

from the CIOI model, meaning that aggregate demand is harmed through austerity measures.

- Aggregate demand shifts left, receding economic growth and the economy.

Eval: Governments need budget surplus to debt service effectively (Surplus bad, but needed? Therefore good)

- If the Government is in larger amounts of debt and is not using revenue to pay debt, contractionary fiscal policy may be needed to service debt, and pay it off quicker.
- Debt is bad, since it will harm investor, firm and consumer confidence. Economic activity is delayed, harming aggregate demand and growth even further. Worse if foreign currency debt.

Eval FOR the Eval (If you're super quirky): Does the Government NEED to service the debt? (Surplus not potentially needed)

- Can be argued that the Government may not need to service long-term, contract-based debts that come with reproductive debt.
 - If building a highway, and government borrows to fund the project, the debt is reproductive. This debt is not too much of an issue through the supply-side gains it brings to the economy.
 - The highway will effectively pay for itself.

Point 2: Room for Capital Spending/Infrastructure(Surplus good)

- **USE AD/AS GRAPH WITH LRAS SHIFT RIGHT**
- If Government has budget surplus, then this leaves room for supply-side policies such as the construction of infrastructure, export subsidies, or subsidies to R&D to be implemented.
 - These will bring gains to the economy, improving productive capacity.

Eval: HOW is the surplus brought? (Surplus bad, in cases)

- If the surplus is brought about through a budget surplus due to increases in direct taxation (SUCH AS INCOME TAX), some workers may see this and deduce that the reward for unemployment and benefit claiming is better than working and paying income tax.
 - Workers will refuse to work, and the supply of labour will decrease within the economy. Labour market harmed, firm productivity harmed, potential for net export harm and investment harm. Stands to harm aggregate demand.
 - Increases in productive capacity will do nothing if there is nobody to fill it, along with no consumption.
- If income tax increases, aggregate demand will also decrease as higher proportions of consumer income is taken away from taxation.
 - Less consumer spending means less aggregate demand, resulting in harms to economic growth.
- **CONSIDER USING LAFFER CURVE IF YOUR FIRST POINT DOES NOT ALREADY HAVE A DIAGRAM.**
 - **Weak diagram to use, minimal explanation and benefit to the essay, as it just shows a drop in tax revenue as tax rates increase. Will have to relate entirely to another point.**
 - **Consider using a labour supply and demand diagram, but this will be a macro essay, so not very useful**

Eval #2: Depends on current tax rate, tax revenue gains will be harmed.

- **Not a strong point to make, but if you're desperate, you can talk about potential losses in tax revenue if the government over-increase the tax rate for a budget surplus.**

Point 2: Disinflation/Deflation: If industries are dependent on imports of raw materials, their cost of production goes down, left shift of SRAS, therefore price level goes down, lower cost of living, and higher living standards.

Eval: Scale of this may not be large. Only few Industries may depend on imports, especially considering the UK isn't a country manufacturing goods, but more of services e.g. banking, which are not affected by higher value of pound. Living standards still could be low- environmental degradation due to increase supply and growth could not be inclusive- inequality.

PL: To what extent do you agree that a fall in savings is beneficial for the UK economy? Justify your answer. (25)

2nd point can be improved

Point 1: May lead to higher consumption, boosting AD, causing economic growth. This may lead to higher employment, possibly even the multiplier affect, further increasing AD, causing rapid economic growth.

Eval: Doesn't necessarily have to increase AD, could just be used to buy imports/ foreign products, which would actually decrease AD. Moreover, money may be sent as remittance to family, especially since the UK has a large immigrant workforce, presenting a leakage from the circular flow. It would also depend on the position of economy on Keynesian LRAS, if inelastic, no growth only inflation.

Point 2: A fall in savings would indicate the economy is growing, encouraging firms to invest. Animal spirits would be high and conditions to invest would be ideal. This would not only further fuel economic growth, possibly even increase LRAS, due to higher productivity and efficiency.

Eval: Investment may not occur as the economy would be suffering from inflationary pressures due to the fall in savings, making products less internationally competitive. Animal spirits and confidence in the economy would be low, deflationary/ Contractionary policy imminent.

Point 3: CA deficit - MPI increases as incomes rise- foreign currency debt etc...

Eval: CA deficit not that bad- UK- debt is 100% of GDP, deficit made up as surplus in financial/capital account- BOP balanced. Good for domestic ppl- more choice of imports. MPI might not increase- 'fall in saving' spent on domestic goods.

UNRELATED but good point: MPC: countries like India/ Japan have a high marginal propensity to save, meaning an increase in wages may not lead to a rise in Consumption. - eval for points 1,2,3 - can relate

D Assess policies which can be used to reduce cyclical instability in the UK. (25)

Point 1: Tighter regulation. This would prevent malpractice in an economy, and closely monitor firms, allowing for security against economic shocks, such as

countries will now be higher, making more expensive goods from countries inside the bloc appear to be cheaper, however there will be a net increase in prices, decreasing consumer welfare, and causing lower living standards.

Point 3: Joining a currency union may lead to a currency losing control over its own monetary policy. It would be managed by the central bank, and all countries would have to follow a one size fits all policy. It would be decided for the good of all countries in the bloc, however singular countries may not reap the benefits depending on their macro situation.

Eval: This may be beneficial in countries which struggle to keep control of monetary policy, eg are suffering instability, in which case an independent central bank may be able to help the country regulate and bring in control any problems it may be facing. Moreover, the currency would become more dominant, as compared to the currency of a single country, which may on its own be very weak. Also shocks to the currency would be neutralised, since a earthquake in greece would not impact the currency euro as much since demand for german card, french defence infra is still there, so value of currency would be stable, and impact if the shocks would be absorbed.

PL Using examples to illustrate your answer, assess the usefulness of behavioural economic theory compared to traditional economic policies in helping governments to correct market failures (25)

HARD ESSAY. IMPROVE POINTS

- Point 1: Traditional theory suffers from the ricardian vice, of too many mathematical assumptions, which make theory unrealistic when applied to the real world. This in turn may further deteriorate the market failure and cause gov failure, whereas behavioural economic theory is based on trial and real world evidence.
- Eval: Behavioural economic theory can't be applied generally to a population, and would also be based on assumptions of everyone behaving the same way. Whilst some may be rational, others won't be. All consumers may have different behaviours to others, so policy based on one behavioural set cant be applied to everyone.
- Point 2: Economic policy to correct market failure may be easier to implement, as what the gov has to do is clear and concise. Eg to prevent overproduction, implement a tax on a good, which will lead to lower consumption. Whereas behavioural policy would require new and innovative ways to apply to a market.
- Eval: Behavioural policy can also be implemented in simple means, eg gov could provide nudges with increased advertising or make things such as pensions contribution mandatory unless opting out, so default choice would be applied

D Discuss the view that a national minimum wage is beneficial for an economy. (25)

- Point 1: Reduced inequality and higher employment in the case of a monopsony market. (also If a trade union is there it would have same affect as min wage in a monopsony market)
- Eval: In reality few markets are monopsonistic, and unemployment may rise if market not monopsonistic, so some workers especially of lower incomes, would have even lower incomes, and inequality would rise.
- Point 2: May lead to higher productivity in an economy, as workers would be more motivated. Moreover, firms would choose to invest in higher efficiency and productivity machinery as labour would be more expensive and has highly elastic demand so a rise in price lead to exponential fall in demand, which could boost production and lead to higher productivity. Causing economic growth