Candidate 3 evidence

ENTER QUESTION NUMBER BELOW	Do not type in this shaded box	DO NOT WRITE IN THIS MARGIN
1.	a) Recession is a period where an economy has seen 3 consecutive quarters of economic decline, where the economy has shrunk. b) National debt is the debt that a country/government possesses through money that they have borrowed from other countries or the world bank.	
2.	The UK government thought that cutting taxes would increase the disposable income that people had, this would mean that they would be more inclined to work, to make more money, making the UK more productive, leading to higher growth. However, this may have acted as a disincentive to grow as people would be likely to work less due to them being able to gain the same income from less work, which would slow growth. The government expected the increase in disposable income to lead to higher levels of spending and consumption, this means that agreggate demand would increase as the consumption component had increased, boosting growth. However, this consumption may have been of foreign goods, which would make imports higher than exports, resulting in a decline in aggregate demand. The government also expected people to increase their personal investments due to higher disposable income, this would mean that investment would increase, so aggregate demand would aswell, triggering growth. The government also expected that businesses' cost of production would decrease, as they are paying less tax, this would encourage them to produce more, this means that consumpton would increase, as well as possible increases in exports abroad, this would benefit aggregate demand as exports may end up being higher than imports, making the trade component of aggregate demand positive. This would also increase the strength of the Pound as it would be in higher demand, this would mean that these firms would be making more from each export, furthering economic growth. The government did not realise that cutting taxes would reduce the amount of money given through benefits to people on lower incomes, this would reduce consumption as they have less to spend.	
3.	As national debt increases, the government may increase its taxation to make more revenue to pay off this debt, this would result in people having less disposable income, resulting in a decline in aggregate demand due to lower	

ENTER QUESTION NUMBER BELOW	Do not type in this shaded box	DO NOT WRITE IN THIS MARGIN
	consumption. This may also mean that the country would become less productive. As national debt persists, there will be a higher burden on future generations, who did not amount this debt but must pay it off, this is generational unfairness. If national debt rises then the UK may be forced to take out more loans to pay off previous loans, this would result in only higher debt that would start a cycle. If national debt were to rise then the pound fall in value as investors would not be likely to invest in the country. This would also lead to a fall in aggregate demand through investment. If national debt rises, the government may decide to try and implement Modern Montery theory or quantitative easing, this would increase the money circulating in the UK which may help pay off the debts, however this may result in possible inflation.	
4.	As Scotland has higher tax brackets than the rest of the UK, this would result in Scotland having higher tax revenue, this means that they will have more to reinvest in the country, bettering people's lives. An implication would be that middle classes would have less disposable income, this reduces inequality but it also means that the middle classes have a lower standard of living. Another implication would be that due to people losing more of their income through taxes, their may be a possible brain drain, where the higher earners would leave Scotland and relocate elsewere in the UK or abroad. This would result in lower tax revenue as well as less consumption, slowign aggregate demand. possibly making Scotland's growth inferior to that of the rest of the UK. Another implication is that Scotland would reduce its produtivity as people would less likely to work if they knew that more of their income was beign taxed. This may also stop people from becoming more skilled and being in higher earnign jobs as they know that they will face higher taxes on their higher income, resulting in a less productive and less skilled workforce.	
5.	One possible policy is a wealth tax, this would be a tax on people's assets over a certain amount, for example £400,000. This would be successful at reducing inequality as the wealthier would have less wealth while the less wealthy would not be effected. However, this may be unfair as even with an extremely low tax percentage, a tax of say 5% on the minimum asset amount would still mean that households would have to pay £20,000 in taxes, which is not possible for many, this means that the tax may be a redundant idea as it would not be possible to carry out, even at very low rates. It would also be extremely hard to calculate a households total asset wealth. Another possible policy would be government investment in more vocational and technical education opportunities for poorer areas. This would mean that poorer people have access to education that would make them a more skilled worker and more attractive to employers. This would result in the poorer people being in more employment, and higher paid employment, reducing inequality. This would also have no benefit to those who are wealthier, meaing that the gap would only close. However, this may not be as successful as the	

