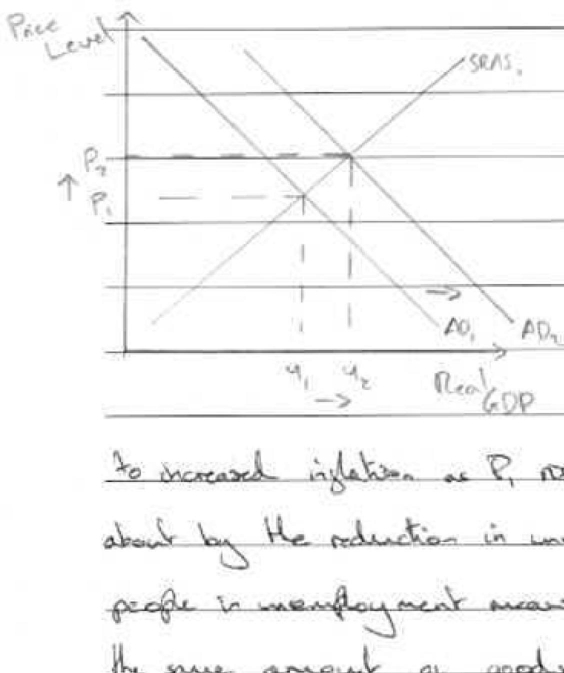
Response A

A budget deficit is where government spending exceeds ~~of~~ government tax revenue. Inflation is defined as a sustained increase in the general price level. The multiplier is where an initial change in aggregate demand leads to a usually larger change in National Income.

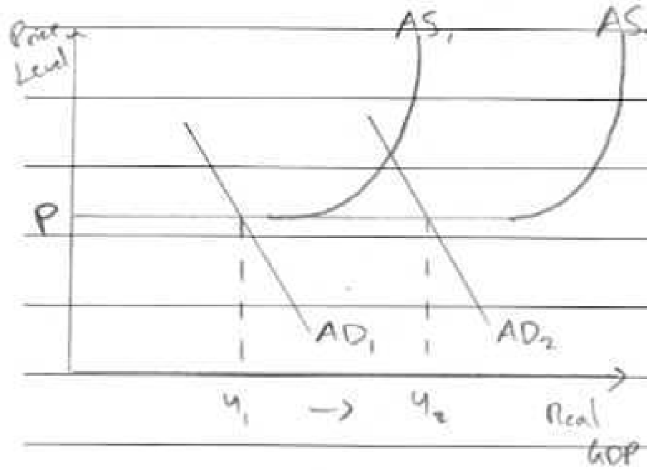
Increases in government spending in the long-term will likely lead to a reduction in unemployment. The extract states that "services such as the health service, ~~p~~ social care and police forces facing funding challenges" as UK government spending hit an "unprecedented pause". An increase in funding to these public services will likely come in the form of hiring new workers as well as building more ~~the~~ services such as hospitals, schools and police stations. ~~Bu~~ Building these not only creates jobs as people need to work in them, but also creates ~~empl~~ vacancies in the construction industry as workers are needed to build these services. Once construction is complete the more jobs will likely be created as local entrepreneurs set up businesses around these services, ~~the~~ further stimulating growth. This is a great example of the multiplier effect as the initial injection of government spending led to a huge increase in National income as new businesses are created and construction jobs made available.

However, ~~by reducing~~ increasing government spending could lead to 'Crowding Out'. This is where public sector investment replaces the private sector investment as resources are used up and the opportunity is lost. This is a drawback as the private sector is much more efficient than the public sector due to higher profit motives. This increase in government spending could also be an example of the government acting in its own political self interest. By injecting huge amounts of money into the economy the government can win over voters to try and remain in power even if the policy being implemented is damaging in the future. In this case the huge amounts of spending will increase the budget deficit and increase government debt for future generations to deal with

A negative of increases in government spending would be that they could lead to inflation. As government spending is a component of aggregate demand (total planned spending in an economy), an increase in government spending would lead to a rightward shift in aggregate demand. Although this would lead to increased ~~£~~ national income, shown by Y_1 to Y_2, it would also lead to increased inflation as P_1 rises to P_2. This inflation could be brought about by the reduction in unemployment mentioned earlier as more people in employment means more money being spent ~~on~~ chasing the same amount of goods.



However, the increase in government spending doesn't have to be inflationary. If the government is spending money on supply side improvements then even though there may be an increase in AD, it is still within the capacity of an economy. The diagram below shows that



even if AD increases from AD_1 to AD_2 it can be non-inflationary as long as supply also shifts from AS_1 to AS_2. In this case the economy benefits from the increase in national income, Y_1 to Y_2, whilst price levels remain at P. The spending could even lead to deflationary pressures if ~~AS~~ SRAS increases significantly enough that the supply in an economy outweighs aggregate demand. The increase in government spending could also be coupled with increases in certain taxes

~~[illegible]~~ which would not only reduce the inflationary pressures caused by increased AD, but increase tax revenue, hence reducing the budget deficit.

