ECO.MAC16 Supply-Side Policies: Interventionist Approaches and Evaluation

Total Marks

AQA 7136 · Calculators not allowed · about 120 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for the 25-mark essay question only. Time guidance: 120 minutes. Do not use a calculator.

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 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 2 is 2 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)

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 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 7 is 3 marks)

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8 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 8 is 3 marks)

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9 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 9 is 3 marks)

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10 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 10 is 3 marks)

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11 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 11 is 3 marks)

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12 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 12 is 25 marks)

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Mark scheme · ECO.MAC16 Supply-Side Policies: Interventionist Approaches and Evaluation

Question 1

- **M1** identifies mechanism, e.g. vocational training raises workers skills and human capital, improving labour productivity
- **A1** links to LRAS by stating that higher productivity shifts LRAS rightwards, increasing potential output
- **Answer: Vocational training increases skills and human capital, raising labour productivity and shifting LRAS right, so potential output rises.**

Question 2

- **M1** identifies effect, e.g. better transport reduces travel times and logistics costs
- **A1** explains link to LRAS, e.g. lower costs and improved connectivity raise productive capacity so LRAS shifts right
- **Answer: Improved transport lowers costs and boosts connectivity and efficiency, raising productive capacity and shifting LRAS to the right.**

Question 3

- **M1** identifies action, e.g. targeted support encourages investment, technology adoption and cluster development in key sectors
- **A1** explains outcome, e.g. increased capital and knowledge in those sectors raise productivity and shift LRAS rightwards over time
- **Answer: Targeted industry support encourages investment and technology diffusion, raising sector productivity and shifting LRAS right over time.**

Question 4

- **M1** identifies mechanism, e.g. subsidies lower firms cost of innovation, increasing R&D activity
- **A1** links to LRAS, e.g. more innovation raises productivity and technology, shifting LRAS rightwards
- **Answer: R&D subsidies lower innovation costs and increase technological progress, raising productivity and shifting LRAS to the right.**

Question 5

- **M1** identifies effect, e.g. incubators reduce start-up costs and support knowledge sharing and entrepreneurship
- **A1** 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
- **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

- **M1** identifies a potential mechanism, e.g. state control can prioritise long-term investment in capacity and maintenance over short-term profit
- **A1** explains effect, e.g. sustained investment improves infrastructure reliability and capacity, raising productive potential and shifting LRAS right
- **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

- **B1** 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
- **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.**

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Question 8

- **M1** 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
- **A1** 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
- **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.**

Question 9

- **M1** 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
- **A1** contrasts with market-based measures which may act faster via price incentives, so interventionist policies are slower to affect LRAS in the short term
- **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.**

Question 10

- **M1** 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
- **A1** explains trade-off, e.g. policy improves distributional outcomes but may reduce overall efficiency and raise long-term costs
- **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 11

- **M1** 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
- **A1** 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
- **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.**

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Question 12

- **Level 1** (1-5): 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.
- **Level 2** (6-10): 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.
- **Level 3** (11-15): 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.
- **Level 4** (16-20): 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.
- **Level 5** (21-25): 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.
- **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.

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