2.17 Supply-Side Policies: Market-Based Approaches: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions in full sentences where required. The final 25-mark question requires a developed evaluative response. Total time guidance 10 minutes.

1 Define what is meant by a market-based supply-side policy in the UK context, distinguishing it from an interventionist supply-side approach.

(Total for Question 1 is 2 marks)

2 Explain how a reduction in corporation tax is argued to increase business investment and thereby raise LRAS in the UK.

(Total for Question 2 is 3 marks)

3 Explain how measures to reduce trade union power or increase labour market flexibility are intended to affect wages, employment and LRAS in the UK.

(Total for Question 3 is 3 marks)

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Mark scheme · 2.17 Supply-Side Policies: Market-Based Approaches: 10-minute Pack

Question 1

market-based policy is defined as measures that rely on market incentives and reduced government intervention to improve supply-side performance	**B1**
contrast such as less regulation, lower taxes, privatisation, or weaker trade union influence, not direct government provision or state investment	**B1**

Answer: A market-based supply-side policy uses market incentives and reduced state intervention, for example lower taxes, deregulation and privatisation, rather than direct state provision.

Question 2

lower corporation tax increases retained profits and the after-tax return to investment	**M1**
firms are more likely to undertake capital investment, increasing the stock of capital	**A1**
higher capital per worker raises productivity and potential output, shifting LRAS to the right	**A1**

Answer: Reduced corporation tax increases firms' retained earnings and after-tax returns, encouraging capital investment which raises capital stock and productivity, shifting LRAS right.

Question 3

reducing union power can reduce wage rigidity and allow wages to adjust to market conditions	**M1**
this can lower unemployment or reduce structural mismatches by encouraging firms to hire and adjust hours, increasing employment and effective labour supply	**A1**
a more flexible labour market raises productive capacity and shifts LRAS to the right	**A1**

Answer: Weaker union power can reduce wage rigidity, allowing wages and employment to adjust; greater hiring and labour reallocation raises effective labour supply and shifts LRAS right.

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