19 SUPPLY-SIDE POLICIES

19.1 Role of supply-side policies

Learning outcomes

- Explain that supply-side policies aim at positively affecting the production side of an economy by improving the institutional framework and the capacity to produce (that is, by changing the quantity and/or quality of factors of production).
- State that supply-side policies may be market-based or interventionist, and that in either case they aim to shift the LRAS curve to the right, achieving growth in potential output.

Nanpu Bridge, Shanghai; a massive infrastructure project.

Supply-side policies are a combination of government-led and free market policies designed to increase the productive capacity of the country.

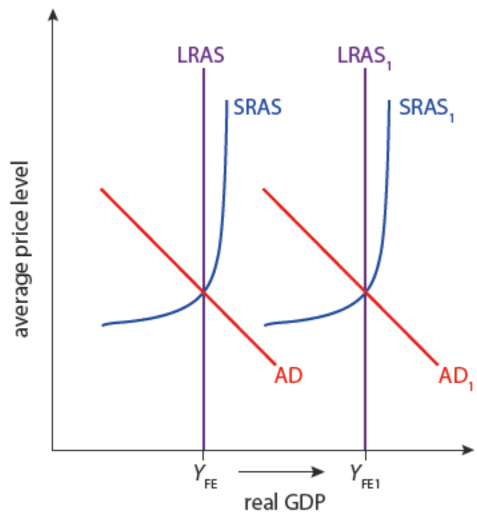
If it sometimes seems that aggregate demand (AD) gets all the attention, this is with good reason. From the 1940s onwards, Keynesian demand-management policies dominated the macroeconomic management schemes of finance ministers. These policies put heavy emphasis on the use of government spending to stimulate the economy, spending that often required increases in either taxes or government debt to finance the resulting deficits. Until well into the 1960s, healthy growth rates among many rich and developing countries appeared to validate the Keynesian demand-management approach.

However, by the late 1960s and early 1970s, as rich economies sputtered and inflation grew more serious, the protests of neo-classical scholars were gaining a wider audience. What followed, in the macroeconomic debates of the 1980s and beyond, emphasized a variety of new perspectives, including an emphasis on money and inflation control (evident in the work of the monetarist school), as well as a renewed focus on creating a healthier environment for business to flourish. This emphasis on the supply side of the macroeconomic equation would eventually shake, if not reorient, the centrality of the Keynesian paradigm.

Types of supply-side policy

Supply-side policies aim at positively affecting the production side of an economy by improving the quantity or the quality of the factors of production. These policies attempt to develop a healthier institutional framework for production to occur. On an aggregate diagram, successful supply-side policies shift the long-run aggregate supply (LRAS) curve to the right, increasing the overall productive capacity of the economy (Figure 19.1). This pushes future full-employment income, Y_{FE}, out to the right to Y_{FE1}. A higher standard of living and greater employment results.

Figure 19.1
Supply-side policies and LRAS.



Supply-side policies are of two types: government based and market based. Governments can act directly to improve the economy's capacity to produce. Government intervention seeks to provide capital goods or services where, it is believed, the market itself has failed to provide them. In contrast, market-based policies seek to unleash the full power of open markets to improve competition, open labour markets, and create better incentives.

The appeal of supply-side policies

In theory, supply-side policies are especially desirable because they improve the overall macroeconomic environment in which individual actors operate. Good policies would encourage productivity as well as create more and better factors of production. In this environment of productive surplus, growth is the logical outcome. Furthermore, increasing LRAS manages to expand the economy without generating inflation, a typical problem with expansionary demand-side policies.

In particular, supply-side policies appear to answer one of the most serious challenges of macroeconomic policies – stagflation (Figure 19.2). A loathsome combination of economic recession with rising inflation, stagflation easily resisted demand-side approaches. By increasing aggregate supply (AS), however, both problems can be eased and the economy returned to full employment.

