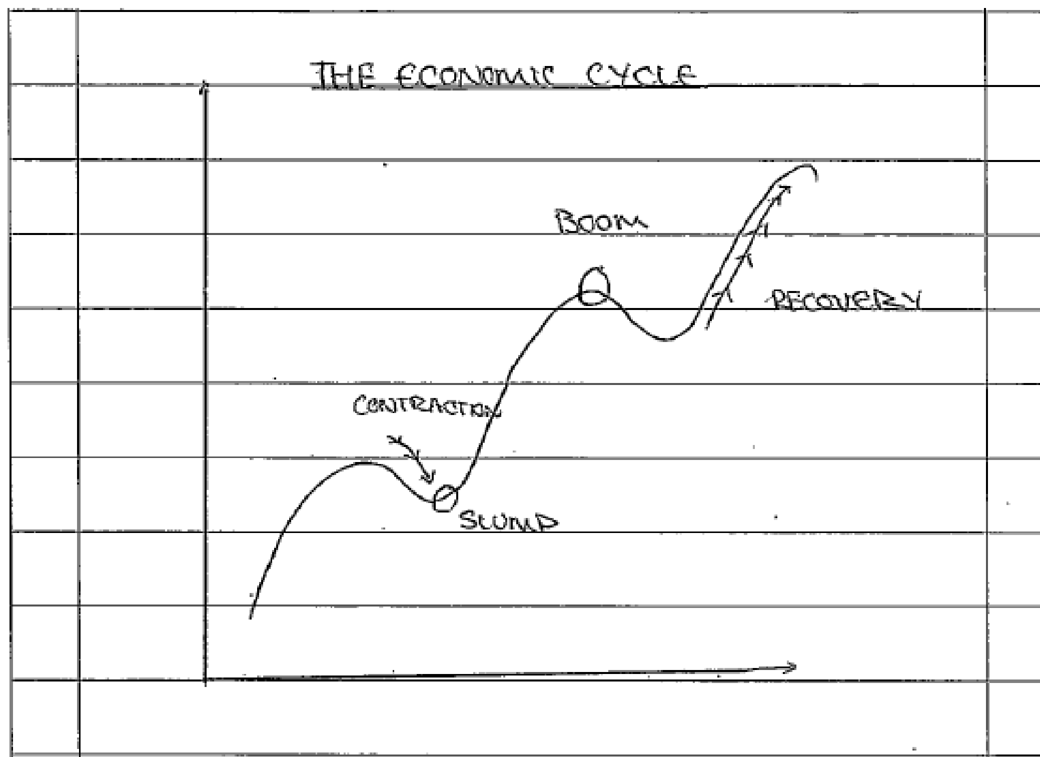
Evidence for Question 3 (a)

