Candidate 1 evidence

1a: National debt is the total amount of money that the government has borrowed.

1b. The budget is ~~bon much~~ ~~the government~~ the amount of money the government generates from tax revenue and can spend anually.

2. Rising national debt will lead to a downgrading of the governments credit rating. This will then lead to current higher borrowing costs for the government.
Rising national debt also increases the burden of future interest payments. This means that there will be an opportunity cost for other areas of public spending such as the NHS.
Rising national debt may also lead to the danger of external ownership of government bonds.
Rising national debt could lead to crowding out as it puts pressure on interest rates to rise because the government

may need to increase the rate of return they pay on government bonds to attract sufficient lenders. This leads to the bank rate to increase and so increased borrowing by the government just replaces private sector investment.

3. An ageing population leads to a smaller working population which leads to lower output therefore leading to lower economic growth. There will be a higher dependancy ratiom which will increase the burden on ~~the~~ the tax-paying working population. This is because the government will increase spending on state pensions whilst they recieve less tax revenue, worsening public finances as the budget deficit increases. The government may also increase spending on the NHS which creates an opportunity cost of other areas of public spending such as on schooling. An ageing population may also mean increased

saving for individual's retirements. Therefore there will be reduced ~~AA~~ aggregate demand in the economy leading to lower consumer spending and ultimately a negative multiplier effect.

An ageing population may lead to technological advances and adoption of artificial intelligence which may increase productivity leading to increased output and greater economic growth in the long-run.

4. A ban on the sale of new petrol and diesel cars means car manufacturing companies have less product to sell. Now the can only sell in one market which is the electric/hybrid car market. Therefore car companies won't need as many employees which leads to job cuts which increases unemployment. This negatively effects public finances as the government will increase spending on unemployment benefits.

This ban may also lead to reduced foreign direct investment as the car market has shrunk significantly and not attractive. UK car companies will make less sales to

foreign consumers therefore leading to reduced exports which worsens the balance of payments.
There will be lower consumer choice for individuals looking to buy a car.
UK car companies will likely make less car sales leading to reduced revenue. Therefore the government recieves less corporation tax revenue. Additionally they will recieve less income tax revenue due to less people in work. Reduced tax revenue may increase the budget deficit and lead to reduced public spending.

* due to increased capital inflows.

ENTER NUMBER OF QUESTION

5. Foreign direct investment may bring expertise in areas such as marketing or manufacturing which can lead to productivity gains. Increased productivity may lead to more higher paying jobs as well as increased output leading to greater economic growth FDI can create jobs which would reduce UK unemployment as well as reducing the current account deficit which improves public finances.* The additional economic activity from FDI will increase government tax revenue from income tax and VAT which will reduce the budget deficit. However, foreign investors may not consider long-term relationships with

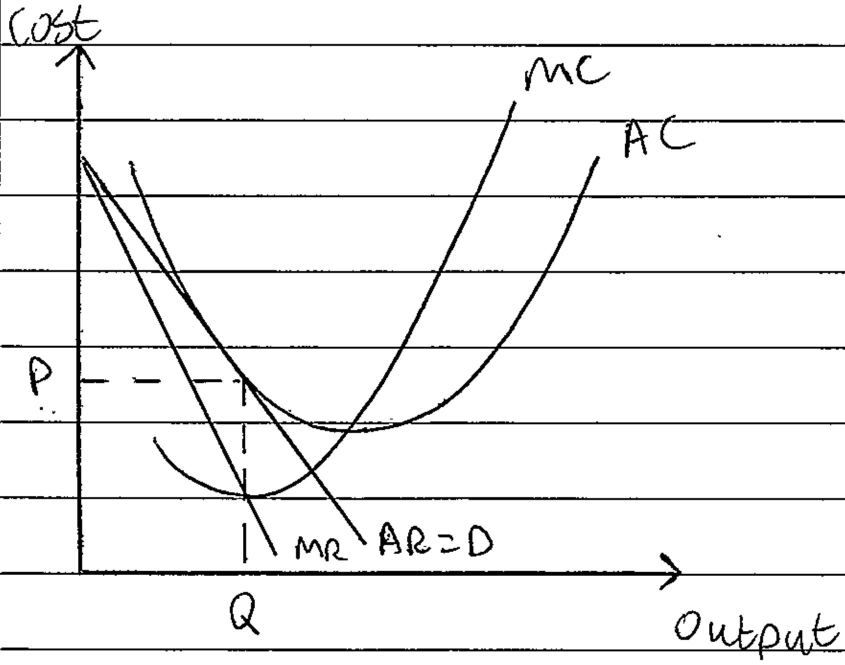
UK companies leading to 'footloose' investment. An example of this is Kraft's takeover of Cadbury. Additionaly, profits made by foreign companies within the UK will likely be rapatriated to their headquarters abroad where they'll pay less tax. Therefore the UK government misses out on tax revenue. This is known as 'google' tax. Another disadvantage is foreign FDI will lead to large multinational companies entering UK markets and competing with smaller domestic firms. Domestic firms will struggle and may get outcompeted. This will lead to ~~job~~ job losses, increasing unemployment.

