2.18 Supply-Side Policies: Interventionist Approaches and Evaluation

Total Marks

AQA 7136 · Calculators not allowed · about 60 minutes · Write-in edition

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for the 25-mark essay question only. Time guidance: 60 minutes. Calculators are not allowed.

1 Equity versus efficiency trade-off: explain one way interventionist supply-side policies can improve equity but possibly reduce allocative efficiency in the UK economy.

(Total for Question 1 is 3 marks)

2 Evaluate the view that interventionist supply-side policies are more likely than market-based measures to raise UK productivity and sustainable long-run growth. In your answer discuss cost to the government, time lags before productive capacity rises, and the equity versus efficiency trade-off. Use diagrams where appropriate and reach a supported judgement.

(Total for Question 2 is 25 marks)

3 Public investment in transport infrastructure: explain how new government investment in roads and rail in the UK can influence productive capacity and shift LRAS over time.

(Total for Question 3 is 2 marks)

4 Subsidies for research and development (R&D): explain how R&D subsidies provided by the state are intended to change the UK economy's long-run aggregate supply and technology frontier.

(Total for Question 4 is 2 marks)

5 State provision of business incubators and regional development agencies: explain how these interventionist measures might affect LRAS and regional productivity in the UK context.

(Total for Question 5 is 2 marks)

6 Direct state ownership or partial nationalisation of key utilities: explain one way this interventionist approach might increase LRAS compared with leaving utilities entirely private in the UK.

(Total for Question 6 is 2 marks)

7 Explain one cost to the UK government of pursuing interventionist supply-side policies such as large-scale infrastructure programmes and R&D subsidies.

(Total for Question 7 is 3 marks)

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

Question 1

identifies equity benefit, e.g. targeted education or regional grants can reduce inequality and support disadvantaged groups — **M1**

identifies potential efficiency cost, e.g. government interventions can distort market signals, leading to misallocation of resources or support for non-viable firms — **M1**

explains trade-off, e.g. policy improves distributional outcomes but may reduce overall efficiency and raise long-term costs — **A1**

Answer: Targeted intervention can improve equity by supporting disadvantaged regions or groups, but by distorting prices and supporting potentially inefficient firms it can reduce allocative efficiency and raise long-term economic costs.

Question 2

Level 1 Basic statements about interventionist and market-based supply-side policies with little development, limited or no use of diagrammatic support, and a weak or no judgement. — **1-5**

Level 2 Some developed analysis of how interventionist policies and market-based measures affect productivity, some reference to cost, time lags or equity-efficiency trade-offs, limited diagram use, and a partial conclusion. — **6-10**

Level 3 Clear analysis and evaluation of interventionist versus market-based approaches, with diagrams suggested and developed, discussion of costs, time lags and equity-efficiency trade-offs, and a reasoned judgement supported by evidence and examples. — **11-15**

Level 4 Well developed and balanced evaluation that considers multiple strengths and weaknesses of both approaches, integrates diagrams to show effects on LRAS/AD, weighs empirical and theoretical arguments on cost, lag and distributional impacts, and reaches a well-supported judgement. — **16-20**

Level 5 Excellent, coherent evaluation showing sophisticated understanding: analyses how interventionist policies can correct market failures and target productivity bottlenecks while recognising high fiscal cost, long lags and potential inefficiency; compares these factors precisely with market-based incentives, uses diagrammatic reasoning, discusses who gains and who loses, and reaches a balanced, justified conclusion about the relative merits for UK productivity. — **21-25**

Indicative content:

- Define interventionist policies and market-based supply-side measures succinctly, and state the productivity objective (shift LRAS rightwards).
- Application: examples of interventionist policies from the pack, e.g. education spending, infrastructure, R&D subsidies, business incubators, state ownership choices.
- Explain how interventionist policies can raise productivity: correct market failures (externalities, provision of public goods), target sectors or regions, create complementarities (skills and capital).
- Explain drawbacks: fiscal cost, opportunity cost, risk of government failure, crowding out, and administrative inefficiency if badly targeted.
- Time lags: education and infrastructure take many years to affect LRAS, political cycles may impede sustained policy, compare with faster behavioural response to market-based incentives.
- Equity versus efficiency: interventionist policies can improve distribution and access, but may reduce allocative efficiency and create moral hazard; market-based measures may be more efficient but less redistributive.
- Diagram suggestion: draw LRAS shifting right for successful policies; show AD curves only if discussing demand-side interactions or crowding out.
- Evaluation points: consider the current state of the UK economy (e.g. skills shortages, regional imbalance) and whether targeted intervention might be more effective than blanket market reforms; consider scale and targeting, and the role of hybrid approaches combining incentives with targeted support.
- Consider empirical evidence and plausibility: some interventions (high quality training, well-chosen infrastructure) have high social return, whereas poorly targeted grants can waste resources.
- Conclude with a balanced judgement about to what extent interventionist policies are more likely to raise UK productivity than market-based measures, recognising context, timing and implementation quality.

Question 3

identifies effect, e.g. better transport reduces travel times and logistics costs — **M1**

explains link to LRAS, e.g. lower costs and improved connectivity raise productive capacity so LRAS shifts right — **A1**

Answer: Improved transport lowers costs and boosts connectivity and efficiency, raising productive capacity and shifting LRAS to the right.

Question 4

identifies mechanism, e.g. subsidies lower firms cost of innovation, increasing R&D activity — **M1**

links to LRAS, e.g. more innovation raises productivity and technology, shifting LRAS rightwards — **A1**

Answer: R&D subsidies lower innovation costs and increase technological progress, raising productivity and shifting LRAS to the right.

Question 5

identifies effect, e.g. incubators reduce start-up costs and support knowledge sharing and entrepreneurship **M1**

explains link to LRAS/region, e.g. higher firm formation and diffusion of skills raise local productivity and contribute to a rightward shift in national LRAS **A1**

Answer: Incubators and regional agencies support start-ups and knowledge sharing, boosting regional productivity and contributing to a rightward shift in LRAS over time.

Question 6

identifies a potential mechanism, e.g. state control can prioritise long-term investment in capacity and maintenance over short-term profit **M1**

explains effect, e.g. sustained investment improves infrastructure reliability and capacity, raising productive potential and shifting LRAS right **A1**

Answer: State ownership can prioritise long-term investment and maintenance over short-term profit, improving infrastructure reliability and capacity and shifting LRAS right.

Question 7

identifies a cost, e.g. direct fiscal cost: increased government spending or borrowing required to fund programmes **M1**

explains the consequence, e.g. higher borrowing leads to higher debt servicing costs or crowding out of private investment if financed by bond sales **M1**

links to supply-side aim, e.g. this cost can reduce net benefit to taxpayers and may require future tax rises or spending cuts elsewhere **A1**

Answer: Large infrastructure and R&D programmes require significant upfront government spending or borrowing, raising debt and interest costs and possibly crowding out private investment, which can reduce the net benefit and require future fiscal adjustments.