

Cambridge AS & A Level · Economics 9708 · Notes

Supply-side policy AS

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What you need to know

By the end of this topic you should be able to:

1. **Say what supply-side policy is** in terms of the long-run aggregate supply (LRAS) curve: government measures that raise the economy's productive capacity, so they shift LRAS to the right.
2. **Give its objectives:** higher **productivity** (output per worker or per unit of input) and greater **productive capacity** (the most the economy can produce).
3. **Describe its tools**, for example training and education, building infrastructure, and support for new technology, as well as tax and benefit changes, privatisation and deregulation that improve incentives and competition.
4. **Use AD/AS diagrams** to show how supply-side policy changes the equilibrium level of national income and real output, the price level and employment.

Understand it

What supply-side policy is

Fiscal and monetary policy work mainly on **aggregate demand**: they change how much people want to spend. **Supply-side policy** works on **aggregate supply**: it changes how much the economy **can** produce, by improving the quantity, quality and use of the factors of production (land, labour, capital and enterprise). If it works, the economy's productive capacity grows, the **production possibility curve shifts outward** and the **LRAS curve shifts to the right**.

Its two objectives go together:

- **Higher productivity:** each worker, machine or hectare produces more. Better skills, better equipment and better organisation all do this.
- **Greater productive capacity:** the total the economy can produce rises, because there are more resources (more workers, more capital) or the existing ones are more productive.

Why productivity matters: a number example

A factory has 20 workers on an 8-hour day producing 3200 units, so output per worker-hour is $\frac{3200}{20 \times 8} = 20$ units. After a training scheme the same workers produce 3840 units: 24 units per worker-hour, a rise of $\frac{24-20}{20} \times 100 = 20\%$.

Each worker is paid \$96 a day, \$12 an hour. The **labour cost of each unit** falls from $\frac{12}{20} = 0.60$ dollars to $\frac{12}{24} = 0.50$ dollars, a fall of about 16.7%. Lower costs per unit let firms produce more at every price level (AS shifts right) and reduce the pressure to raise prices. This is how supply-side policy can fight **cost-push inflation** and raise **international competitiveness**.

The tools

Supply-side measures are usually split into two groups. Both count; the syllabus names training, infrastructure and technology as examples.

Interventionist measures (the government acts or spends):

- **Education and training:** more spending on schools, colleges, apprenticeships and retraining, or subsidies to firms that train staff. Workers become more skilled and more **occupationally mobile**, so productivity rises and **structural unemployment** falls.
- **Infrastructure:** roads, railways, ports, power supplies and broadband. Firms' transport and energy costs fall, workers can reach more jobs (**geographical mobility**), and investment becomes more attractive.
- **Support for technology:** grants or tax relief for research and development (R&D) and for buying new machinery and automation. Firms produce more with the same inputs.
- **Health care:** a healthier workforce works more days and more productively.
- **Help for new and small firms:** grants, subsidies, cheap loans and advice, which raise the quantity and quality of **enterprise**.
- **Regional policy:** grants to firms that set up in areas of high unemployment, which can cut **regional** unemployment.

Market-based measures (the government lets markets work better):

- **Lower income tax**, or a higher tax-free allowance: work pays more after tax, so more people take jobs and work longer hours. It raises the **opportunity cost of being unemployed**.
- **Lower taxes on company profits:** firms keep more profit to invest, and the country attracts more foreign direct investment.
- **Lower unemployment benefits**, or tighter rules for claiming them: a stronger incentive to look for work. It also saves the government money.
- **Privatisation** (selling state-owned firms to the private sector) and **deregulation** (removing rules that restrict competition): the profit motive and competition push firms to cut costs and improve products.
- **Competition laws** and **removing trade barriers:** firms facing more competition must become more efficient.

- **Labour-market reforms:** less trade-union power to block new working practices, easier immigration of workers, more flexible contracts. Some reforms are controversial; a lower or abolished minimum wage, for example, may raise employment but hurts the low-paid.

Not supply-side: changes in interest rates, the money supply or the exchange rate (monetary policy), import tariffs and quotas meant to protect jobs (trade policy), and general tax rises or spending cuts aimed only at AD.