In the 1970s, the economy was widely seen as locked into a period of stagflation where the equilibrium price levels (PL_E) were high and increasing, while output was below full

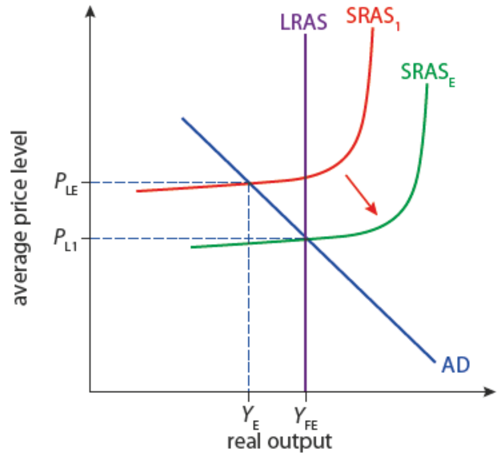


Figure 19.2
Stagflation and supply-side policies.

employment (Y_E). Movement of AD would have either (in the case of expansionary policy) increased inflation further or (in the case of deflationary policy) driven the country into deeper recession. Successful supply-side policies would instead push SRAS to the right to $SRAS_1$, easing prices to PL_1 and encouraging recovery to full employment at Y_{FE}.

To learn more about supply-side economics, visit www.pearsonhotlinks.com, enter the title or ISBN of this book and select weblink 19.1.

19.2 Market-based supply-side policies

Learning outcomes

- Explain how factors including deregulation, privatization, trade liberalization and antimonopoly regulation are used to encourage competition.
- Explain how factors including reducing the power of labour unions, reducing unemployment benefits and abolishing minimum wages are used to make the labour market more flexible (more responsive to supply and demand).
- Explain how factors including personal income tax cuts are used to increase the incentive to work, and how cuts in business tax and capital gains tax are used to increase the incentive to invest.

Origins of market-based supply-side policies

The impetus behind the criticism of Keynesian policies came from an influential group of neo-classical economists. Among the most prominent was Milton Friedman, who also became renowned for contributions to thinking about the money supply. Friedman and the other neo-classical economists followed in the tradition of Friedrich von Hayek, an Austrian economist who had openly clashed with Keynesian approaches since the 1940s. The term 'neo-classical' implied a harking back to old, accepted classical economics precepts. Energized by the economic crises of the 70s, neo-classical economists fiercely criticized the heavy regulation of markets,

US President Ronald Reagan and UK Prime Minister Margaret Thatcher were champions of the supply-side school of economic theory.

To learn more about neo-classical economics, visit www.pearsonhotlinks.com, enter the title or ISBN of this book and select weblink 19.2.

Market-based supply-side policies are intended reduce government intervention thereby allowing the free market to increase efficiency and improve incentives.

government ownership of major industries, and protectionist policies that had become the calling card of Keynesianism.

Their protests took root as politicians in the UK and US began to advocate freer markets and less government control. Margaret Thatcher in the UK and Ronald Reagan in the US both took decisive and unpopular stances on the basis of supply-side influence. Most notably, Thatcher privatized and shrank the coal industry in the UK, causing large-scale strikes and subsequent unemployment in the industry. Reagan, meanwhile, crushed a prominent strike by air traffic controllers in 1981, sending a signal that the days of trade union ascendancy were over.

Whether these policies reflected pure supply-side approaches or a hybrid of supply-side economics and conservative politics in their respective countries is still debated. However, the guiding principles of supply-side economics were clearly at work. These policies aimed to open up competition, free up markets from government involvement, and return influence to the private sector.

Types of market-based supply-side policy

Market-based supply-side policies include:

- policies to encourage competition
- labour market reforms
- incentive-related policies.

