

# Candidate 1 evidence

<p>1a)</p>	<p>The national debt is the total sum of all government borrowing (an accumulation of all past budget deficits)</p>
<p>b)</p>	<p>The budget is <del>at</del> when the government lays out their spending plans for the next year, as well as any planned tax changes</p>
<p>2)</p>	<p>Rising national debt could lead to "crowding out" which is when <del>the</del> increased government borrowing raises <sup>market</sup> interest rates making it more expensive for businesses to borrow, perhaps leading to a decrease in capital investment which may reduce <del>long run</del> productive potential, productivity and long run growth.</p>
<p></p>	<p>Rising national debt also leads to higher interest repayments, these higher interest repayments <del>have a significant opportunity cost</del> can worsen the government's <del>budgetary position</del> budgetary position <sup>these interest service payments have significant opportunity cost</sup> meaning less can be spent on public services and infrastructure projects which could have negative implications for health <sup>and skill levels</sup> of the workforce as well as mobility and productivity in the long run, potentially hindering growth.</p>
<p></p>	<p>Rising national debt could also lead to an economy being perceived as more risky, <del>leading to a sovereign</del> <sup>this could lead to</sup> a loss of confidence in the bond market leading to rising costs for future borrowing. This threatens the budgetary position of future governments and poses the risk of a sovereign debt crisis.</p> <p>If government borrowing is not spent on capital spending</p>

(which future generations can benefit from) then intergenerational unfairness could occur - where future generations have to suffer the consequences of increased government <sup>borrowing</sup> ~~spending~~ (such as austerity measures) without actually enjoying any benefit. This can lead to crumbling infrastructure and public services, as well as limiting productivity growth.

Rising national debt could also positively impact the economy, this could be through <sup>sustained</sup> increased increases in government spending helping stimulate <sup>and boost</sup> aggregate demand in an economy helping counteract recessionary pressures.

· Rising national debt could also result in a lack of allocative efficiency with government spending too much on <sup>servicing</sup> debt and too little on other ~~social payments~~ ~~activities~~ areas such as capital.

3) An ageing population could negatively impact the government's <sup>tax revenue</sup> ~~budgetary~~ position because <sup>more</sup> as people increasingly reach retirement at a rate faster than ~~the government earns less tax revenue~~ younger people

enter the workforce then the government will receive less tax revenue both from national insurance contributions and ~~on~~ from income tax, worsening their budgetary position and perhaps meaning the government can spend less on capital or public services limiting productivity and economic growth.

An ageing population also will require increased government spending as more people claim public pensions as well as due to rising demand for healthcare and <sup>care home services,</sup> ~~public service repairs~~

This spending increase will inject money into the circular flow perhaps boosting aggregate demand (AD) and having a multiplier effect ~~that~~ on national income, boosting economic growth. However this spending increase will also come with <sup>making</sup> opportunity cost, ~~requiring~~ the government to spend less on infrastructure projects perhaps harming the economy in the long run.

An ageing population could also <sup>lead to a labour</sup> ~~have a~~ <sup>shortage</sup> ~~lead to a~~ <sup>numbers of</sup> ~~productivity~~ <sup>shortage</sup> with ~~people~~ entering the workforce unable to keep up with those leaving the <sup>labour</sup> ~~market~~ due to retirement, thus decreasing of the workforce would hinder the productive potential and output of the economy

An ageing population could also worsen ~~ageing~~ productivity as people ~~people~~ get older and find it harder to maintain a fast pace, especially in physical jobs, this could hinder export competitiveness, deteriorating the trade record and could

restrict long run economic growth

As older individuals statistically consume less, an ageing population could lead to a reduction in consumption, AD and growth in the economy as well as reducing demand pull inflation and improving the trade record as demand for imports reduces (assuming ceteris paribus)

4) Banning the sale of new petrol and diesel cars would help eliminate the negative externalities <sup>of</sup> consumption (for example the pollution they produce) ~~or~~ created by their use, helping the environment and people's health allowing a more productive workforce and allowing the government to meet their goal of carbon neutrality by 2050. The negative externalities of consumption are also a ~~market~~ market failure and so this would fix the market failure and prevent a <sup>further</sup> dead weight social welfare loss

Banning the sale of new petrol and diesel cars could however put considerable strain on the car industry which contributes £19 billion to the economy and supports 192,000<sup>5</sup> jobs. This could threaten these jobs and potentially cause unemployment as firms go out of business due to being unable to make the switch to electric cars.