Supply-side policy is often fiscal policy too

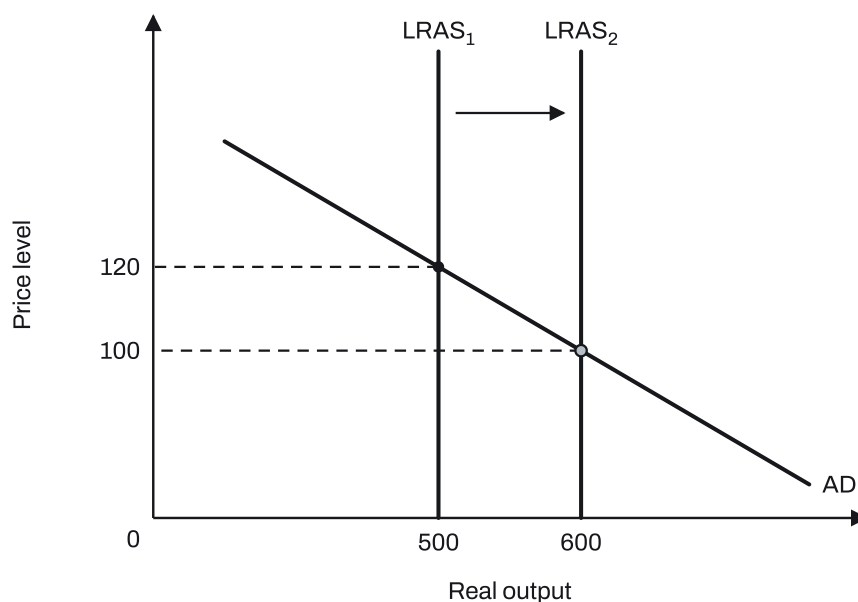
Many supply-side measures **use taxes or government spending**, so they are fiscal policy at the same time:

Measure	Fiscal?	Monetary?	Supply-side?
More spending on training or schools	Yes (higher G')	No	Yes
Lower income tax or higher tax-free allowance	Yes	No	Yes
Lower tax on company profits	Yes (expansionary)	No	Yes
Lower unemployment benefits	Yes (lower spending)	No	Yes
Privatisation, deregulation, trade-union law	No	No	Yes
Lower interest rates	No	Yes	No

How the government **pays** does not change this: borrowing from the public, or raising another tax, to pay for training is still fiscal and supply-side, not monetary policy. A measure like training is classified as **supply-side**, **not demand-side**, because its purpose is to raise capacity, even though its spending also adds to AD.

AD/AS analysis: a vertical LRAS

If LRAS is drawn as a **vertical line** at full-employment output, the economy always produces its full capacity in the long run. Supply-side policy moves that line right.

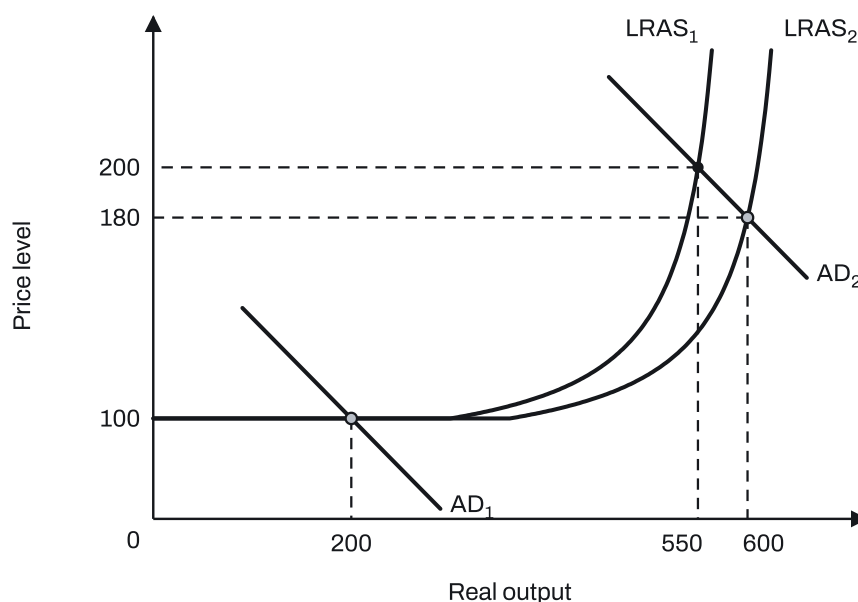


- **Real output and national income rise** (500 to 600, up 20%): this is **long-run economic growth**, an increase in potential output, not just in demand.
- **The price level falls** (120 to 100) or, in practice, rises more slowly: **lower inflation**.
- **Employment rises**: more output needs more workers, and better-skilled, more mobile workers fill vacancies that were hard to fill.

This is why supply-side policy is attractive: it can raise growth and employment and cut inflation **at the same time**, with no trade-off. Demand-side policy usually has to choose between them.