In conclusion, I think that a long-term, significant increase in government spending would be ~~[illegible]~~ mostly beneficial for the UK economy. This is because in times of an economic shock, such as the pandemic the UK was facing in 2020, government spending is required to stimulate both the demand and supply side of the economy. As the extract states "Given the nature of the economic crisis, many more job losses are expected", government spending would reduce unemployment by stimulating AD ~~and~~ as well as improving supply-side by creating new jobs. Not only does spending help to reduce unemployment it also increases economic growth but there is a strong risk of high inflation rates. Overall it depends on the nature of the crisis, in this case the economic shock incapacitated both the demand and supply side of the UK economy and therefore it would be mostly beneficial for UK government to significantly increase spending.

This is a Level 5 response

The student begins by defining some key terms. They follow with clear, well developed chains of reasoning that explain how greater spending on public services will increase the demand for labour and reduce unemployment. The analysis is extended by using the multiplier process. The subsequent evaluation uses a key economic concept (crowding out) to question the previous analysis. The evaluation is well developed and supported by sound knowledge and understanding.

The next point looks at a potential drawback of increasing government spending. The student discusses the inflationary impact and they use diagrammatic analysis to support the response. They go on to evaluate this point by including well-focused analysis that considers supply side policies and how they aid non-inflationary growth.

In the final judgement the student repeats the question. This is good exam technique to ensure that the conclusion focuses precisely on the question set. The student then uses 'it depends' to show that they understand the complexity of the question and how context is key when making a judgement. The judgement is clear and well supported, a top Level 5 response.

25 marks

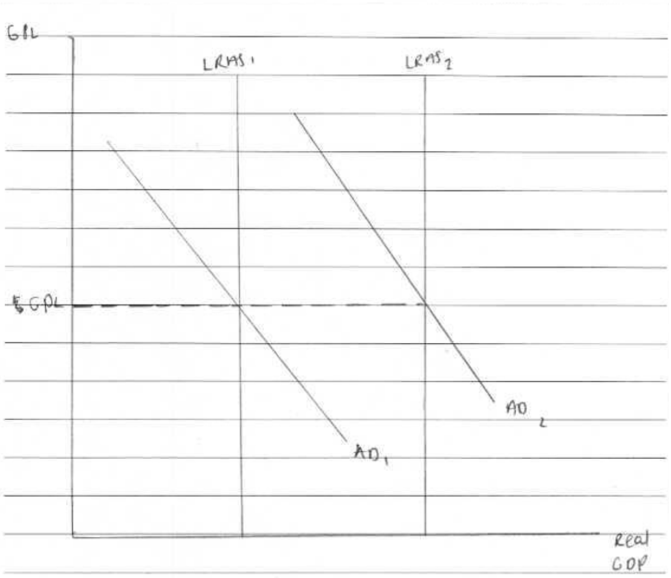
Response B

Government spending is the government using tax revenue to improve the public sector. ~~[illegible]~~ A significant increase in spending would help ~~to~~ improve the well being of the UK population to some extent. However it could have ~~[illegible]~~ significant negative consequences as well.

An increase in government spending ~~[illegible]~~ could mean that there would be an ~~[illegible]~~ increase in public sector spending and this would mean the improvement of services such as health and education. However, there would be the opportunity cost as the money could always be spent elsewhere. This increase in public sector spending would also be seen as interventionalist supply side policy as spending on areas like health and education benefit the labour force significantly as education / vocational training would reduce occupational immobility of labour and health improvements would mean a healthier work force. As a result LRAS would shift outward from LRAS¹ to LRAS². Moreover, due to the Covid pandemic government spending has increased further ~~[illegible]~~ and is expected to exceed 50% of GDP. Government spending is an injection in the circular flow of income and therefore helps to increase economic activity. This would ~~[illegible]~~ bring positive multiplier effects to stimulate private sector investment and also aid in absorbing spare capacity. However, there would be a significant time lag of 12-24 months before any change in economic activity could be seen so it would be helpful in the long term but not necessarily the short-term. Also, there is no guaranteed success that an increase in government spending would have all these effects.

On the other hand, the increase in government spending was at a time where the tax revenues were falling. This wouldn't benefit the the UK population. This is because this would result in the widening of the budget deficit which is at £327.6 billion ~~already~~ already. Therefore the government would have to increase their borrowing which was expected to reach £350 billion in 2020-21. As a result, national debt would increase further from its current rate of £2.6 trillion. To combat this the government would then have to use contractionary fiscal policy which is an increase in tax and a decrease in government spending. This would have many negative effects. For example increasing ~~ea~~ income tax means less incentive to work.

In conclusion. ~~the~~ an increase in government spending wouldn't be beneficial ~~to~~ to the UK population in the long term as it isn't sustainable and would cause a significant increase in national debt as it is cumulative over the years. Also the government spending would have to be cut at some point to help reduce the budget deficit.