Banning the sale of petrol and diesel cars could ~~hurt~~ <sup>worsen</sup> the

UK's current account deficit as these cars are our ~~biggest~~ biggest goods export.

Banning petrol and diesel cars could require large amounts of government spending ~~tax~~ in order to ensure that the ~~user of~~ transition to electric cars is smooth. For example there are <sup>only</sup> 73,000 electric car charging points currently in the UK but there are 32.9 million vehicles on the road, so the government would definitely have to invest in the infrastructure required to make this shift, this would increase budgetary pressure and perhaps national debt.

Banning petrol and diesel cars could lead to an increase in geographical immobility and <sup>thus</sup> structural unemployment as ~~there are only 39~~ only half of second hand electric car models can be bought for less than £20 thousand yet a YouGov survey found that 67% of UK households have a budget less than £15k for a car, meaning many UK households may not be able to afford this transition and so geographical immobility may increase.

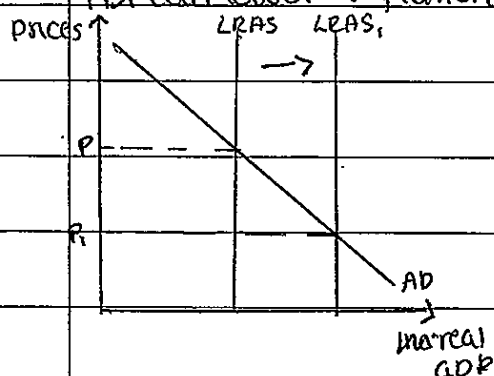
⑤ FDI creates <sup>or jobs</sup> jobs, for example the Universal theme park in Bedford is projected to create ~~28~~ 28,000 jobs, <sup>reducing</sup> ~~unemployment~~ unemployment.

FDI can lead to increased ~~in~~ capital investment in the UK economy boosting productivity, output and economic

growth. E.g. much of the UK's environmental technology is a result of FDI.

FDI can lead to an increase in corporation tax revenue for the government, helping their budgetary position.

FDI can lower inflation as seen through the diagram below as prices fall from  $P \rightarrow P_1$ .



However, FDI can outcompete domestic firms on price, driving them out of business and raising unemployment.

FDI is footloose so can leave at any time taking the jobs they create with them, resulting in increased unemployment and reduced output and productive potential.