AD/AS analysis: a three-section LRAS

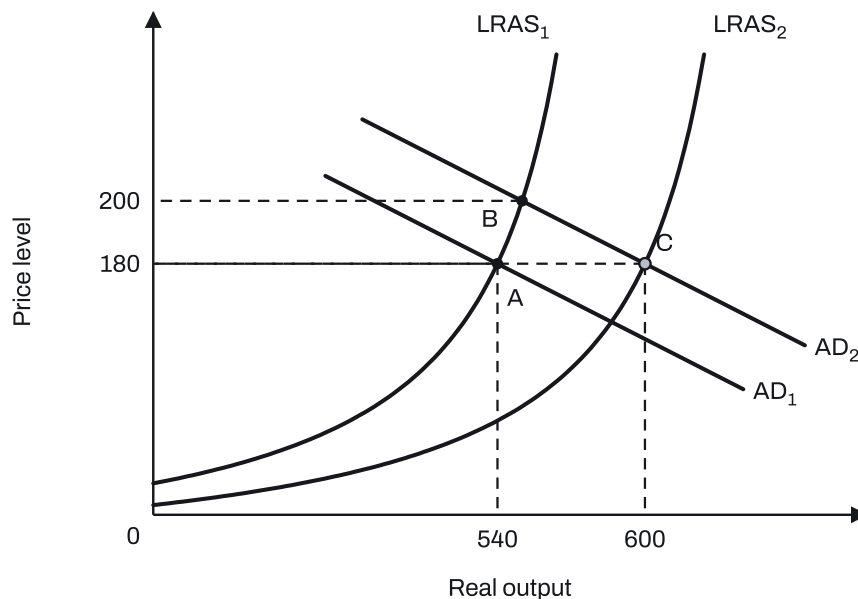
The syllabus also lets you draw LRAS in **three sections**: flat when there is lots of spare capacity, rising as the economy nears full capacity, then vertical at full capacity. On this diagram the effect of a supply-side policy depends on where AD is.



- **Near full capacity** (AD₂): the shift raises output from 550 to 600 and lowers the price level from 200 to 180. Supply-side policy works well here, and especially when **unemployment is high but prices are rising**, because rising prices show the economy is short of capacity.
- **With lots of spare capacity** (AD₁, a deep recession): output stays at 200 and the price level at 100. The economy is not producing what it already can, because demand is too low; more capacity does not create more spending. Supply-side policy **cannot cure demand-deficient (cyclical) unemployment**; that needs more AD. It is best at **structural** and **regional** unemployment, where the problem is the wrong skills in the wrong places.

The short run and the long run

A supply-side measure paid for by government spending works in **two stages**, and they push the price level in opposite directions.



1. **Short run (A to B):** spending on teachers, trainers or builders is an injection. AD shifts right **before** capacity grows, so the price level rises (180 to 200, about 11%). Supply-side spending can be **inflationary at first**.
2. **Long run (B to C):** once the workers are trained or the road is built, productivity rises and LRAS shifts right. Output rises to 600 and the price level falls back to 180.

So the price level may **not fall** overall if AD keeps rising as well, for example because workers spend their higher incomes. In the other direction, **cutting** infrastructure or training spending reduces AD at once (contractionary in the short run) and reduces LRAS later.

Some measures even **lower output before raising it**. Removing import barriers exposes inefficient domestic firms to competition: some close and workers lose jobs (output falls), and only later do resources move to more efficient firms (output rises).

How fast the measures work

Faster	Slower
Easing controls on the immigration of workers (more labour at once)	Primary and early-years education (15 years or more before those children work)
Tax and benefit changes (incentives change straight away, though behaviour may take time)	Infrastructure (years to plan and build)
Deregulation, competition laws	Research and development, privatisation

Strengths and limits

These are the evaluation points examiners reward:

- **Strengths:** raises long-run growth; lowers costs, so cuts **cost-push inflation** and raises competitiveness (which can **improve the current account**); tackles **structural and regional unemployment**; no trade-off between output and prices.
- **Time lags:** most measures take years; useless against a sudden recession or a burst of inflation now.
- **Cost and opportunity cost:** training, infrastructure and subsidies are expensive. They widen the budget deficit or mean less spending elsewhere, and may be cut back later.
- **Uncertain results:** people may not take up training (poorer households may need to earn now), training may not match the jobs on offer, tax cuts may be saved, or used for more leisure, and lower profit tax may just raise dividends.
- **Inequality:** tax cuts mainly help higher earners, and cutting benefits or the minimum wage hurts the poor. Education, transport links and job support can **reduce** inequality by making the poor more employable and mobile.
- **No help with demand problems:** it does not cure demand-deficient unemployment, and it cannot stop **imported inflation** from dearer oil or food.
- **Short-run inflation** if the spending raises AD before capacity grows.

