Candidate 1 evidence

ENTER NUMBER OF QUESTION		DO NOT WRITE IN THIS MARGIN
1a)	A recession is a period where an economy experiences negative economic growth for two or more consecutive quarters.	
b)	National debt is the government's revenue minus its spending. National debt can be reduced either by increasing government revenue, for example by increasing taxes, or by decreasing spending, for example ~~real terms~~ cuts to public sector worker's wages.	
2)	The government believed this because of trickle down economics. By cutting taxes, individuals have more disposable income which they can then use to spend on goods and services. This means consumer spending, a key component of aggregate demand increases, as a result, output will increase to meet this demand further leading to economic growth.	
	Corporation tax cuts will benefit firms because (Furthermore, this increased spending may ~~benefit~~ from the multiplier effect. Increased spending from consumers increases revenue and profits for firms.) This ~~increase~~ decrease could be used to invest in new capital such as new technology which would make UK firms more productive. As a result, their per unit costs would decrease making UK ~~firms~~ exports more price competitive.	

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	Cheaper exports will experience higher demand meaning that as X-M is another component of AD, output of the economy will increase and we will experience export led growth.	
	~~Cuts to corporation tax~~ The multiplier effect means that increased consumer spending will increase the revenue and profits of firms which allows them to expand. An increase in employment not only increases output but leads to those individuals having more income to spend in the UK economy which further drives growth.	
3)	One implication is that the government may have to increase taxes in the future. National debt may be a burden on future generations and the government may need to increase taxes to gain revenue to ~~invest in the~~ spend in the public sector in the future. This will lead to a lower disposable income for future generations and therefore a lower standard of living because they are able to buy fewer goods and services.	
	Another implication is that the government may be unable to sufficiently fund the public sector ~~because they would have to~~	

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	~~borrow more to do so or~~ because they do not want to raise taxes. This would mean that wages of public sector workers would fall leading to a lower standard of living. It may also mean that the UK would have a lower skill level due to a lower standard of state education. This would lead to a less productive workforce which may in fact reduce output and therefore contract growth	
	It may deter foreign investors as they see that the government is not stable which suggests it is unsafe to invest money in that economy. As a result, there may be less FDI meaning less output from foreign firms set up in the UK. This may limit employment from foreign firms and reduce skills transfer which limits the productive potential of the economy.	
4)	One positive implication may be that Scotland could gain more tax revenue to spend on public services. For example, funding for NHS Scotland may increase with higher rates of Scottish income tax. This may increase the health of the workforce	

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	leading to greater productivity and future growth.	
	One negative implication of Scotland having higher tax rates is that ~~people~~ high skill, high earners	
	may be inclined to move to England to benefit from lower	
	income tax. 'Brain drain' would leave Scotland with fewer	
	high skilled workers which would limit their productive potential.	
	This could also see a fall in their tax revenue which would	
	potentially limit the previous argument of greater investment into	
	public services.	
	A positive implication is that Scotland with a more progressive	
	system, could do more to tackle inequality which is becoming	
	an increasingly significant problem in the UK. This may encourage	
	more migration from the rest of the UK to Scotland.	

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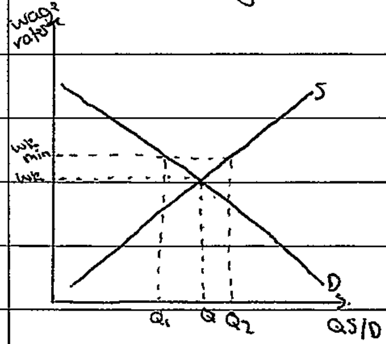
5 Introduce a minimum wage / increase a pre-existing minimum wage



This indicates that by increasing a minimum wage, supply of labour would extend Q → Q_2, while demand for labour falls Q → Q_1. A minimum wage ~~rate~~ increase would reduce inequality because it ensures a minimum standard of living is maintained for those on lowest incomes. However, it may be less effective if the increase is minimal, a substantial increase may be required to make a difference. In evaluation, it only helps those in work and is ineffective at tackling the ~~Another benefit of a minimum wage is that it~~ inequality gap for those without a job.

Cost of living payments as seen in Jeremy Hunt's Budget Statement. By providing targetted cost of living support, UK households who most need financial aid would receive additional payments. This reduces inequality because it specifically focuses on improving the standard of living for low income households and may be funded by tax revenue. In evaluation, it is limited as it does not benefit the middle classes who are also suffering

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from inflation and cost of living but are not receiving help.

Increasing government spending in lower earning regions such as the North of England. To reduce regional inequality they could create areas with lower corporation tax to encourage companies to operate there and employ local people. This may be beneficial because it could increase skills and earnings in deprived areas. However, evaluation in in these instances local people may only be offered low skill, low pay roles, ~~that~~ while management moves with the company. This would negate the benefit of increasing incomes to tackle inequality.