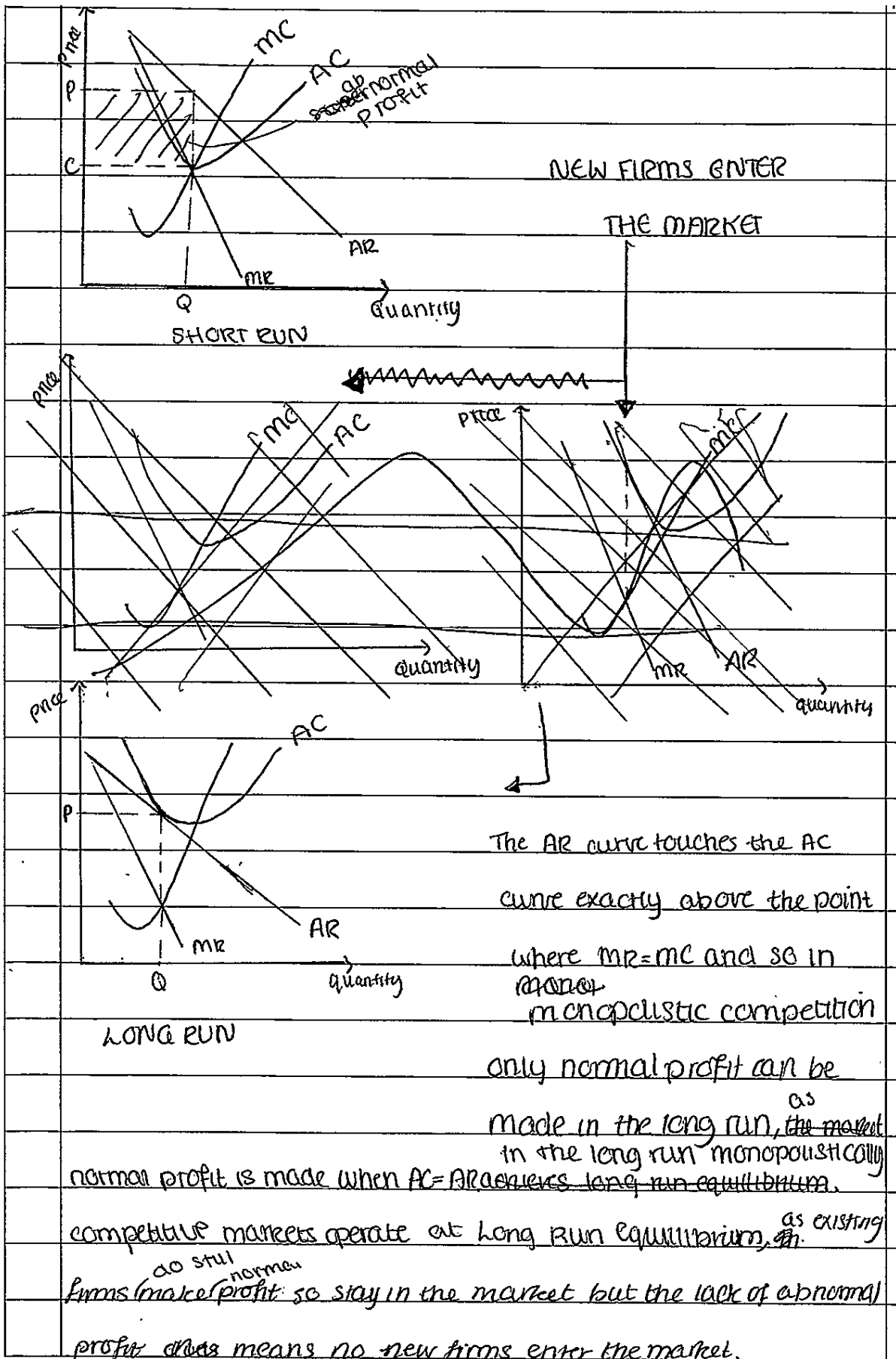
6) Capital Gains Tax is the tax you pay on the profit you make when you sell an asset. It is progressive in nature with <sup>basic</sup> ~~base~~ rate tax payers paying 18% capital gains tax (as of April 2025) and higher rate tax payers paying 24%. There is a £3,500 yearly tax free allowance (£1,500 for trusts). You do not have to pay CGT on lottery winnings, ISAs or government gilts/bonds.