Key facts and formulas

There is no formula list in the 9708 exam, so everything here is "Learn it".

Formula	Status
Labour productivity = output ÷ number of workers (or worker-hours)	Learn it
Unit labour cost = wage ÷ output per worker (in the same time period)	Learn it
Percentage change = $\frac{\text{new} - \text{old}}{\text{old}} \times 100$	Learn it
Supply-side policy: productive capacity up ⇒ LRAS shifts right ⇒ real output up, price level down, employment up	Learn it
Spending-based measures: AD right in the short run (prices up), LRAS right in the long run (prices down)	Learn it
$AD = C + I + G + (X - M)$	Learn it

How to do it

We tagged 43 questions for this topic (2021–2025): 28 Paper 1 multiple choice and 15 Paper 2 parts. For Paper 2 we count only the parts about supply-side policy. No question mixes two types, so the counts add up to 43.

Question type	Questions
Multiple choice: AD/AS effects of a supply-side policy (output, prices, timing, conditions)	9
12-mark essay: supply-side policy against other policies for one objective	8
Multiple choice: identify a supply-side policy (or its aim)	7
Multiple choice: classify a measure as fiscal, monetary or supply-side	7
Multiple choice: choose the measure that meets a stated goal	5
12-mark essay: difficulties of supply-side policy in raising capacity or a factor's supply	3
Data response: assess named supply-side policies in a case study (6 marks)	3
8-mark part: why a measure is supply-side, and its short-run and long-run price effect	1

1. Multiple choice: AD/AS effects of a supply-side policy (9 questions)

1. **Ask what the measure does to LRAS** (right if it raises capacity, left if it cuts it) and **to AD** (any change in government spending or taxes moves AD too).
2. **Ask where the economy is**: lots of spare capacity, or near full capacity (diagram 2).
3. **Ask about timing**: AD changes at once, LRAS only later (diagram 3).

Variations you will meet:

- **Diagram with two AD and two LRAS curves**: spending on infrastructure shifts **both** AD and LRAS right, so the new point is where AD_2 meets $LRAS_2$ ([9708/12/F/M/25 Q18](#)). Higher direct tax or higher interest rates move only AD, left.
- **"Why might the price level not fall?"** Because AD also increases ([9708/12/F/M/25 Q24](#)). Higher productivity is the reason it **should** fall, not the reason it does not.
- **"Which statement is not correct?"** Cutting infrastructure spending reduces LRAS **and** AD; it is not expansionary in the short run ([9708/13/O/N/24 Q21](#)).
- **"Lower real output before raising it"**: reducing import barriers ([9708/12/O/N/24 Q21](#)).
- **"Short-run growth in AS"**: easing controls on the immigration of workers adds labour at once; education and R&D take years ([9708/12/O/N/23 Q26](#)).
- **"Least effective at raising real output"**: an economy **below full employment** with a measure that does not add to AD, such as abolishing the minimum wage ([9708/13/O/N/23 Q28](#)). With spare capacity, more capacity adds nothing.
- **"When most likely to achieve the goals?"** High unemployment **and** a rising price level ([9708/12/F/M/23 Q26](#)). Only 18% of candidates chose this; most (53%) picked low unemployment and a stable price level. Draw it: shifting AS right lowers prices and unemployment together.
- **Which diagram shows more education spending?** The LRAS curve shifting right, with real output higher.
- **"Which statement is correct?"** It may reduce **regional** unemployment. It does not solve demand-deficient unemployment, it does have an opportunity cost, and it does affect the price level.

2. 12-mark essay: supply-side policy against other policies for one objective (8 questions)

"Assess whether supply-side policy is the best way to reduce inflation", "...equally successful against structural and cyclical unemployment", "...the most effective way to achieve long-run growth", "...to correct a current account deficit", or "supply-side policy or demand-side policy?" Marked by levels: 8 for knowledge and analysis, 4 for evaluation.