Another policy may be building infrastructure to connect areas with low earnings to business hubs. ~~It~~ This would allow individuals to work in other locations with higher income potential. For example, HS2. In evaluation, this may not be successful as such projects are timely and expensive.

Increasing pensions. This would benefit the elderly who are on fixed incomes and so see the real value of their savings fall with inflation. Jeremy Hunt increased pensions in line with inflation which reduced inequality due to age and retirement. However, this success was limited as it followed years when pensions had fallen in real value meaning many retirees income were still lower than pre-austerity levels.

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6 Advantages

Inward migration helps with current UK labour shortages, ~~the~~ an influx of skilled workers could help manage the shortage of workers which would allow output to return to normal by stabilising industries. It would also counteract the high wages that have arisen due to labour shortages which means inward migration could be a deflationary pressure.

Some migrants may be willing to work for lower wages which would lead to firms having a lower cost of production. This may be passed onto consumers through lower prices. It could also increase investment to make firms more productive.

Many migrants have an entrepeneurial spirit and will set up businesses in the UK on arrival. This contributes to total output of the economy and so increases growth.

It reduces the dependency ratio. This is because migration is typically leading to an influx of workers which means the fiscal burden of dependants is being split over a greater number of workers. This ~~creates~~ reduces individual contributions to supporting the elderly through taxation

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Disadvantages

Inward migration can put excess strain on public services, for example the NHS. Increased demand may stretch the NHS too thin.

It could increase demand for homes which would further drive up house prices at a time when both buying and renting is very expensive. This reduces discretionary income of UK citizens if ~~house~~ rent and house prices increase.

If the migrants coming over are low skilled, then their contribution to GDP will be ~~too~~ limited. This leads to a lower GDP/capita which in practice means individuals will have a lower standard of living

7) Expensive homes may mean that it is difficult for individuals to relocate because ~~eg~~ it is inaffordable to move to new areas. ~~Pa~~ In particular major cities with the most beneficial employment opportunities are seeing surges in house prices. This limits geographical mobility of labour and prevents individuals from potentially gaining a higher income.

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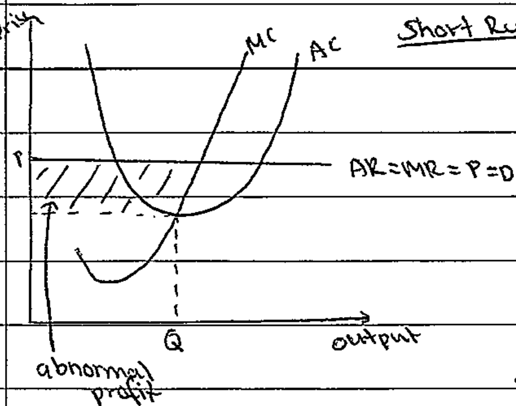
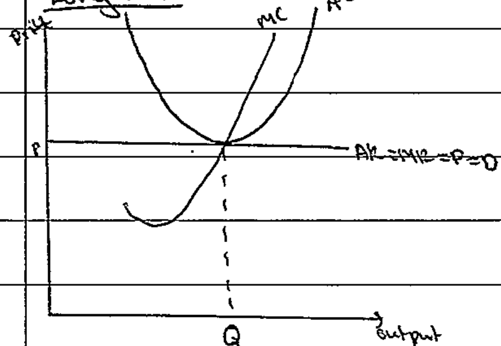
Section 2

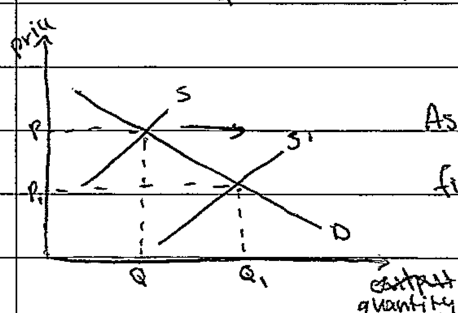
8ai)

Short Run



Long run





In the short run, firms can make an abnormal profit. However, as there are no barriers to entry, other firms see these abnormal profits and due to no barriers to entry, can easily enter the market. This increases supply in the market ($S \rightarrow S_1$) leads to an increase in quantity supplied ($Q \rightarrow Q_1$) and a fall in price ($P \rightarrow P_1$)

As a result of this fall in price, firms in the long run only make normal profit. Normal profit means the firm covers their costs and no more, it is the minimum profit for firms to stay in the market, whereas abnormal profit is any level of profit which exceeds a firms costs. If a firm begins to make a loss, or the market begins to make losses because there are too many firms in the market, firms can easily

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leave because of no barriers to exit. This leads to a fall in supply, an increase in price and therefore a return to normal profit.

ii) Monopolies may not benefit consumers because ~~th~~ they are capable of charging high prices. As monopolies face inelastic demand, they can charge high prices and even increase prices while maintaining high total revenue. This means that consumers could be exploited by high prices. Monopolies have a lower consumer surplus than perfect competition.