CASE STUDY

Say's law: supply creates its own demand

Champions of free markets often point to some of the basic principles of what is now called supply-side economics to emphasize the importance of businesses in creating wealth. Among the more popular are ideas credited to Jean-Baptiste Say. When considering commodity markets, Say noted that business initiative could be an important first step. A carpenter who creates the first chairs (as opposed to benches), may well hire woodcutters to chop down more trees, employ extra workers to do some of the basic cutting, and so on until a new group of people have income as a result of the supply of these new chairs.

Jean-Baptiste Say, 18th-century French economist and businessman.

In turn, these newly employed people now have income that can be spent on (among other things) the chairs they helped produce. Thus, an extreme simplification of Say's law has been that *supply creates its own demand*. Throughout modern economic history, Say's law is often cited by business groups to justify deregulation of industry, reductions in taxes, and a general loosening of the restrictions placed on market activity.

EXERCISES

1 Explain Say's law using a more modern example.

2 To what extent do you see Say's law as being a good guide for law or policy?

Policies to encourage competition

This group of policies aims to open the market to greater competition. They flow from the free market philosophy that greater competition encourages harder work, more innovation, lower prices and better quality in an attempt to earn money and win customers.

Deregulation

It is argued by supply-siders that governments can discourage business by applying stringent or unnecessary regulation to markets. Deregulation can be applied to a variety of situations in order to reduce bureaucracy as well as the required costs of complying with government rules. The rules under attack are typically intended as protection against some negative externality of production to do with product quality and safety, worker safety, or pollution control.

Anti-monopoly regulation

Where monopoly power exists, it gives producers the ability to restrict output and increase prices. Anti-monopoly laws (also called anti-trust laws) seek to prevent or dismantle monopolies in the market. It was with this approach that the governments of the US and others were successful at opening up the market for air travel. Until the 1970s, most countries operated heavily regulated, often state-owned airlines, with fixed prices and regulated routes. After deregulation, the market grew considerably, with more choice and a decrease in prices, at least for the first several years.

Privatization

One legacy of World War II industrial policies in many countries has been government control of the 'commanding heights' of the economy. For example, steel and iron, energy, and the transportation industries were under government ownership and control. Supply-siders believed that most of these had become bloated with unnecessary employees and operated inefficiently because they lacked the right incentives. Privatization, it was argued, would encourage owners to lower costs and thus prices. Prominent examples of implementation include the coal industry in the UK, as well as telecommunications and airlines in many countries.

Trade liberalization (free trade)

Supply-side economists applied the free market principle to international trade as well. They opposed tariffs, quotas, and subsidies that encouraged dependence on the government. They encouraged free trade, reduction of trade barriers and open competition.

These labour rights advocates of 1910 would certainly reject supply-side attempts to reduce union power today. Some 20 000 women garment workers went on strike in the winter of 1909–10 demanding better wages and conditions and union recognition.

Labour market reforms

Supply-side economists see government efforts to regulate and manage labour relations as an intrusion into the operation of free markets, and believe that inefficiencies result. Reforms in this area are intended to make labour markets more responsive to supply and demand.

Reducing trade union power

This could be viewed as the counterpart to anti-monopoly rules, with trade unions attempting to assume a collusive or monopolistic control over the market for their work. Trade unions, where successful, keep wages above the market level, and reduce overall employment as a result. Restricting trade union power to organize or bargain collectively with employers would decrease their wage-setting power. In theory, more workers would then move more freely among employers and more employment will result.

Reducing unemployment benefits

Unemployment benefits, according to supply-side economists, reduce the incentive to find employment. This creates a disincentive for workers to accept jobs at lower wages during periods of unemployment, and thus prolongs the economy's return to full employment. Supply-siders argue for benefits that are smaller and shorter in duration.

Ending the minimum wage

The minimum wage sets a price floor for labour, which creates a surplus of workers who will not be hired at the government-enforced wage rate. The unemployed workers require more unemployment benefits, which require more tax revenue. Higher wages reduce the profits of business and thus lower supply, and may reduce employment even further.