Candidate 1

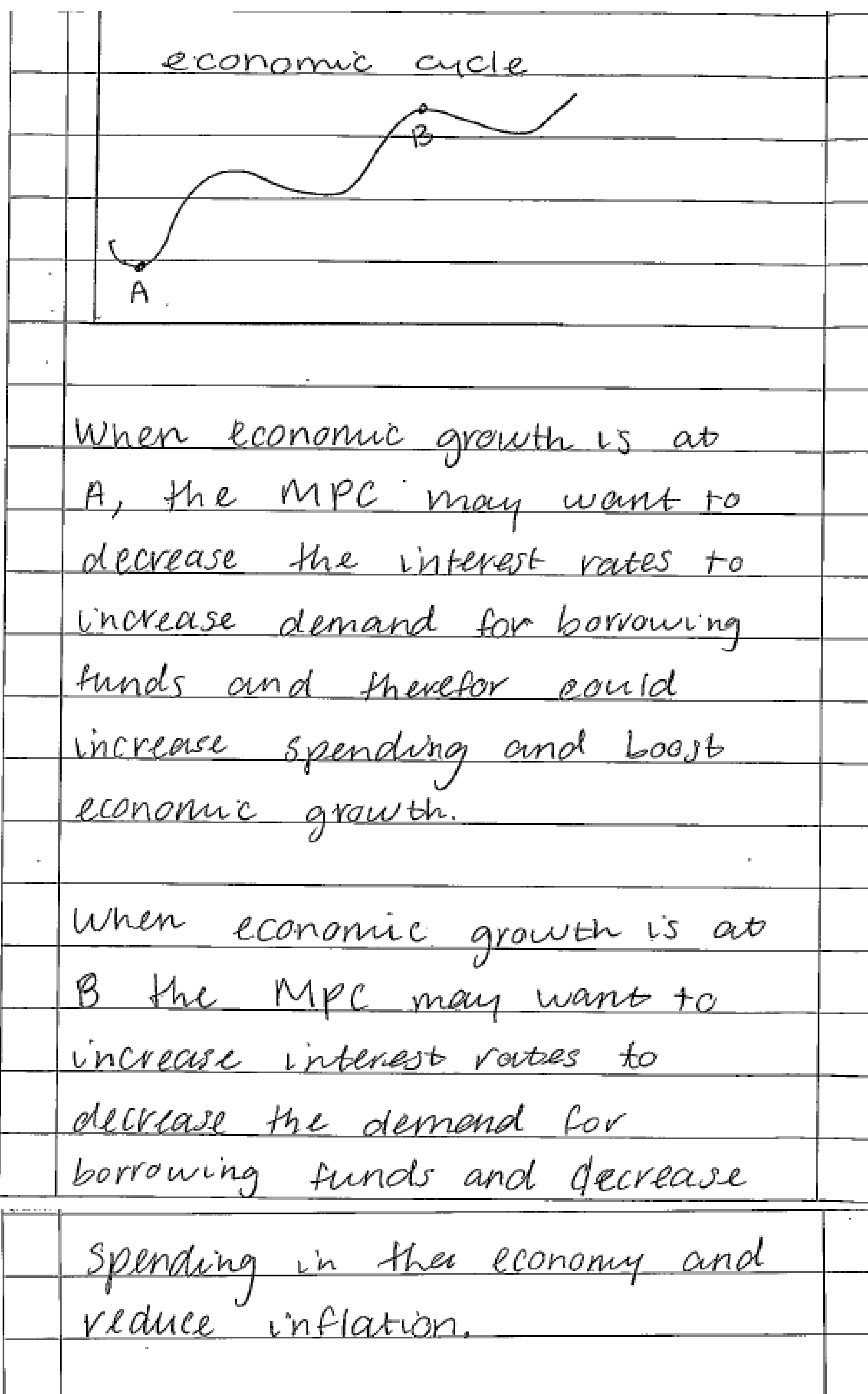
3.a) The Monetary Policy Committee (MPC) of the Bank of England are responsible for setting intrest rates. They meet to discuss the performance of the economy and to discuss what the intrest rates should be. If the economy is ~~rising~~ growing and the MPC decide it should be slowed down, then they will increase intrest rates to discourage spending (as individuals would have to spend more money on paying back intrest on a loan) and encourage saving as they would recive more intrest on their savings.

If the economy's performance was not too good (this is shown by a contraction on the economic cycle) then the MPC would lower intrest rates to discourage saving and encourage spending.



Candidate 2

3a) Monetary policy committee of the Bank of England sets the interest rates for banks. They do so by seeing the state of the economy and use interest rates to achieve some of the main economic objectives.



When economic growth is at A, the MPC may want to decrease the interest rates to increase demand for borrowing funds and therefor could increase spending and boost economic growth.

When economic growth is at B the MPC may want to increase interest rates to decrease the demand for borrowing funds and decrease spending in the economy and reduce inflation.

Evidence for Question 3 (b)

Candidate 1

b) If intrest rates increased then this would discourage spending by increasing the amount that an individual must spend on repaying intrest on a loan. This would decrease the individual's NDI which would discourage spending, cet par. This would reduce inflationary pressures in the UK economy which would stop prices rising so quickly, cet par. This would have

an effect on the wage price spiral
as if inflation decreased then workers
would stop demanding; usually, such
high pay rises which would also
discourage consumer spending. A rise
in intrest rates would increase the
amount of intrest an individual would
receive on their savings which would
encourage saving within the economy.
This would cause a withdrawal of
funds from the circular flow of income
as saving is a leakage which would,
ceteris paribus, stop the economy from growing
at such a high rate.

