***AQA AS Economics exam practice answers***

9 Macroeconomic policy

**1** Long-run growth means growth in the productive capacity of the economy, enabling a higher level of output. This is also known as long-term growth and is represented by a shift to the right in the LRAS curve or an outward shift in the PPC. [3]

**2** One mark can be awarded for the identification of each relevant issue and up to 2 marks for each accompanying explanation. Two issues are required. The current account may be affected in the following ways:

* More imports are needed for the production of the infrastructure itself.
* The export sector is more competitive in the long run.
* The UK will become more attractive to foreign companies, leading to greater exports in long run.
* Higher growth due to the multiplier, which may ‘suck in’ more imports. [6]

**3** One mark can be awarded for the identification of each relevant issue and 2–3 marks for each accompanying explanation. Two issues are required. Relevant points would include:

* There is higher long-run growth (rightward shift in LRAS) due to improved labour mobility and greater efficiency for businesses using HS2.
* Injection of greater government expenditure leads to higher AD and therefore higher GDP.
* The multiplier effects of higher AD on other components of GDP. [8]

**4** One mark can be awarded for the identification of each relevant issue and 1–2 marks for further development/explanation, up to a maximum of 10 marks. Relevant points would include:

* Inflationary consequences of higher short-run growth (a diagram could be used here).
* Cuts in government expenditure to fund railway construction have an overall negative effect on GDP due to time lags before construction is completed.
* Crowding out of private sector expenditure leads to lower growth.
* Higher taxes are needed to finance construction.
* Negative externalities. [10]