

# Application and understanding

## Candidate 1 evidence - excerpt

**Purpose: to examine the effects of increased energy prices on individuals, firm and the government.**

### **Application and Understanding:**

One of the Government aims is to keep inflation as low and stable as possible.

However the energy crisis started to affect inflation rates to new highs. Cost push inflation tells us that this happens because of the cost of production increasing which leads to prices increases for consumers. This means that unemployment may rise as production cost rises for firms meaning that the workforce will decrease. This then means the government will have to step in to help those unemployed by giving them benefits which would then result in the government having less finances to spend in other areas such as building new schools or hospitals. As employment is low this means that the government will receive less income tax which means governments revenue will decrease overall. This may lead to an increase in government borrowing. This would then mean the government will need to pay more as interest rate increases, which could then mean the government may need to increase tax to pay off the payments. This would then lead to individuals and citizens having less money to spend in the economy.

As energy prices increase for firms. Cost of production will also increase this means that firms may increase the prices of their products on to the consumers.

This could potentially mean that consumers are no longer willing or able to buy the product, meaning the firm will see a fall in demand for the product as consumers seek cheaper alternatives. A decrease in demand means the equilibrium price will fall. A decrease in demand for firms may force firms to lower prices and total revenue will decrease for firms leading to profits also decreasing which can result in less growth meaning firms cannot expand. Additionally, firms could be in a position where they need to declare bankruptcy.

## Candidate 2 evidence - excerpt

**Purpose: to outline the direct impacts of the 2030 ban regarding new petrol and diesel cars on individuals, firms and the government.**

### Application of Knowledge and Understanding:

#### Individuals:

Individuals may have to spend a larger percentage of their income on their car, as electric/hybrid cars are more expensive than general petrol and diesel ones. This lowers their general expendable income to be used elsewhere and will in turn lower the general standard of living across the UK once everyone swaps to electric cars unless the price of these cars decreases between now and 2030.

Those working in the oil industry may face redundancy due to a decrease in the demand for jobs as less fuel is being used and the demand for oil decreases across the UK. This could leave many skilled workers unemployed and unable to find employment in the industry with which their skills apply. These workers may then leave the UK to go abroad, to allow them to apply their skills and match or even better the salary they were previously on. This damages the UK economy as the country's GDP will ultimately be hurt if many of these workers decide to leave.

On the other hand, the development of this new industry is likely to create a mass number of jobs. These jobs will be found in many areas, many of them will come with the mass production of these new cars, but also in related areas like renewable energy. These jobs are likely to be around for a long time, as they're replacing older jobs in declining industries with jobs in safer and more secure industries that will be relied upon for a long time, improving their job security.

#### Firms:

Firms will likely have to invest large sums in certain infrastructure/technology to allow them to manufacture these electric cars for a cheaper price, making them more accessible to all classes and levels of income. This is likely to reduce profits for these manufacturers though, as they're investing such large quantities into the new technology whilst also reducing the price of their product, meaning they'd be relying on increased sales numbers to maintain profit.

Full Marks