6. Capital Gains Tax is a tax paid on the profit from selling an asset that's increased in value. Only the gain is taxed. In the Autumn Budget 2024 the labour government announced that the basic rate was to rise from 10% to 18% and the higher rate to rise from 20% to 24%. Capital Gains Tax is paid on for example property thats not a permanent home or let-out property. Capital Gains Tax is not paid on for example shares included in an ISA, which is an allowance of £20,000 of tax free investments.

7. Arguments for inheritance tax is it raises additional tax revenue for the government which can be used to improve public services. It also reduces wealth inequality as very few people in the UK will inherit a very large some of money. However arguments against inheritance tax is it's not morally right as individuals are taxed all through their lives and then ~~even more wh~~ again once they die. Additionally it only raises the equivalent of 0.3% of GDP so other types of taxes should be prioritised. Another is that the wealthy will find loopholes to avoid paying inheritance tax such as transferring

ownership of property 7 years before they die. Another argument against inheritance tax is that the threshold of £325,000 is not rising in line with property prices. Meaning that property that was previously below this threshold but has risen in value is now taxable at the 40% rate

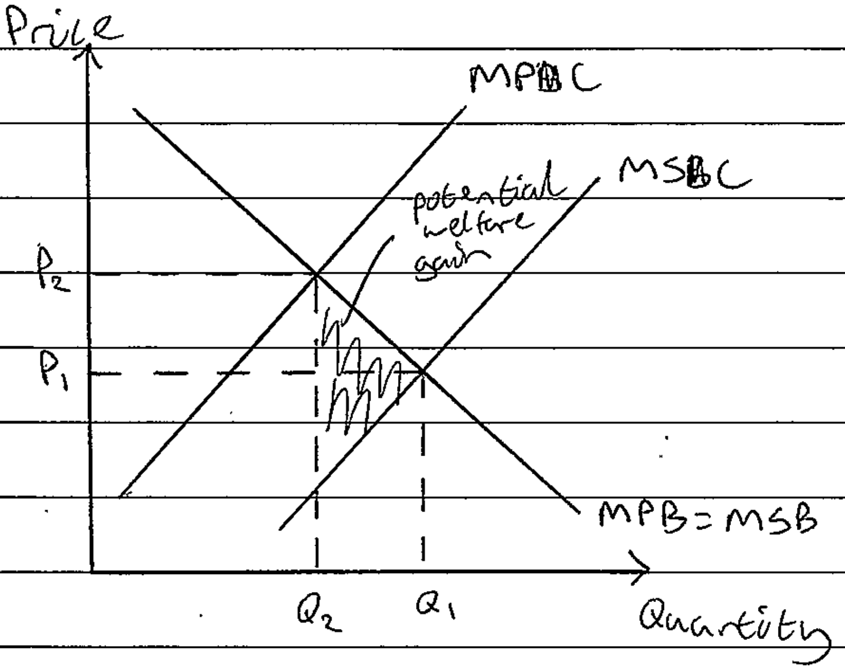
8a.



Firms in monopolistic competition can make abnormal profits in the short run. This attracts new firms to enter the market and can do so since there are low barriers to entry. This therefore increases supply which lowers the market price, eradicating abnormal profits and bringing profits down to normal profits in the long-run.

Question	
8b.	One measure is by investigating mergers which may significantly lessen competition and prevent these mergers if deemed against public interest. Another measure is to conduct market. studies to identify competition or consumer problems and make those involved adress the problems by for example limiting certain behaviours. Another measure is to investigate dominant market position abuse as laid under The Competition Act 1998 and make breachers of these laws pay large fines. Another measure is to bring criminal proceeding to those who commit cartel behaviours.

8ci.



Renewable energy generation results in positive production externalities as it has positive impacts on third parties. This leads to marginal social cost to be lower than marginal private costs. Market price ignores externalities which leads to under-production of renewable energy. The under-production leads to a loss in potential welfare gain.

8cii	One measure is to introduce a carbon tax. This would be a tax paid relative to how much carbon dioxide a firm produced. Therefore the more CO_2 ~~than~~ a firm produces the greater the tax. This gives firms an incentive to reduce emissions as they will make more profit by reducing emissions since they'll ~~be~~ pay less tax. However, in reality it is difficult to accurately measure CO_2 emissions with current technology so a carbon tax most likely wouldn't work. Another measure would be to introduce an international carbon trading scheme where firms are given a cap on ~~an~~ CO_2 emissions. A firm

can sell it's permits to other firms and gain additional revenue. A firm can also buy additional permits from another firm if they need to emit more CO_2 for production of goods. Firms will be incentivised to reduce emissions and sell permits rather than having to pay for permits to the produce their product. Overtime the cap on CO_2 emissions can reduce. However in reality it is difficult to implement international laws due to different foreign policies.