ENTER QUESTION NUMBER BELOW	Do not type in this shaded box	DO NOT WRITE IN THIS MARGIN
	government cannot force this opportunity upon people so many may not take it, which would not have an effect on inequality.	
6.	One advantage would be that the UK would see an increase in ready to work workers, this would mean that UK employment would increase and productivity levels would rise. Another advantage is that migration may bring in new skillsets to the UK, this means that firms may become more productive. Another advantage is that these migrants are usually employed, this means that tax revenue would increase for the government without them having to increase any expenditure through benefits on these migrants. Another advantage is that the migrants would bring in new culture to the UK, this means that UK cities may see new restaurants or shops open, creating more choice for consumers. Another advantage is that migrants are usually young, this means that they will lower the dependancy ratio in the UK, as their is an aging population. This will also mean that younger migrants may be better workers than older natives, increasing productivity. One disadvantage is that there would be an increase in supply of the labour market, this means that firms can reduce wages, resulting in lower incomes for many, as there is an excess supply so people would be willing to work no matter the wage as other jobs may be full or hard to find. This is due to the UK having over 600,000 inward migrants in 2022, a record level. Another disadvantage is that an increased migration level may result in overpopulation in the UK, this means that there will be an increase in demand for housing, meaning that people will struggle to find housing as the demand outweights supply.	
7.	One reason is because the housing market is currenty in a supply shortage, this means that people may struggle to relocate for work as they are unable to find housing in the local area of a job and cannot commute. This is geographical immobility. Another reason is because house prices are high due to high interest rates on mortgages and inflation, this means that people will struggle to relocate as they can't afford to buy or rent a house in the area of a new job. This is another example of geographical immobility.	

8. a) i) *diagram in answer booklet*

A firm in a perfect competitive market is able to make supernormal profits in the short run due to being able to lower their costs by innovating, this means that there will be supernormal profits as their price is higher than their average cost. However due to perfect knowledge in the market, other firms will know what this innovation is and follow suit, this means that the supernormal profits will be shared out amongst all these firms doing the same thing in the long run and price will fall to a new equilibrium, where all make normal profits(Q1). There are no barriers to entry in a perfectly competitive market, this means that once firms hear that there are supernormal profits available in a market, they will enter it to try and get some, this will only mean that again in the long run, these supernormal profits will be shared out so that only normal profits are being made, shown at Q1.

ii) Monopolies do not always benefit consumers as they are not productively inefficient, this is because they are profit maximising at MR=MC, so they operate there rather than where MC=ATC. This means that they are not producing at the lowest price they could be meaning that consumers must pay higher prices.

Another reason why monopolies do not always benefit consumers is because they are allocatively inefficient as they produce at a price far higher than their marginal cost this means that consumers are faced with higher prices.

Another reason why monopolies do not always benefit customers is that they do not supply enough of their good or service to meet demand, this is again allocative inefficiency as they are not providing enough of their good. This means that some consumers will not be able to get the good as their is not enough produced, this only further increased the price of the good as there is excess demand.

Monopolies often price discriminate, this is a benefit to some consumers, often children or elderly, as they will face lower prices than other consumers. However, for some consumers this will not benefit them as they will have to pay higher prices, or some times increased prices, such as a train ticket at rush hour.

However, monopolies do sometimes benefit consumers as they are dynamically efficient. Due to monopolies making supernormal profits in the long run, they are able to reinvest this profit back into their good or service, increasing its quality, this means that consumers are met with higher quality goods and services

Another reason why monopolies do not always benefit consumers is because in a pure monopoly, they are the only firm in the market, this means that consumers have no choice in consumption.

b) i) *diagram in answer booklet*

Positive externalities are the benefits to a third party that the consumption or production of a good brings. The consumption of electric cars results in marginal social benefit being higher than marginal private benefit, this means that it leads to positive externalities, and this means that, if produced at Q2, the good would create more positive externalities, the under consumption of the good is a misallocation of resources, which shiws that it is market failure. Consumption of electric cars would reduce the amount of carbon emmissions from fossil fuel cars, this means that there will be environmental benefits on society, the third party. Consumption of electric cars would also reduce the amount of demand for petrol, this means that there may be a fall in the price of petrol, which would benefit other drivers in society, and it may cause a fall in the supply and extraction of petrol, which would also have environmental benefits on society. Consumption of electric cars would also have positive externalities as they are often silent vehicles, this means that there would be less noise pollution in cities, a benefit to society.

ii) One way a government could encourage the use of electric cars would be to provide grants to those wishing to install electric car chargers in their home.