7) Inheritance tax on the one hand helps ~~to~~ reduce inequality

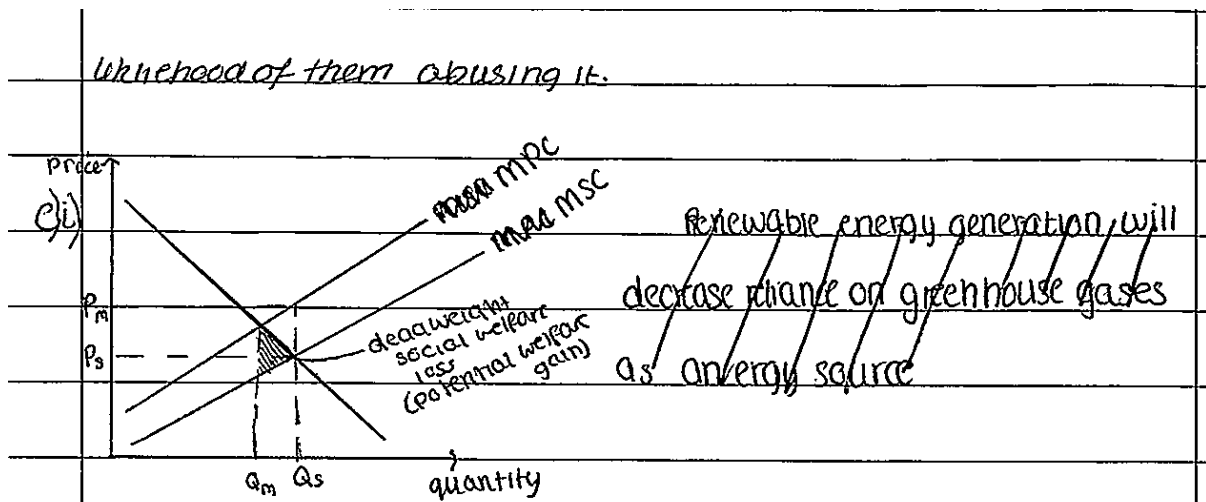
and improve wealth distribution, <sup>paying rates of on</sup> ~~taking~~ 10% of <sup>over the</sup> estate ~~over the~~ £325,000 tax free allowance. Recent changes to inheritance tax ~~removal of the tax relief on agricultural land worth over 1 million pounds~~ - helps remove tax loopholes exploited by the super rich such as Mr. Dyson to avoid tax - increasing the government's tax revenue and improving their budgetary position.

However on the other hand if the estate <sup>money, property or possessions</sup> someone inherits is in an illiquid form it can be very difficult to pay tax on this as they may not be able ~~to~~ to afford it even if they have a valuable asset. Furthermore, UK farmers have been outraged by the changes to inheritance tax with many <sup>in agriculture.</sup> saying that it will decrease production <sup>land</sup> food security in the UK.

8a) Although monopolistically competitive ~~firm~~ ~~or~~ firms can make abnormal profits in the short run, the low/absence of barriers to entry means that many firms will enter this market when they become aware of the opportunity to earn abnormal profits, this raises supply <sup>in the market</sup> and so the demand for the firm's ~~output~~ becomes much more elastic, ~~and~~ competing away the abnormal profits ~~(see the P.T.O for diagram illustrating this).~~



	<p>b) The UK has bodies such as the CMA (Competition and Markets Authority) that regulate markets, identifying, preventing and stopping anticompetitive practices. For example the CMA recently fined 10 car companies including Ford and Jaguar Land Rover <del>for</del> £79 million for collusion over vehicle recycling and issued a warning to Ticketmaster <sup>withholding information from</sup> <del>for not properly informing</del> their customers when selling Oasis tickets. The CMA monitors markets and by issuing fines etc. provides incentives for firms not to engage in <del>any</del> any practices which abuse their monopoly power.</p> <p>The UK government <del>can</del> imposes maximum pricing policies <del>in order to</del> prevent monopolies from exploiting their consumers in terms of price.</p> <p>The UK government sometimes subsidises firms to enter markets in order to provide healthy competition and stop the abuse of power.</p> <p>Industry specific regulators such as OFCOM and OFGEM <sup>are</sup> <del>specifically</del> <sup>able to spot</sup> monitor certain industries closely, being <del>more aware</del> <sup>able to spot</sup> of abuses of monopoly power than the CMA, for example OFGEM penalising <sup>overcharging</sup> United Oil and Gas <del>for exploiting</del> their consumers proves this.</p> <p>Regulators can also act as proxy consumers to prevent abuses of power.</p> <p>Taxes can be placed on high monopoly profits which would limit the power they have and thus lessen the <del>likelihood</del> <sup>likelihood</sup>.</p>
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Renewable energy generation would result in several positive externalities, an increase in production would firstly potentially result in a gain of social welfare as production moves towards the socially optimum level of output and away from market equilibrium which (because it does not account for the externalities) overproduces renewable energy ( $Q_m \rightarrow Q_s$ ) and charges too high a price ( $P_s \rightarrow P_m$ ).