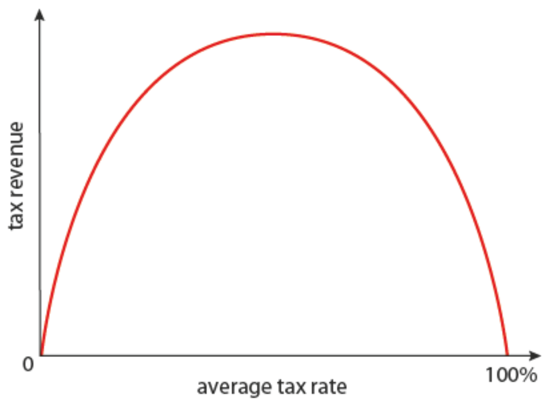
Incentive-related policies

Supply-siders have argued that taxes discourage work and production, and that reducing income and business taxes encourage productivity and the expansion of business.

Reducing income tax

Lowering taxes increases the after-tax income of those affected. It should, therefore, increase the incentive to work since every hour of work results in greater pay. Generally, it is believed that a reduction in the tax rate will reduce the amount of tax revenue earned by the government. However, in the 1970s, American economist Arthur Laffer began advocating lower taxes on the basis that lower taxes (at the high end of the tax rate) would actually raise tax revenue (Figure 19.3).

Figure 19.3
The Laffer curve.



Taxes had grown too high, according to Laffer, and a reduction would stimulate work to the extent that the greater income of workers would bring in increased tax revenue. The key, it was said, was to find the optimal tax rate, the point at the top of the curve. Too far to the right, the higher the average income tax rate, and lower revenue results. Too far to the left, the lower the tax rate, and lower revenue results.

To access Worksheet 19.1 on Obama *vs* Bush, please visit www.pearsonbacconline.com and follow the onscreen instructions.

Reducing business taxes and capital gains taxes

A tax on business profits obviously diminishes profits. Cutting corporate taxes, it is said, encourages firms to produce more, shifting supply to the right, and possibly encouraging more employment. Taxes on capital gains can apply to individual investors or businesses. It taxes the gain made on a capital investment, such as the profit made when selling property or shares in a company. These taxes discourage investment. So reducing the tax will make these entrepreneurial risks more rewarding and encourage investment.

19.3 Evaluation of market-based supply-side policies

Learning outcomes

- Evaluate the effectiveness of market-based supply-side policies through consideration of factors including the ability to create employment, the ability to reduce inflationary pressure, the impact on economic growth, the impact on the government budget, the effect on equity, and the effect on the environment.

Policies to encourage competition

The record of market-based supply-side policies varies according to specific policies and places. In the aftermath of World War II, it now seems clear that large parts of the US and UK economies were uncompetitive and stagnant under government control. The breaking up of anti-competitive markets like those of airlines and telecommunications appears to have yielded more consumer choice and better value for consumers. The effectiveness of privatization, however, depends largely on the manner in which it is enacted. Effective privatization should introduce the profit motive and create incentives to improve service and lower costs.

In several prominent cases, however, extremely valuable national assets were auctioned off cheaply to connected officials and bureaucrats. Many of these companies enjoy significant monopoly power and have little need to make the desired changes. This is understood to have happened rather often in the transitional economies of Eastern Europe and Russia. In other cases, the new private firms negotiate loose and lucrative ownership deals with the country (often with the bribed complicity of local officials). These deals allow them to raise prices well above current levels and reduce service to costly areas. This kind of scandal sparked rioting in Bolivia over water rights in 2000 and 2005 (Chapter 29).

Labour market reforms

The deregulation of industry can indeed yield economic benefits in countries where markets are regulated for the sake of preserving bureaucratic power. However, the social costs of deregulation may be borne out in unsafe products, dangerous work places and polluted environments. Striking the balance between these two goals is among the more difficult aspects of good governance.