ENTER QUESTION NUMBER BELOW	Do not type in this shaded box	DO NOT WRITE IN THIS MARGIN

This would mean that a large upkeep cost of purchasing an electric car would already be covered, so people would be more likely to purchase them.

Another way would be to put taxes on the production of fossil fuel cars, this would either increase the price of the fossil fuel cars or decrease their supply, either way cauisng a leftward shift of the supply curve, this means that more demand would shift to the substitute good, electric cars, and more people would be purchasing and using electric vehicles.

Another way would be to put a complete ban on the production of fossil fuel cars, which has already been set to happen by 2030. This would mean that there would be less supply in the market and people would be more inclined to purchase the more abundant good, electric cars.

Another way would be to create carbon emmission free zones in cities, this would mean that fossil fuel cars would not be able to traverse cities as easily, resulting in more people buying and using electric cars as it would make travelling and commuting easier.

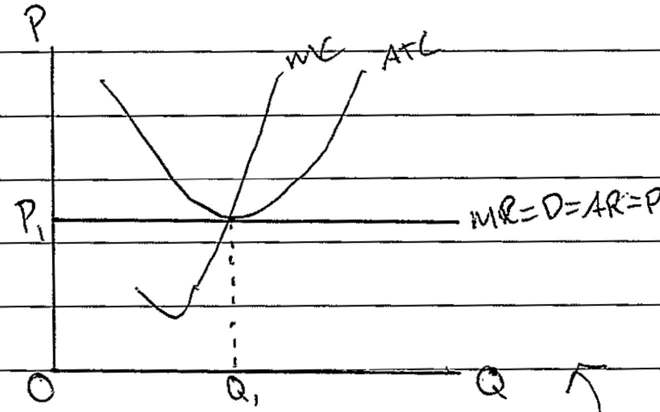
Another way would be to subsidise electric car production and research, this would mean that there would be an shift to the right in the supply of electric vehicles, so the price would fall, creating more incentive to buy and use them.

Another way would be to increase education on how fossil fuel cars effect the environment, making people less likely to buy them and more likely to buy and use electric cars.

ENTER NUMBER OF QUESTION

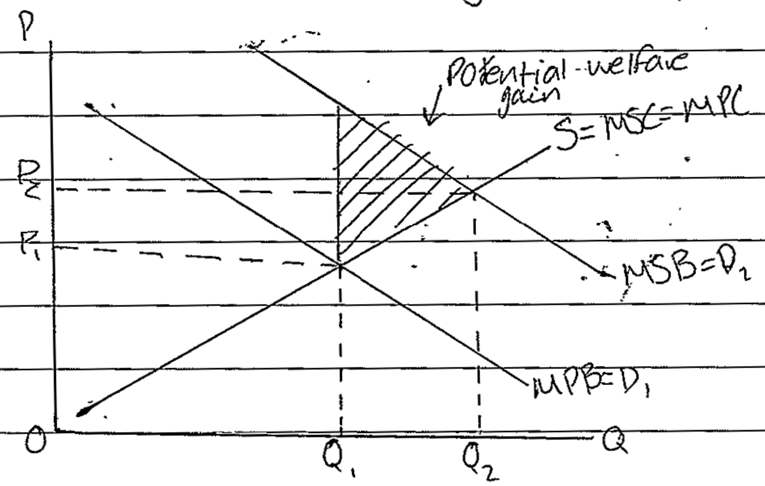
DO NOT WRITE IN THIS MARGIN

8. a) i)



Perfect competition - Long run

b) i)



Positive externalities caused by consumption of electric cars.