2.18 Supply-Side Policies: Interventionist Approaches and Evaluation: Test Pack

Total Marks

AQA 7136 · Calculators not allowed · about 20 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for the 25-mark essay question only. Time guidance: 20 minutes. Calculators are not allowed.

1 Government spending on education and training: explain how government-funded vocational training in the UK is intended to affect long-run aggregate supply (LRAS) and potential output.

(Total for Question 1 is 2 marks)

2 Effectiveness of subsidies: explain briefly one factor that determines whether government subsidies to a particular industry will successfully increase productivity and shift LRAS in the UK.

(Total for Question 2 is 3 marks)

3 Industrial strategy and targeted support: explain how a government programme that supports key UK industries through planning, coordination and selective grants could affect LRAS in the medium term.

(Total for Question 3 is 2 marks)

© Revision Library | revisionlibrary.co.uk

4 Compare one market-based supply-side measure (from ECO.MAC15, assumed known) with one interventionist measure named in this pack. Briefly contrast how each approach attempts to raise LRAS and give one advantage of each approach.

(Total for Question 4 is 3 marks)

5 Explain how long time lags associated with interventionist supply-side policies affect their ability to raise UK productive capacity compared with market-based measures.

(Total for Question 5 is 3 marks)

© Revision Library | revisionlibrary.co.uk

Mark scheme · 2.18 Supply-Side Policies: Interventionist Approaches and Evaluation: Test Pack

Question 1

identifies mechanism, e.g. vocational training raises workers skills and human capital, improving labour productivity	**M1**
links to LRAS by stating that higher productivity shifts LRAS rightwards, increasing potential output	**A1**

Answer: Vocational training increases skills and human capital, raising labour productivity and shifting LRAS right, so potential output rises.

Question 2

identifies a factor, e.g. design and targeting of subsidy, quality of complementing institutions, or presence of skills and infrastructure to absorb innovation	**M1**
explains how factor matters, e.g. poorly targeted subsidies support incumbents rather than innovation, whereas well-targeted subsidies catalyse R&D and adoption	**M1**
links to outcome, e.g. with good targeting and complementary policies the subsidy can raise sectoral productivity and contribute to a rightward shift in LRAS	**A1**

Answer: A subsidy will raise productivity only if it is well targeted and supported by skills, infrastructure and competition; otherwise it may prop up inefficient firms and fail to shift LRAS.

Question 3

identifies action, e.g. targeted support encourages investment, technology adoption and cluster development in key sectors	**M1**
explains outcome, e.g. increased capital and knowledge in those sectors raise productivity and shift LRAS rightwards over time	**A1**

Answer: Targeted industry support encourages investment and technology diffusion, raising sector productivity and shifting LRAS right over time.

Question 4

states a market-based measure correctly, e.g. reducing income tax or deregulation	**B1**
states an interventionist measure correctly from this pack, e.g. public spending on education or R&D subsidies	**B1**
gives a brief contrast/advantage for each, e.g. market-based: lower distortion and lower direct cost to government; interventionist: targeted support to market failures and can address regional imbalances	**B1**

Answer: Example answer: Market-based measure: cutting income tax, which raises incentives to work and invest, is efficient and cheaper for the government. Interventionist measure: R&D subsidies, which directly correct market failures and encourage innovation in key sectors, and can target regions. Advantage market-based: less government spending and distortion. Advantage interventionist: can correct failures and target strategic sectors.

Question 5

identifies time lag, e.g. education, infrastructure and skills policies take many years to raise productive capacity	**M1**
explains implication, e.g. benefits may arrive after several electoral cycles and are uncertain in magnitude	**M1**
contrasts with market-based measures which may act faster via price incentives, so interventionist policies are slower to affect LRAS in the short term	**A1**

Answer: Education and infrastructure policies take years to raise skills and capacity so benefits are delayed and politically uncertain, whereas market-based measures can change incentives more quickly and produce faster effects on labour supply and investment.

© Revision Library | revisionlibrary.co.uk