~~Renewable energy generation would correct this market failure~~  
 The social cost of renewable energy generation is less than the private cost meaning that positive externalities are generated.

Renewable energy generation would reduce reliance on fossil fuels, decreasing carbon emissions and pollution, this would have a positive ~~positively~~ benefit spill over affect on individuals with, for example, asthma, who's health would improve due to better air quality. Not only would these individuals benefit but so would wider society, all of whom ~~to~~ experiencing improved respiratory health.

due to improved air quality.

Another ~~for~~ positive externality would be ~~encrease~~ the affects on wild life, with decreasing reliance on fossil fuels phenomena such as ~~an~~ oil spill which greatly harms the environment would reduce, as well as the fact that ~~less~~ reduced pollutants would make their habitats more enjoyable.

Another positive externality could be a slowing of climate change. This would drastically improve life on earth decreasing natural disasters and habitat destruction.

Another positive externality could be the fact that resource depletion would slow and perhaps energy prices would fall as energy is created using an infinite/<sup>free good</sup> not /finite scarce goods such as oil or liquified natural gas. This would increase living standards.

Another positive externality of renewable energy <sup>generation</sup> ~~consumption~~ would be increased energy security, with the country producing its own energy and not relying on imports of fossil fuels. This would in turn improve the trade record.

(i) The government could introduce a carbon tax <sup>on CO<sub>2</sub> emissions</sup> ~~which would~~ ~~place~~ emissions, following in the lead of Sweden who introduced one in 1995 and have since seen a dramatic fall in carbon emissions, the UK too could reduce their carbon footprint in this way, by making producers acknowledge the social costs by putting a monetary value on them. ~~However the government measures to increase the use of public~~ ~~the services~~ However the social costs here in the UK would differ than those in Sweden and the tax may be ineffective if the monetary value does not match that of the <sup>externalities</sup> ~~externality~~ but is extremely hard to put a material value on externalities as they are simply a concept.

The government could subsidise 'green' industry and invest in their development, ~~and~~ like the Labour party's creation of Great British Energy, a nationalised green energy producer. This would benefit the environment by ~~and~~ making green energy more affordable incentivising consumption <sup>and production</sup> of environmentally friendly energy forms over fossil fuels and thus helping the environment. However these measures are very expensive to the government and even with the subsidies there is no guarantee prices will be able to compete with those of the, for example, the oil industry who can produce oil exponentially cheaper than green energy can be produced and so fossil fuels may still be more affordable, accessible and convenient for the masses, and so <sup>this measure may not</sup> be that successful in helping the

environment

The <sup>UK</sup> government could encourage public transport use over private car use in a bid to reduce emissions, for example like the provision of free buses by the green party in Scotland.

This would greatly increased bus travel with people opting increasingly for public over private transport this could massively help the environment. However, many people do not have access to <sup>efficient</sup> public transportation due to living in rural areas or there being poor/irregular services forcing many people to continue using private vehicles thus limiting the effectiveness of this policy as it relies on effective public transportation systems

The government could offer incentives to consume ~~green~~ electric cars, this could be done through subsidies or <sup>offering</sup> increased benefits such as <sup>the</sup> 50% off parking electric vehicles get at Edinburgh Airport. This encourages people to choose electric cars over those powered by fossil fuels, decreasing pollution. However, despite these concessions electric vehicles ~~are~~ <sup>remain</sup> very expensive and so many may be unable to afford them, being forced to keep ~~on using~~ <sup>using</sup> fossil fuel powered vehicles, which would not help the environment much, if at all.