

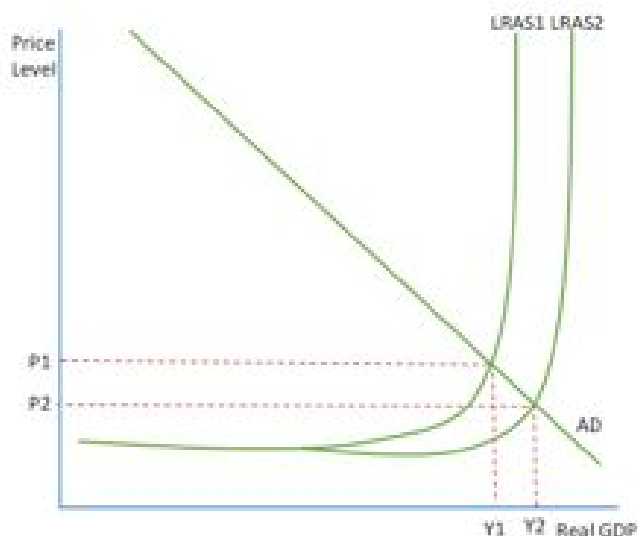
Edexcel (A) Economics A-level

AS-level Paper 2: The UK Economy

Example answers

Evaluate the use of supply side policies in raising the level of real output in the UK

A supply side policy is one which attempts to increase the LRAS in order to increase the real national output. It is the same as increasing the PPF. There are many ways of doing this: improved quality of labour, reforming the labour market, increasing and improving infrastructure, increasing incentives and improved competition. Successful supply side policies will cause RNO to shift from Y1 to Y2.



One supply side policy is to increase incentives to work. This can be done by lowering benefits and taxes which increases the opportunity cost of not working. Therefore, more people will be forced to work and so more goods and services can be produced, meaning supply is shifted from LRAS1 to LRAS2 and national output will increase. However, this may not work if the people on benefits genuinely cannot get a job, whether it is because of an illness or because there are no jobs available. As a result, LRAS will not increase and AD could even decrease as people have less income so will lower their consumption. This AD fall will cause a fall in RNO.

Moreover, an improvement in education will lead to an increase in LRAS. The government can spend more money on education and this will make workers more skilled so will be more efficient, meaning more goods and services can be produced. Also, workers will be able to do more skilled jobs and will be more likely to come up with new ideas and improve technology, furthering efficiency of UK goods and meaning more could be produced. Together, this will shift LRAS1 to LRAS2 and output will increase from Y1 to Y2. However, some economists argue that an improvement in education doesn't necessarily improve efficiency. For example, a degree in Philosophy will in no way improve the efficiency of an investment banker, even though it may have other benefits. The effect of education will depend on the aim of education and what is being taught e.g. more research scientists will improve efficiency, but some roles won't.

Another supply side policy is improved competition. This can be done by privatisation or deregulation which increases the number of businesses in the market. More competition means businesses need to be more efficient and cut costs in order to be more competitive and keep prices low. A more efficient business will produce more goods and services with the same amount of resources so LRAS will increase and therefore RNO will too.

However, even if the LRAS increases, if the curve is elastic, then a shift of the LRAS curve will have no effect on output. At this time, the government instead needs to focus on using demand

side policies. Therefore, the effect of supply side policies depends on the elasticity of the AS curve and whether the curve is Keynesian or classical.

Additionally, it depends on the length of time. Many supply side policies only make a difference in the long run, for example improvements in education will have no effect on LRAS immediately and it will take many years to improve it.

Overall, supply-side policies are key to improving the real national output in the long term. However, it is essential they are used at the right time e.g. during a recession, these policies will have no effect. It is also key the right policies are used.

Teacher's comments: 15/20

Basically a good answer. You could do with expanding a little more on your points and try and do a little more evaluation. Stress the need to combine supply side with demand side. Could add argument over increasing level of technology/investment.