In labour markets, the withdrawal of government intervention in the forms of minimum wages, trade union rights and unemployment benefits may indeed make the labour market more flexible and responsive to market forces. It also, however, exposes a country's most vulnerable people to the quixotic consequences of the market. Workers paid below minimum wage would be ever-more dependent on their employers, and therefore at more risk of exploitation. While trade unions explicitly and openly exist to drive up wages, they

> In the spring of 2011, the Republican Party of the US government published *A Roadmap for America's Future*, a budget proposal that slashes government spending on social programmes such as healthcare and unemployment benefits. The roadmap is largely viewed as a supply-side policy because it reduces the role of government in the market for goods that many Americans depend on. At the same time, it reduces government budget deficits and, in theory, frees up for use by the private sector resources that would otherwise be employed by the government. While the plan is unlikely to be approved by the Democrats in the government, it has led to a revival of the supply-side argument for smaller government and a larger role for the private sector in the market for goods such as education and health.

also help to protect workers from illegal and coercive treatment by employers. Dropping unemployment benefits may inspire the jobless to take whatever work is available. However, those out of work for structural reasons need time to retrain or even relocate to new jobs.

Incentive-related policies

With regard to incentive-based supply policies, the specifics of a country's situation are very relevant to the question of whether such policies are effective. Countries with extremely high tax rates on corporations, individuals and investment (e.g. Sweden) may yield more tax revenue by lowering their rates and stimulating growth. In countries where marginal rates are lower, the results do not appear to support tax cuts. When the Reagan administration lowered tax rates in the US, the revenue earned from taxation actually dropped at the same time incomes rose.

This points to one of the more severe criticisms of supply-side policies. When tax rates for the upper-income groups are reduced, more of the tax burden must, by definition, fall on the lower-income groups. More of the total tax revenue, in other words, is now paid by the poor. This has a redistributive effect, one that is accentuated if the welfare safety net is reduced at the same time. If union power is reduced, unemployment benefits are reduced, and other government services to the poor are also cut, then the effect is a reduction in the standard of living for lower-income groups, in favour of reduced taxes for the relatively rich.

This is why supply-side economists are burdened with the need to demonstrate the reality of the Laffer curve, and show that a given country will indeed recoup lost tax revenues with increased growth. Otherwise, these policies will be regarded as simply a move to redistribute income from poor to rich. Critics have labelled this approach a trickle-down view of the economy, suggesting that tax gains by the rich generate very little (a trickle) economic growth. Over time, there is very little evidence to support the idea that lower tax rates actually increase tax revenues. Even Milton Friedman, whose support of free markets appears to be unbounded, agreed during the debate over major US tax breaks in 2003, that cutting taxes reduces government revenue. The best one could argue, he said, was that reducing tax revenues would compel governments to reduce spending, 'cutting their allowance.'

19.4 Interventionist supply-side policies

Learning outcomes

- Explain how investment in education and training will raise the levels of human capital and have a short-term impact on aggregate demand, but more importantly will increase LRAS.
- Explain how policies that encourage research and development will have a short-term impact on aggregate demand, but more importantly will result in new technologies and will increase LRAS.
- Explain how increased and improved infrastructure will have a short-term impact on aggregate demand, but more importantly will increase LRAS.
- Explain that targeting specific industries through policies including tax cuts, tax allowances and subsidized lending promotes growth in key areas of the economy and will have a short-term impact on aggregate demand but, more importantly, will increase LRAS.

Types of interventionist supply-side policy

Interventionist supply-side policies require some kind of government action to improve the factors of production. Note that most of these require immediate spending, which will initially stimulate AD. However, well-crafted policies should create an enduring expansion of LRAS. Such policies include:

- investment in human capital
- investment in new technology
- investment in infrastructure
- industrial policies.

Interventionist supply-side policies are government-led attempts to increase the productive capacity of the country.

Investment in human capital

Education is investment in human capital.