1. **Define** supply-side policy (measures that raise productive capacity, shifting LRAS right) and the objective (inflation, unemployment and its types, growth, the current account).
2. **Analyse two or three supply-side tools for this objective**, each as a full chain, with diagram 1 or 2. For example: training → higher skills and productivity → lower unit costs → LRAS right → price level lower (cost-push inflation falls).
3. **Analyse their limits for this objective**: time lags, cost and opportunity cost, uncertain take-up, no effect on weak demand or imported inflation, short-run AD effect.
4. **Analyse at least one alternative** with its strengths and limits: higher interest rates or taxes against demand-pull inflation; lower interest rates or more government spending against cyclical unemployment; tariffs or a depreciation for a current account deficit.
5. **Tie the choice to the cause and the time scale**: demand-pull inflation and cyclical unemployment suit demand-side policy; cost-push inflation and structural unemployment suit supply-side policy; it works in the long run, demand-side policy in the short run.
6. **Conclude** with a judgement that answers "best", "only" or "equally": what it depends on, and often that a mix works best (demand-side for now, supply-side for lasting results).

Variations you will meet:

- **Unemployment**: supply-side policy suits **structural** unemployment (retraining, mobility, regional grants) but not **cyclical** unemployment, which needs AD; unless the measure involves new spending that also raises AD.
- **Inflation**: for **demand-pull**, extra capacity lets supply meet demand without price rises, but too slowly; higher interest rates or taxes act faster but cost output and jobs. For **cost-push**, higher productivity lowers unit costs, but external causes (oil, imported inflation) are beyond its reach ([9708/23/O/N/25 Q4](#)).
- **Current account deficit**: higher productivity and lower costs make exports more competitive and domestic goods better substitutes for imports; but slowly, while tariffs act fast but invite retaliation ([9708/22/F/M/23 Q5](#)).
- **Long-run growth**: supply-side policy raises potential output; the alternative is more AD (which only uses spare capacity) or investment, which raises both AD and capacity.

A general description of supply-side policy not tied to the objective stays at mid-Level 2 or below. One-sided answers get no evaluation marks.

3. Multiple choice: identify a supply-side policy (or its aim) (7 questions)

1. **Ask: does it raise productive capacity, productivity or incentives?** Training subsidies, infrastructure, R&D, privatisation, deregulation, laws curbing trade-union power and lower benefits all do.
2. **Rule out the distractors:** interest rates, the money supply, open market operations and the exchange rate are monetary; tariffs and quotas are trade policy; a specific tax on goods or a smaller fiscal deficit is fiscal policy aimed at AD or revenue.

Variations you will meet:

- **"Not an expansionary supply-side policy":** a **cut** in government spending on training (it reduces capacity).
- **Match the aim with a measure:** economic growth with deregulation. "Full employment with more money supply" or "stable prices with lower interest rates" are monetary.
- **"Why is an income tax cut supply-side?"** It raises the **opportunity cost of being unemployed** (the income you give up by not working), so more people choose work. "Real incomes rise" is the demand-side effect.

4. Multiple choice: classify as fiscal, monetary or supply-side (7 questions)

1. **Fiscal?** Yes if it changes taxes, benefits or government spending.
2. **Monetary?** Yes only if it changes interest rates, the money supply or credit. How the spending is paid for does not matter.
3. **Supply-side?** Yes if its purpose is to raise capacity, productivity or the incentive to work or invest.
4. Tick every column that applies; a measure can be two types at once (see the table in "Understand it").

Variations you will meet:

- **A tax rise to pay for apprenticeships, or borrowing from the public** to pay for them: fiscal and supply-side, not monetary ([9708/14/M/J/22 Q30](#)).
- **Financing retraining for the unemployed:** supply-side and fiscal, **not** demand-side ([9708/13/O/N/23 Q27](#)).
- **Cutting the tax on company profits:** expansionary fiscal **and** supply-side.
- **Cutting benefits to raise the incentive to work, or raising the tax-free allowance:** fiscal and supply-side.
- **Building more schools:** fiscal and supply-side.

5. Multiple choice: choose the measure that meets a stated goal (5 questions)

1. **Read the goal word for word:** "without raising the price level", "avoiding a fall in output", "reduce the budget deficit", "encourage entrepreneurs", "in the long run".
2. **Check each option against every part of the goal.** Demand-side options (higher taxes, a budget surplus, a higher exchange rate) cut inflation by cutting AD, so output falls too.

Variations you will meet:

- **Cut inflation and avoid a fall in output:** more competition laws (AS right, not AD left).
- **Raise output to full employment without raising the price level in the long run:** lower income tax (LRAS right). Less spending on education cuts LRAS; a higher sales tax adds to costs; higher welfare benefits weaken the incentive to work.
- **Reduce the budget deficit:** cut unemployment benefits. Tax cuts and more spending widen it.
- **Encourage new entrepreneurs:** a government subsidy to small firms. A higher minimum wage, more trade-union power or a higher profit tax discourage them.
- **Cure cost-push inflation in the long run:** support replacing workers with robots (productivity up, unit costs down). Protecting old work practices or adding unskilled workers does not raise productivity.

