2.12 Conflicts and Trade-Offs Between Macroeconomic Objectives: 10-minute Pack

AQA 7136 · Calculators not allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Time suggested: 10 minutes.

1 Explain briefly why a short-run policy that stimulates demand to reduce cyclical unemployment might be less effective if the economy is close to its potential output, referring to the shape of the SRAS curve.

(Total for Question 1 is 2 marks)

2 Explain the growth-versus-inflation conflict that can arise when an economy operates above potential output due to demand-side stimulus.

(Total for Question 2 is 3 marks)

3 State two policy options a government could use to mitigate the environmental costs of rapid GDP growth while still supporting some growth, and briefly explain how each helps reduce the conflict.

(Total for Question 3 is 2 marks)

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Mark scheme · 2.12 Conflicts and Trade-Offs Between Macroeconomic Objectives: 10-minute Pack

Question 1

identifies that SRAS becomes steeper as output approaches potential, so supply is less responsive **M1**

explains that increased AD in this region mainly raises prices rather than output, so unemployment falls little while inflation rises **A1**

Answer: Near potential output SRAS is steep, so demand stimulus mostly increases the price level with little extra output; unemployment therefore falls only a little while inflation rises.

Question 2

identifies that growth above potential uses spare capacity and increases demand relative to supply **M1**

explains mechanism: as output approaches capacity firms face rising costs and bid up prices, causing demand-pull inflation **A1**

links to conflict: policy aimed at higher growth therefore risks higher inflation when near full capacity **A1**

Answer: When growth pushes output above potential, spare capacity is used up, production costs rise and firms raise prices, so policies that raise short-run growth can generate demand-pull inflation.

Question 3

valid policy option one named, e.g. carbon pricing or an emissions tax **B1**

brief explanation of how it helps, e.g. raises cost of polluting activities so firms and consumers switch to cleaner production/consumption, reducing emissions while allowing growth in low-carbon sectors **B1**

Answer: Example: implement carbon pricing (emissions tax) which makes polluting activity more expensive and encourages cleaner production; subsidise green investment which shifts growth toward low-carbon industries and reduces environmental damage.

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