As there is only one firm in the ~~b~~ market because of insurmountable barriers to entry, consumers have limited choice of goods. This could mean that the goods have a lower quality.

As there are no other firms to compete with, this can create x-inefficiency as firms are large and lethargic and do not produce at minimum costs as they do not produce at the lowest point on the AC curve. Examples of inefficient monopolies include British gas.

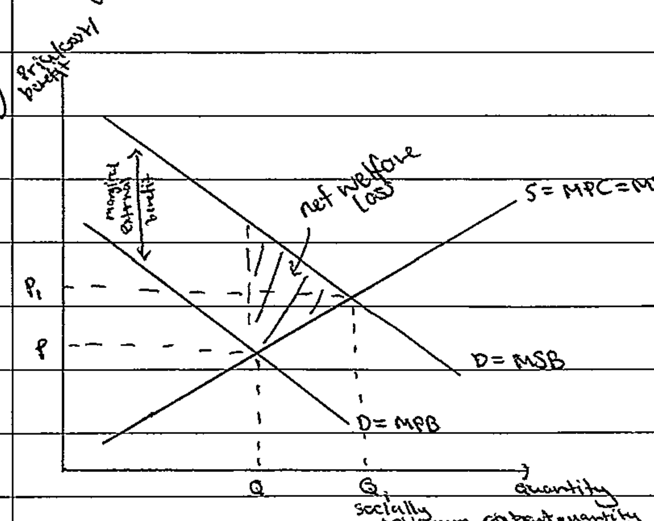
Monopolies have some benefits to consumers. Their abnormal profits, partly generated by high prices, allow the firm to invest in new technology, this could lower per unit costs as productivity increases. This may be ~~passed~~ reflected in lower prices for consumers while firms maintain profit margins.

However, these lower costs may not be passed to the consumer because the firm has no incentive to compete. This could lead to higher profits being kept for shareholders, this does not benefit the consumer.

However, abnormal profits benefit some consumers due to cross subsidisation. Monopolies can use abnormal profits to produce goods + services that would have otherwise been unprofitable and not provided. For example, rail companies offering rural services.

Monopolies can also offer price discrimination. By lowering the prices of some products for some consumers, this can open the market to new consumers and increase their standard of living. For example, off peak rail prices are lower.

b)



When consuming electric cars, the individual only takes the private benefits into account. As these are less than the

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	social benefits, this creates a divergence between MPB and MSB. This divergence is the marginal external benefit. An external benefit is a positive impact on a third party. An external benefit of electric cars would be less pollution. The market consumes at a level QP which is ~~higher~~ lower than the socially optimum level Q1 P1. The socially optimum level occurs when MSB=MSC. The free market therefore under values and under consumes electric cars which is the market failure. As a result, the potential net welfare gain is lost.	
ii)	The government may introduce zones where petrol/deisel cars cannot enter, similar to low emissions zones as seen in Oxford. This may ~~benefit~~ be effective as it ~~incr~~ encourages consumers to purchase electric cars ~~as~~ as traditional cars are no longer viable.	
	The government may invest in electric vehicle charging points. This would be beneficial as a lack of opportunity to charge cars is a significant barrier to people buying electric cars. However, this will take a significant amount of time and so the benefits will have a time delay. It would also be very costly.	
	They may subsidise the electric car industry. A subsidy is a grant given to firms in order to lower the ~~pr~~ cost and increase supply of a good. Subsidising electric cars could lower their cost of production and therefore lead to reduced prices for consumers. Lower prices would encourage higher demand	

for the products. This would be particullarly effective if electric car prices fell below the price of petrol cars as it would be the cheaper and prefeable option. However, if the subsidy ~~does not~~ is too small, it may not lower the price significantly which would lead to petrol cars ~~still~~ remaining the prefrable option and having minimal effect on demand. It is also expensive to invest in subsidies and there may be a high opportunity cost which prevents other environmental projects to tackle pollution such as rewilding.

Increasing tax on petrol / diesel cars. The gov may wish to tax petrol cars as this will increase their price and therefore lower demand and consumption. As the price of substitutes rises, people are more likely to swap to electric cars. This also has the 'polluter pays' principle which means those who still chose petrol cars will cover that external cost themselves. However, taxing these cars may be ineffective as they may have relatively inelastic demand meaning an increase in price will have a relatively small impact on consumption.