Labour and entrepreneurship are two of the four factors of production, and can collectively (if somewhat coldly) be called human capital. Enhancing the productivity of that capital is likely to require significant government investment.

Education

Public education is a common policy in most countries. This has not always been true, but has gradually become accepted as a necessary ingredient of a modern economy. Learning basic literacy and numeracy, in particular, is rewarded with large jumps in the incomes of those so educated. Education improves the skills and productivity of the workforce as well. High levels of educational achievement are highly correlated with national income.

Training

Specific training for some jobs may not be offered in schools, and may be offered by special job training centres established by the government. This helps businesses find productive employees and thus should enhance economic growth.

To access Worksheet 19.2 on unemployment in Spain, please visit www.pearsonbacconline.com and follow the onscreen instructions.

Health services

In countries where public health is poor, it is difficult for children to regularly attend school, and worker absenteeism is chronic. Government efforts to improve healthcare can improve labour productivity in these situations. For example, at a basic level, prenatal care and inoculations can help ensure healthy births and childhoods. Most governments recognize this benefit, although some poorer countries find the costs difficult to manage.

Investing in education, training and health services will, by the building and staffing of these institutions, stimulate AD. However, the lingering effects of a well-trained, educated and healthy workforce should endure into the future, pushing LRAS outwards by improving labour and entrepreneurship.

Investment in new technology

Policies that encourage research and development have an immediate impact on AD. However, the more enduring effect should come through the resulting new technologies that will increase LRAS. When the government hires or sponsors the hiring of scientists and engineers to work in a particular area, this government spending stimulates AD in the immediate term. When their work results in new life-enhancing drugs, increased food production, and safer or cleaner technologies, the entire productive capacity is enriched, pushing LRAS outwards. This can be accomplished by public/private sector partnerships, as well as tax incentives for research and development.

Investment in infrastructure

Infrastructure is the building of large-scale public projects such as ports, highway systems, bridges, communications networks, as well as power and water systems. This kind of spending most certainly increases AD in the short run, but should also expand the capital base of the country in the long term, increasing LRAS in the process. The creation of a port, for example, makes it easier for the country to import goods, which may enhance the capital base of that country. At the same time, exports of goods will also be improved. The expanded market for domestic goods spurs investment to produce for overseas markets.

Industrial policies

Governments may support specific industries; perhaps an industry where the country has comparative advantage, or one with good long-term prospects.

Financial incentives

The government can support the industry with reduced taxes, subsidized loans, and even direct subsidies. These all reduce the costs to the firms, and encourage more production.

Protection for 'infant industries'

Industries believed to be potentially competitive in the world market may get this special treatment. Compared to their global competitors, they may currently be too small to enjoy the benefits of economies of scale. Governments can put down protective tariffs or quotas to keep foreign competition out until the firm is sufficiently large and developed.

In 2008, in the midst of a global economic downturn, the Communist government of China announced a $586 billion fiscal stimulus, the largest relative to a country's GDP initiated in modern times. The stimulus went towards investments in housing, rural infrastructure, transport, health and education, environment, industry disaster remediation, income-building, tax cuts, and finance. The purpose was to avoid a slow-down of China's growth rate by stimulating both aggregate demand and aggregate supply. Which components of the stimulus would you consider to be demand-side? Which would you consider to be supply-side?.

19.5 Evaluation of interventionist supply-side policies

Learning outcomes

- Evaluate the effectiveness of interventionist supply-side policies through consideration of factors including time lags, the ability to create employment, the ability to reduce inflationary pressure, the impact on economic growth, the impact on the government budget, the effect on equity, and the effect on the environment.

The use of interventionist supply-side policies should always take into account the specific needs of a country. The needs of developed nations may be different from the needs of less-developed nations. Resource bases and tax revenue situations are likely to differ as well. That said, after decades of trial in some form or another, it is possible to make some generalizations about specific interventionist policies.

