- More expenditure on **unemployment benefits**, healthcare
- Lower income, lower AD
- May increase emigration

Inflation

- Adv
    - **Stimulus** to production
    - Reduction in **debt**, keep firms in business, stop households getting into difficulty
    - Reduction in u.r. due to non-contractionary policies
    - Target other objectives instead of price stability
    - Reduce risk of deflation
- Dis
    - No certainty, **confidence**, encouragement to investment, efficiency of choices
    - Lose price **competitiveness**, lower X
    - Savers, borrowers, lenders unplanned redistribution of income
    - Fixed income group has **lower purchasing power**
    - Extra costs e.g. menu, lower profit, higher u.r.
    - Fiscal drag, as income rise, fall in higher income tax bracket
    - Cost of living ^, stops purchasing power from being eroded too mush

CPI calculation

- Construct a representative basket of G & S
- Monitor P over time
- Give weighting of each G / S according to the proportion of disposable income they account for
- Prices × weights
- Compare against a base yr

Effect of i.r. (cost of borrowing, reward to saving, o.c. of spending)

- change in consumption and and savings, AD
    - GDP, employment
    - D-pull inflation
- change in **I**, amount of R & D, productivity, productive capacity, employment
- change in value of currency by speculations, current account balance
- some individuals can't repay when i.r. increases, get into **debt**

Effect of deflation

- If due to lower AD, GDP v, u.r. ^
    - Households **postpone** purchasing wait for prices to fall further, AD v
    - Reduce firms' profits, **investment** v, lower D for capital goods
- If due to higher AS, GDP ^, u.r. v
- X ^
- Higher real disposable **income**, higher spending, higher AD

Reason for government spending and taxation

- Higher **dependency ratio**, smaller labour force, smaller productive capacity
- Government spending on **healthcare and pensions**, tax to be increased
- Shortage of young worker, older workers are less mobile, resist new technologies, less fit
- No knowledge about **new** technology or ideas

Population size adv

- Small
  - Resources will last longer if initially overpopulated, not depleted, **less pressure** on resources
  - Less environmental damage
  - Less **M**
  - Less concern about famine
  - Less **competition** in the labour market, higher employment
- Large
  - Larger **labour force**
  - Larger **market**, EoS, attract MNCs
  - If initially underpopulated, **better use** of resources

Characteristics of less developed countries

- Low real GDP per head
- Low savings ratio
- Low life expectancy
- High rate of **population growth**
- Low levels of education, healthcare, technology and investment
- Most workers employed in **1° sector**
- Concentration on a narrow range of X

Question type

Discuss whether factor A leads to result B
    Analyse causes of factor A (back then forward)
        How the causes can lead to effects of result B
        By affecting other factors
    Analyse how factor A can affect other factors (horizontal then forward)
    Analyse net result of all factors (combine and forward)

Discuss whether a government should adopt a policy towards a group
    Direct reason of policy
    Possible changes towards that group
    How it affects other groups
    How other groups will respond e.g. retaliation
    How it will alter the government e.g. tax revenue
    How it affects the whole economy i.e. objectives
    The probability of government failure
    How it will affect tax revenue and government spending / o.c.

Discuss whether a change / condition will benefit an economy
    reason for the change / condition
    What groups are this change related
    How those groups will respond
    How those responses will affect themselves, other groups, the whole economy

Discuss whether a change will lead to a general change
    For no side
        Other factors causing the change has little effect
        The change is not large enough
        Possible direct -ve relationship

Date analysis
    General trend
    +ve / -ve relationship
    Data quoted
    Exceptions
    Explanation

Analyse movements along PPC
    resource reallocated from good A to good B
    more good A produced, less good B produced

Analyse moving points inwards / towards PPC
    more / less resources unemployed
    more / less inefficiency
    real output increases / decreases

Encourages saving
Discourage production
- GDP v
- Tax revenue v

Harm borrowers
- Firms and household get more debts