6. 12-mark essay: difficulties of supply-side policy in raising capacity or a factor's supply (3 questions)

Older questions: "Discuss the difficulties of using supply-side policies to expand productive capacity and whether they can be overcome", "...whether they will increase the quantity and quality of enterprise", "...whether policies to increase the supply of labour are more successful than those to increase enterprise".

1. **Define** supply-side policy, productive capacity and the factor (labour: the human effort used in production; enterprise: organising the other factors and taking risks). A PPC or LRAS shifting outward shows the aim.
2. **Explain the tools for that factor:**
 - **Labour quantity:** lower income tax, lower or stricter benefits, easier immigration, childcare support.
 - **Labour quality:** education, training, health care.
 - **Enterprise quantity:** start-up grants, cheap loans, lower profit tax, less red tape (deregulation).
 - **Enterprise quality:** business courses, advice, mentoring, R&D support.
3. **Explain the difficulties:** cost and opportunity cost, long time lags, uncertain take-up (people may not want to train or take risks), skills that do not match vacancies, tax cuts leading to more leisure, failed start-ups wasting grants.
4. **Say whether and how each difficulty can be overcome** (target the spending, work with employers on training, link grants to results, use public-private partnerships to share costs), not just list alternative policies.
5. **Conclude:** which works better or whether the difficulties can be overcome, and on what it depends.

Examiners criticised answers that wrote about supply-side policy in general without the named factor, or covered quantity but not quality. Use real examples.

7. Data response: assess named supply-side policies in a case study (3 questions)

6-mark parts, such as "Assess the extent to which [the extract's] policies are likely to reduce income inequality", "...whether more education spending may improve the incomes of poorer households", or "...whether supply-side policy is the best way to diversify the economy".

1. **Name the policies from the extract** and say they are supply-side.
2. **How they help this goal** (up to 3): transport links raise mobility to jobs; education and training raise employability and wages; support for entrepreneurs creates self-employment and new export industries.
3. **Why they may not** (up to 3): cost, so they may be dropped; time lags; poor households may need to earn now rather than study; the gains may go mainly to people who are already better off; vested interests resist change.
4. **Evaluate** (2): a balanced weighing in **this country's** context (1), and a justified conclusion (1).

Analysis is capped at 4 in total; one-sided answers get at most 3 and no evaluation marks.

8. 8-mark part: why a measure is supply-side, and its short-run and long-run price effect (1 question)

"Explain why spending on education and training is a supply-side policy and consider why its impact on the price level may differ between the short run and the long run."

1. **Knowledge (3)**: supply-side policy is designed to increase aggregate supply (1); it shifts the AS / LRAS curve right (1); education and training raise skills and productivity, so productive capacity rises (1).
2. **Analysis (3)**: in the short run the spending raises AD, so the price level rises; in the long run LRAS shifts right and the price level falls (diagram 3).
3. **Evaluation (2)**: whether the long-run effect actually happens: if the training is poor or not taken up, the spending only adds to inflation; time lags make the long run very long (1). A justified conclusion (1).

Worked examples

Example 1

A government raises the tax on fuel to pay for building new railway lines that will cut journey times for workers and freight.

Which types of macroeconomic policy are being used?

	fiscal	monetary	supply-side
A	✓	✓	✗
B	✓	✗	✓
C	✗	✓	✓
D	✗	✗	✓

[1]

A tax rise and government spending on railways are fiscal policy; the railways raise productive capacity, so it is also supply-side. Nothing changes interest rates or the money supply. The answer is **B**. (1)

Example 2

A firm's 50 workers produce 2000 units a week. After a government-funded training course they produce 2300 units a week. Each worker is paid \$600 a week.

- (a) Calculate the percentage change in labour productivity. [2]
- (b) Calculate the labour cost of each unit before and after the training. [2]
- (c) Explain how training like this, across the economy, could affect the price level in the long run. [2]

(a) Productivity: $2000 \div 50 = 40$ units a week before and $2300 \div 50 = 46$ after (1). Change = $\frac{46-40}{40} \times 100 = 15\%$ (1).

(b) Before: $600 \div 40 = 15$, so \$15 a unit (1). After: $600 \div 46 = 13.04$, so \$13.04 a unit, a fall of 13.0% (1).

(c) With lower costs per unit, firms can supply more at each price level, so productive capacity rises and LRAS shifts right (1). With AD unchanged, the new equilibrium has more real output and a lower price level (or lower inflation) (1).

