Candidate 2 evidence

1) a) Tax credits are money paid back to those on low incomes following the payment of their taxes - ie those on low incomes will end up paying less in taxes overall. They are ~~as~~ determined in proportion of the level of income.

b) Supply side policies are policies that aid in making production cheaper or more efficient, and thus encourage production. For example, subsidisation is a supply-side policy as it makes cost of producing cheaper and thus allows total production to increase, firms have more money with which they can increase the scale of their operations...

2 Higher wages means the government will earn more from income tax. It also means firms will pay more in national insurance contributions to the government. As a result, the govt. is earning more in revenue. Also, as incomes are higher, less will have to be paid out in benefits for low-income earners and thus govt. spending will fall. Thus, as revenue increases and spending falls the budget deficit will likely become more favourable, and this may help to erode national debt.

3) Improving the budgetary position has been made neccessary ~~by~~ in order to ~~reduce national debt~~ reduce the budget deficit. A long running budget deficit will become a structural deficit, and thus the burden will be passed on generations which will restrict future growth. Debt will also continue to grow if a persistent budget deficit continues. This will not only be expensive to pay off (for interest payments must also be made), but such payments will have to be funded, e.g through increasing taxes. Thus, improving the budgetary position ~~reduces~~ will reduce the rate of debt and the subsequent burden on the UK economy.

Improving the budgetary position

will also help confidence in financial markets, as investors will have more confidence in the UK govt. and it's ability to pay off debts (becomes more trustworthy). Thus, more international investment may be attracted.

4) The NLW will increase business costs. If firms are employing those on minimum wage, their costs will have to rise due to regulations. However, other firms may see increased costs ~~as~~ even if they do not employ minimum wage workers: it may be neccessary to increase wages to maintain differentials and appeal when recruiting. Firms may become

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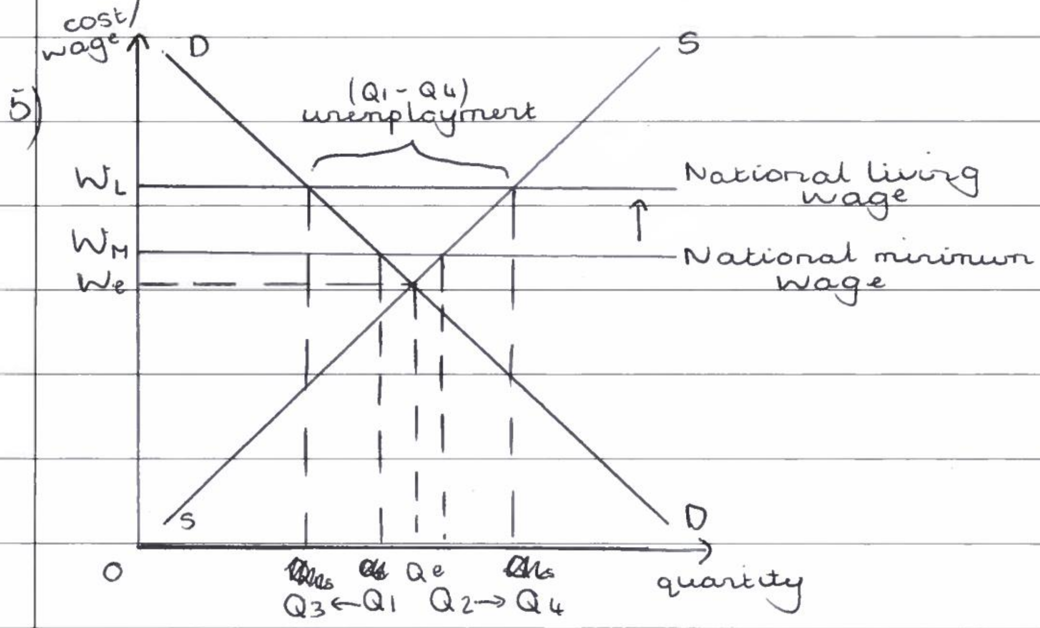
more willing to offer training in order to obtain a sense of value-for-money: this may in turn cause productivity to rise. The firm will have to pay more in national insurance contributions, raising costs further.

5)



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6) Low productivity may occur from a lack of effective training. Training is often expensive for firms and thus they may underprovide it or reduce quality to reduce short run costs. As a result, workers may be less skilled than in other countries, where the govt. might provide training or regulate training measures. An increase in productivity ~~is~~ often results when technology replaces manual labour: however, the UK economy is dominated by the service sector for which it is harder to use technology to replace labour and thus increase efficiency. The UK workers may also be less incentivised/motivated at work. This may be because of the ease of access

to the 'social net' of benefits/in-work benefits they know they ~~have~~ can always rely on for support.

7) Low productivity growth may cause inflation is population growth stays relatively high, as if the goods are being demanded quicker than they can be provided, demand-pull inflation may occur. However, Low productivity growth may make firms less competitive. As a result, they may have to lay off workers to cut costs, which weakens aggregate demand, or ~~raise~~ lower prices ~~costs~~ with the hope of attracting demand. This may actually cause stagnation, or even deflation. Firms will become less competitive in international markets as they

will lag behind in efficiency. If firms become less competitive, exports will become relatively more expensive and thus less desirable. This may worsen the UK balance of trade

8) Rising income inequality may actually benefit society in some instances. If there is growth in the middle/upper class, the government can enforce a progressive tax system, meaning that those that are richer will pay proportionately more in tax. If there are more people earning lots, this will provide much greater revenue for the government

than ~~as~~ a more even income distribution would provide. Also, if the upper classes are becoming richer, they have more money with which they can invest in the UK economy, such as in stocks or in firms. This may cause a positive multiplier effect, and the effects may in turn benefit those on low incomes, such as by the creation of more jobs. If income inequality increases, ~~[illegible]~~ ~~there~~ it will ~~be~~ likely be easier for the government to set regulations for receival of benefits, as there will be more definite separations in income groups. This may in turn make it easier to determine ~~how much~~

~~[illegible]~~ where to make cut offs/ regulations, and allow the state to work more efficiently.