Candidate 2

b) An increase in interest rates may decrease inflation and economic growth. When interest rates increase this can decrease the demand for borrowing funds. If less people are borrowing this could mean less people are spending. When less people are spending this can slow down the economy and reduce the inflation rate. Also one persons spending is anothers income therefor this could decrease employment. When less people are spending there can be less inflationary pressure.

Candidate 6

3.b)	If interest rates were to rise,	
	mortgage repayments would rise,	
	this means that disposable incomes	
	would fall, so demand for goods	
	and services would fall, firms	
	would cut back on production and	
	in the long run may pay off	
	workers. Prices would fall to	
	keep demand so, the retail price	
	index would fall, inflation would	
	fall and the economy would slow down	

3.b) cont	So economic growth would fall.	

Evidence for Question 3 (c)

Candidate 2

ENTER NUMBER OF QUESTION

DO NOT WRITE IN THIS MARGIN

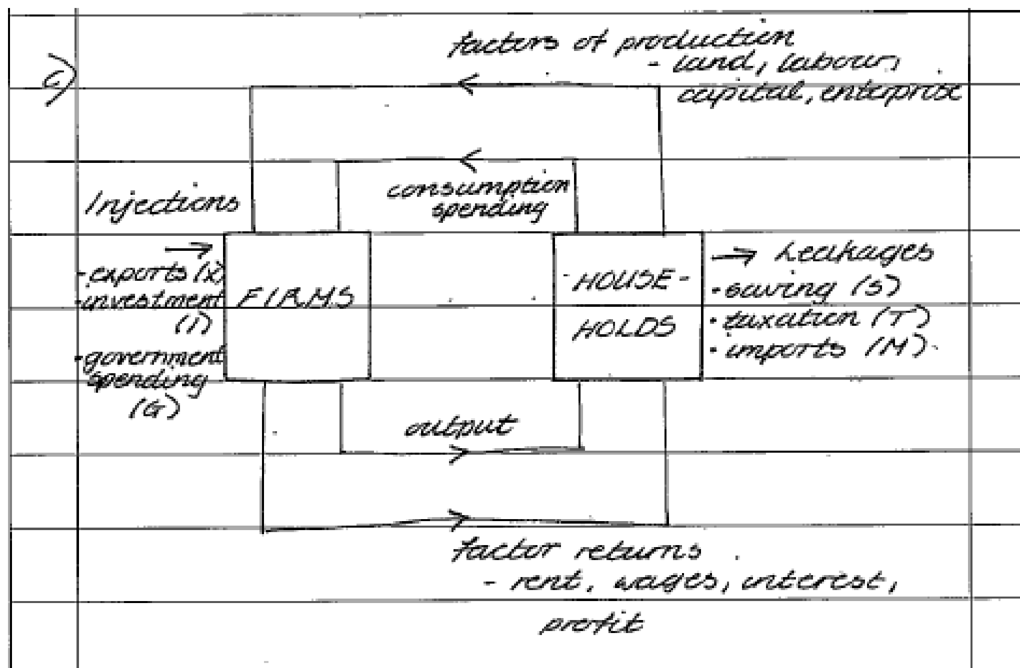
c)

exports
supplier/firm
subsidies
corp tax
gov
Loans
BANK
goods services
returns to factors of production
tax
social protection
Loans
consumer
imports

When there is an infection into the circular flow and injections are ~~and~~ higher than leakages this creates economic growth. ~~To create this economic growth~~ This is also known as the multiplyer effect where $\frac{1}{1-mpc}$, this means that as there is an injection people usually spend

most of it aka marginal propentiies to consume as they consume this can creates a ripple effect and can causes more spending and more economic growth.

Candidate 3



The multiplier effect is when an initial increase in an injection ~~causing~~ causes a more than proportionate increase in the level of national income

This occurs as one injection goes on to stimulate further rounds of spending (ie one person's spending is another's income)

The multiplier measures the extent to which national income increases after an initial increase in an injection and depends on how much leaks out of the flow at each stage

$$\text{Multiplier} = \frac{1}{1-MPC} = \frac{1}{MPS + MPT + MPM}$$

For example increasing government spending by £1 billion may cause national income to increase by £10 billion