Example 3

Explain how a cut in the rate of income tax can act as a supply-side policy and consider whether it will increase real output. [8]

Supply-side policy is government action to increase the economy's productive capacity, shifting the long-run aggregate supply curve to the right (**1, AO1**). Income tax is a direct tax on earnings; a cut raises the take-home pay from each hour of work (**1, AO1**). [Diagram 1: price level and real output axes, AD, LRAS₁ shifting right to LRAS₂, output rising from 500 to 600 and the price level falling from 120 to 100] (**1, AO1**).

Because work now pays more after tax, the opportunity cost of being unemployed rises, so more people look for jobs and some existing workers choose to work longer hours (**1, AO2**). The supply of labour, one of the factors of production, increases, and higher rewards may also encourage people to gain skills or start businesses, so productive capacity rises and LRAS shifts right (**1, AO2**). Real output and employment rise, and because capacity has grown the price level falls or rises more slowly (**1, AO2**).

It may not raise output much: some workers may choose more leisure instead, since they can earn the same income in fewer hours, and many low earners pay little income tax, so their incentive barely changes; the cut also raises AD, so if the economy has spare capacity because demand is weak, output rises only through the demand effect, and if it is near full capacity the extra demand adds to inflation (**1, AO3**). So the tax cut is likely to raise real output only modestly, most where tax rates were high and labour is in short supply, and less where the economy's problem is a lack of demand (**1, AO3, a justified conclusion**).

(Knowledge 3, analysis 3, evaluation 2: **8/8**.)

Example 4

Assess whether supply-side policy or expansionary fiscal policy is the better way to raise real output in an economy where unemployment is high. [12]

Model answer (outline of each paragraph):

1. **Terms.** Supply-side policy raises productive capacity, shifting LRAS right; expansionary fiscal policy is higher government spending or lower taxes to raise AD. Unemployment is high: say whether it is mainly cyclical (too little demand) or structural (skills and jobs mismatched). (*Accurate knowledge; the objective defined.*)
2. **How supply-side policy raises output.** Retraining and better transport let unemployed workers move into sectors and regions that have vacancies; lower benefits and income tax raise the incentive to work; R&D and infrastructure raise productivity. LRAS shifts right (diagram 1): output and employment rise and the price level falls, so there is no inflation trade-off. (*Developed chains with a labelled diagram, tied to unemployment.*)
3. **Its limits.** It takes years; it is costly; take-up is uncertain; and if unemployment is cyclical, diagram 2 shows that extra capacity on the flat section of LRAS adds nothing to output, because firms are not short of workers but of customers. (*The other side, linked to the type of unemployment.*)
4. **How expansionary fiscal policy raises output.** Higher spending on, say, hospitals raises G directly; lower taxes raise disposable income and consumption. AD shifts right and, with spare capacity, output and jobs rise quickly with little inflation. But it widens the budget deficit and debt, has time lags of its own, and near full capacity mainly raises prices; it does nothing for structural mismatch. (*Alternative analysed with strengths and limits.*)
5. **Evaluation.** The answer depends on the **type** of unemployment and the **time scale**. For cyclical unemployment in a recession, fiscal policy is better in the short run. For structural unemployment, more AD just causes bottlenecks and inflation, and supply-side policy is better. Some measures do both: spending on infrastructure and training raises AD now and LRAS later (diagram 3). (*Weighs the conditions.*)
6. **Conclusion.** Neither is better in every case. If unemployment is high because demand has collapsed, expansionary fiscal policy is the better way to raise output quickly; to keep output growing without inflation, supply-side policy is needed too, so the best approach combines spending that raises both AD and capacity. (*Justified conclusion: full evaluation marks.*)

Common mistakes

- **Describing supply-side policy in general.** Examiners repeatedly report answers that explain the policies but never link them to the question's objective (the current account, inflation, enterprise). Every paragraph must say how the measure affects **that** goal.
- **Thin supply-side analysis.** Many answers explain monetary or fiscal policy well and supply-side policy weakly. Write the full chain: measure → productivity or incentives → lower costs or more resources → LRAS right → output, prices, jobs.

