

ENTER NUMBER OF QUESTION	DO NOT WRITE IN THIS MARGIN
<p>become too expensive, this could lead to business closures which will actually increase unemployment. ^{✓FM} [This creates further</p>	1 MAX
<p>issues for the government as it will have to provide spend ^{✓FM} more on unemployment benefits. This is particularly concerning at a time of high national debt.</p>	1 MAX
<p>• [Increasing interest rates will lead to more demand for</p>	
<p>£s because of hot money inflows seeking favourable returns on savings. ^{✓FM} [As a result, the currency strengthens. ^{✓FM} [This is beneficial</p>	1 MAX 1 MAX
<p>as the UK is still low relative to the \$ and €. This means</p>	
<p>that foreign imports will be cheaper which effectively reduces inflationary pressure for consumers. ^{✓FM} [However UK exports will</p>	1 MAX
<p>be more expensive meaning they will see a fall in demand.</p>	
<p>This will have a negative impact on the current account and increase the trade deficit. ^{✓FM}</p>	1 MAX
<p>b) [High inflation means that consumers have less disposable lower standard of living because they are unable to afford</p>	1
<p>as many goods and services at higher prices. ^{✓FM} [It may also</p>	
<p>increase relative and absolute poverty in the UK as food</p>	

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<p>the balance of payments as imports increase. ✓ FM</p>	<p>1 MAX</p>
<p>[The government has had to increase transfer payments such as Cost of Living payments to low income, disability and pensioners households. This has worsened the UK budget deficit. ✓ FM</p>	<p>1 MAX</p>
<p>[High inflation meant less demand for UK exports resulting in a benefit of the high inflation is that the extra demand for lower imports demand for the £. This led to a depreciation in the</p>	
<p>currency. ✓ FM [This had a later benefit of UK exports being more</p>	<p>1 MAX</p>
<p>price competitive due to a relatively lower value of the currency. ✓ FM</p>	<p>1 MAX</p>
<p>and the inflation may have cost of living crisis may have encouraged</p>	
<p>those able to work but choosing not to into the workforce. This</p>	
<p>moves the UK closer to maximising its productive potential.</p>	<p>8 8</p>
<p>c) [The current inflationary pressures of food inflation and energy inflation are a result of supply side factors such as problems with supply chains. [Monetary policy is a demand side policy which means that it may be ineffective at tackling these supply side issues. ✓</p>	<p>1 1</p>
<p>[Additionally inflation is a ^{persistent} global crisis which is unlikely to be ^{resolved} tackled by UK domestic policy. It is also linked to geo-political tensions which further suggests UK monetary policy will do little to improve the situation. ✓</p>	<p>1</p>
<p>[However, others may argue that if if the UK increases rates, other nations will follow (it has clearly been a global trend of</p>	

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<p>central banks raising interest rates) and that the combined effect will lead to substantial reductions in inflation. ✓</p>	1
<p>[Some argue that the Monetary Policy Committee acted too late. In 2020 signs emerged of upcoming inflation however the Bank maintained ultra-low interest rates. This suggests that they are ineffective in preventing economic crises. ✓ FM</p>	1 MAX
<p>[Some argue that the increases in interest rates are too small to combat the high inflation and so will have minimal impact. However ✓ FM</p>	1 MAX
<p>from 0.1%. At the end of 2021 [the bank rate is now 4.5%. May ✓ 5 FM 2023 showing that significant steps have been taken to effectively lower the rate of inflation.</p>	1 MAX $\frac{4}{4}$
<p>d) [Modern Monetary Theory believes that it is safe and sustainable to borrow and spend money as a government provided that they invest in projects that will generate long term growth. For example infrastructure projects. ✓ [It rests on the assumption that the government cannot run out of money as it is always able to print more. ✓ [It believes that investment into supply side policies is preferable to market based interventionist policies such as deregulation and privatisation. ✓</p>	1 1 1
<p>[It suggests that future generations will not inherit a debt burden as traditional economists fear but that it will allow them to inherit the returns from investment in the form of greater productive potential. ✓ It believes it is not inflationary and cites the</p>	1

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	<p style="text-align: right; color: red;">✓ 5 FM</p> <p>[example of Japan which has debt at 240% of GDP but has</p>	1 MAX
	<p>not experienced significant inflation.</p>	4
		4
		<u>25</u>
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