2.12 Conflicts and Trade-Offs Between Macroeconomic Objectives: Test Pack

Total Marks

AQA 7136 · Calculators not allowed · about 20 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. A diagram is required in Question 3, state clearly what you draw. Time suggested: 20 minutes.

1 Explain the short-run Phillips curve trade-off between inflation and unemployment in the context of an economy experiencing rising aggregate demand.

(Total for Question 1 is 3 marks)

2 Explain the growth-versus-environment conflict that may occur when rapid GDP growth increases pollution and resource depletion.

(Total for Question 2 is 3 marks)

3 Diagram: Short-run Phillips curve and supply-side shock. In the space provided draw a short-run Phillips curve (inflation rate on the vertical axis, unemployment rate on the horizontal axis). Mark a point A on the SRPC representing the initial equilibrium with moderate inflation and unemployment. Then show and label a shift of the SRPC caused by a negative supply-side shock (for example a large rise in oil prices). Clearly label axes, the initial SRPC and the shifted SRPC, and mark new point B showing the effect on inflation and unemployment. Explain in words the movement between points A and B and why the curve shifts.

(Total for Question 3 is 6 marks)

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

Question 1

identifies that a short-run inverse relationship exists: higher inflation is associated with lower unemployment	**M1**
explains mechanism: rising AD increases demand for labour, reducing unemployment and allowing wages and prices to rise	**A1**
links to short run: firms expand output using existing capacity so unemployment falls but inflation rises	**A1**

Answer: In the short run higher AD reduces unemployment by raising labour demand, which pushes up wages and prices; therefore there is an inverse trade-off where lower unemployment accompanies higher inflation.

Question 2

identifies that rapid growth can raise resource use and emissions	**M1**
explains mechanism: higher production and consumption increase pollution, waste and resource depletion unless production becomes cleaner	**A1**
links to conflict: short-run policies to boost growth may therefore damage environmental objectives unless accompanied by regulation or green investment	**A1**

Answer: Rapid GDP growth often increases resource use and emissions; unless growth is green, short-run growth policies can worsen pollution and deplete resources, creating a trade-off with environmental objectives.

Question 3

diagram: correctly labelled axes with 'Inflation rate' vertical and 'Unemployment rate' horizontal	**B1**
diagram: initial SRPC drawn as a downward-sloping curve and labelled SRPC1, with point A on it	**B1**
diagram: shifted SRPC drawn to the right/upwards of SRPC1 (label SRPC2), representing higher inflation at each unemployment rate, with point B on SRPC2 showing higher inflation and higher unemployment	**B1**
explains mechanism for shift in words: a negative supply shock raises costs and reduces aggregate supply, increasing inflation and unemployment simultaneously (stagflation)	**M1**
explains movement from A to B: at the original unemployment rate inflation rises because higher costs raise prices, and unemployment also rises because reduced supply and higher costs lower output and labour demand	**A1**
links the diagram shift to concept: the SR trade-off worsens because the whole SRPC shifts so for any given unemployment rate inflation is higher	**A1**

Answer: Diagram: SRPC downward sloping; SRPC shifts to SRPC2 to show higher inflation at each unemployment rate. Point A on SRPC1 to point B on SRPC2 shows higher unemployment and higher inflation caused by the negative supply shock raising costs and reducing output.

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