- **Asserting instead of explaining.** "Training shifts LRAS so inflation falls" is an assertion. Say **why**: skills raise output per worker, which lowers unit costs.
- **Treating supply-side policy as a cure for cyclical unemployment.** More capacity does not create demand; say so when comparing policies.
- **Forgetting the short-run effect on AD.** Spending on training or infrastructure raises AD first, so the price level can rise before it falls.
- **Mixing up policy types.** Interest rates and the money supply are monetary; tariffs are trade policy. A supply-side measure that uses taxes or spending is fiscal as well.
- **Drawing the wrong diagram.** Use AD/AS (price level and real output, with LRAS shifting right), not a demand and supply diagram for one market. Label every curve.
- **Covering only part of the question**, such as the quantity of enterprise but not its quality, or one type of unemployment when two are named.
- **Summary instead of evaluation.** Repeating the analysis is not a judgement. Say which policy is better, for which cause and time scale, and why.

How to get the marks

- **Multiple choice:** write F / M / S (fiscal, monetary, supply-side) beside each measure, and check **every** column of a tick table. For timing questions, ask what happens to AD now and LRAS later.
- **Define first.** Knowledge (AO1) marks go to precise definitions: supply-side policy (raises productive capacity, shifts LRAS right), productivity, productive capacity.
- **"Explain"** needs the chain: tool → effect on a factor of production → productivity or capacity → LRAS → output, price level, employment. Each link is an analysis (AO2) mark.
- **Diagrams:** a labelled AD/AS diagram with LRAS₁ and LRAS₂, both equilibria and the axes "price level" and "real output" earns knowledge credit and makes the analysis clear.
- **"Consider", "assess", "discuss", "to what extent":** both sides, then a judgement that says what the answer **depends on** (the cause of the problem, the time scale, spare capacity, the government's finances), then a sentence that answers the question. One-sided answers get no evaluation marks.
- **"Best", "only", "most effective"** need at least one alternative policy, assessed for the **same** objective.
- **8-mark (a) parts:** point-marked, up to 3 knowledge, 3 analysis, 2 evaluation (one kept for a justified conclusion).
- **12-mark (b) parts:** level-marked, 8 for knowledge and analysis, 4 for evaluation. Level 3 needs balanced, accurate analysis tied to the question.
- **6-mark data parts:** use the policies **in the extract** and the country's figures; up to 3 marks a side, 4 at most for both, then 2 for evaluation.
- **Short run and long run:** examiners reward answers that separate measures that act quickly from those that work only in the long run.

Quick check

1. Say whether each is a supply-side policy, and if so whether it is also fiscal: (a) selling the state railway company to private owners; (b) raising interest rates; (c) grants to firms that offer apprenticeships; (d) a tariff on imported steel to protect jobs.
2. After training, output per worker rises from 25 to 30 units a day. Each worker earns \$50 a day. Calculate the percentage change in productivity and in the labour cost of each unit.
3. An economy's AD curve is $P = 300 - 0.25Y$ and its LRAS is vertical at $Y = 800$. Supply-side policy shifts LRAS to $Y = 880$. Find the price level before and after, and the percentage changes in real output and the price level.
4. Explain why a supply-side policy based on government spending may raise the price level in the short run. **[2]**
5. Explain why supply-side policy may do little to reduce unemployment in a deep recession. **[2]**

Answers

1. (a) Supply-side (privatisation), not fiscal as such; (b) not supply-side: monetary policy; (c) supply-side and fiscal (government spending); (d) not supply-side: protectionist trade policy.
2. Productivity: $\frac{30-25}{25} \times 100 = 20\%$ rise. Unit labour cost: $50 \div 25 = 2.00$, so \$2.00 before, and $50 \div 30 = 1.67$, so \$1.67 after, a fall of 16.7%.
3. Before: $P = 300 - 0.25 \times 800 = 100$. After: $P = 300 - 0.25 \times 880 = 80$. Real output rises by $\frac{80}{800} \times 100 = 10\%$ and the price level falls by $\frac{20}{100} \times 100 = 20\%$.
4. The spending (on trainers, buildings, materials) is an injection that raises AD straight away (1), while the extra productive capacity arrives only once the training or building is finished, so in the meantime higher demand meets the same capacity and prices rise (1).
5. In a deep recession unemployment is mainly demand-deficient: firms have spare capacity and are short of customers, not of workers or skills (1). Shifting LRAS right on its flat section leaves output and employment unchanged, so AD must rise to cut unemployment (1).

Past questions to try

- **9708/13/O/N/23 Q28**: which combination of spare capacity and measure is least effective at raising output.
- **9708/12/F/M/23 Q26**: when supply-side policy best meets the macroeconomic goals.
- **9708/22/M/J/23 Q1**: part (d), whether supply-side policy is the best way to diversify an economy.
- **9708/21/M/J/23 Q4**: part (b), monetary or supply-side policy to reduce inflation.