This is a Level 4 response

The student demonstrates some good application of relevant economic principles and makes good use of the data to support the response. The chains of reasoning are clear and logical. It would be improved if the student had used paragraphs to separate different points.

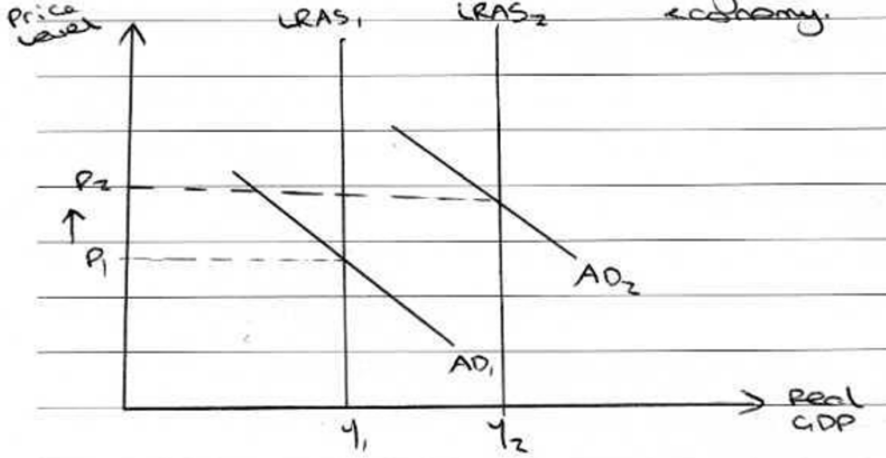
The final conclusion is clear and supported, making this a high Level 4 response.

There is a diagram included at the end that is not referenced. Students need to include an explanation of their diagrams within the chains of reasoning in order to receive any credit.

19 marks

Response C

Government Spending is crucial in the changes to economic activity as can lead to substantial growth if implemented correctly. Government Spending refers to spending by the government to influence ~~e~~ changes in the economy as it is an injection into the economy.



The government can spend the money available to them on supply side policies as supply side measures will increase productive potential as supply side policies look to improve the supply in the economy by ~~[illegible]~~ expanding the economy's productive capacity. Increased spending on subsidies to firms and increased training will lead to the economy being able to produce more in the long run due to the increase in productive potential which is shown in the diagram by a shift from ~~LF~~ (LRAS1) Long run aggregate supply to LRAS2. Supply side policies promote non inflationary growth ~~and~~ as supply is able to maintain the pressures of growing demand. Therefore this policy is extremely useful in the long term as an increase in government spending leads to an increase in productive potential as in the extract it states that

However, supply side policies may be extremely expensive and take years ~~before it~~ the policy comes into effect. ~~which~~ ~~could~~ Supply side policies such as ~~subsidising~~ subsidising factories could also have negative impacts on the economy due to the negative externalities that could arise. In Extract F it states that "higher spending, at a time when tax revenues were falling, led to a large increase in the budget deficit.

Government spending may also be benefical to the economy to stimulate growth and increase the economy's real GDP. The government is able to do this by using expansionary fiscal policy and increasing spending in order to increase GDP. ~~as~~ Expansionary ~~fiscal~~ fiscal policy uses government spending to influence AD in the economy. Extract F States "a £2 billion subsidy scheme ~~to~~ was implemented to encourage house holders to make energy saving improvements" which helps the householders save money which they will be able to inject into the economy else where, this effect will cause multiplier and accelerator ~~#~~ effects as the multiplier refers to a change in AD which causes a bigger change in real GDP, which promotes accelerator effects to take place as an increase in AD encourages business to invest " ~~Posi~~ multiplier effects help stimulate private sector investment which absorb spare capacity" states extract F.

However Fiscal policy may not be as effective in the long-term to increase growth as it is a short term policy to boost AD.

~~[illegible]~~ Based on the ~~[illegible]~~ assements made throughout my argument I believe that the best policy to benefit the UK economy in the long-term are suppy side policies as it is the best policy that will be able to sustain growth in the long term and not cause demand pull inflation pressures as the ~~[illegible]~~ productive potential of the economy increases and allows growth to be Sustained without demand exceeding supply but the most important reason for Suppy side measues is that it boosts international competitiveness and help the UK economy to export more goods causing a surplus on the current account of the balance of payments due to the increase in competitiveness but it depends on where the economy is on the economic cycle as if they are in a boom growth can be extremely high.

This is a Level 4 response

The student begins by analysing the impact of supply side policies on the productive potential of the economy. They evaluate by stating that the policies may be expensive and take years to come into effect, which is very generic. The next point focuses on expansionary fiscal policies and better use is made of the extracts to support reasoning. The student extends their analysis by explaining the multiplier process, taking a prompt from the extracts.

The final conclusion is fully focused on the demands of the questions and shows an appreciation that the decision on whether the government should increase spending will depend on the stage of the economic cycle. overall, low Level 4.

16 marks

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