Investment in human capital

Investment in human capital by way of education is rather universally supported, as it empowers people to better their own lives in their own way. Job training is regarded as a necessary method of easing the adjustment for the structurally unemployed. However, the costs can be considerable, and questions arise about the degree to which governments are well equipped to know which skills are needed and to ably train for those skills. While most countries support some kind of government-assisted healthcare, either by subsidies or the guarantee of health services, the costs and quality vary widely. However, in the poorest countries, it is clear that specific types of health services would significantly improve life spans, standard of living, and worker productivity.

Investment in new technology

The sponsorship of research and development is largely (though not exclusively) considered the domain of developed countries. The best case for such funding is that productive scientific research will not be undertaken by the market alone. This can be a result of imperfect information, as perhaps the true benefits of research are unknown until the research is completed. Or it can be that such research is so expensive that firms cannot expect to earn a sufficient return on the effort.

An example of both problems is the lack of research into the treatment and cure for common poor-country diseases like malaria. While costly, this kind of investment in knowledge can yield unexpected positive externalities in the forms of new technologies. The internet itself, developed over time through partly government-sponsored projects in various countries, is the latest and most common example.

Investment in infrastructure

Questions of cost also arise with the provision of infrastructure, though the benefits and costs are much more clear for these projects. Economists can estimate the prospective revenue and growth from construction of a new highway to relieve traffic, or from a rail system to improve the movement of goods. A strong case is made for infrastructure projects as public or merit goods that will not be undertaken if left to the market. Such

In some more developed countries, notably some states in the US, governments have begun making small reforms aimed at privatizing the public education system. Education vouchers are coupons given to families by the government and used to pay for children's tuition at private schools, if the parents believe such institutions are better than the state-provided schools available. Critics argue that government, rather than financing enrolment at private schools, should do a better job of ensuring that public schools meet the needs of all children in society, both rich and poor.

To access Worksheet 19.3 on Singapore, please visit www.pearsonbacconline.com and follow the onscreen instructions.

projects can be the source of enormous expenditure, especially in the case of major works like river damns and railways, and thus can be subject to significant corruption and waste as well.

CASE STUDY

Big dam projects = big d* corruption**

Itaipu Dam at night. A black hole of corruption?

The allure of large-scale infrastructure investments is understandable. Politicians and voters are drawn by exhortations to national progress, the elevation of national status, and the potential for economic growth. Others have less admirable aims. Many of the biggest infrastructure projects are reported to have extravagantly looted public funds. Itaipu Dam, the world's largest hydroelectric power facility jointly built by Brazil and Paraguay, has been described in a report to the UK government as 'possibly the largest fraud in the history of capitalism. Itaipu was originally projected to cost some $3.4 billion, but skim-offs by the military rulers of Paraguay and Brazil and their colleagues contributed to the cost skyrocketing to around $20 billion.' (*Recent cases of corruption involving UK companies and UK-backed international financial institutions*, The Stationary Office, 2001).

More recently, in China the construction of the even larger Three Gorges Dam has been subject to quieter, but similar claims. In 1999, *The Guardian* reported that over 100 cases of official corruption in the dam's construction were being investigated. At the time, *China Daily* noted that while the project was a mammoth task for the construction industry, it had also become 'a challenge of similar scale for the (public) prosecutors'.

EXERCISES

3 To what extent does corruption in infrastructure projects diminish the case for such supply-side investments?

4 Speculate as to what kind of policies and institutions might reduce the scale of corruption on such projects.

Industrial policies

Industrial policies also have a mixed record of success. Countries such as Japan and South Korea can claim to have acted wisely in promoting specific industries that now mean a great deal to their national income. Japan, in the wake of World War II, offered many favourable tax, subsidy, and lending policies to its electronics industry, with famous results. South Korea, partly in imitation of Japanese success, did the same with electronics as well as developing the world's premier shipbuilding industry. However, industrial policies can also create entrenched corporate interests who regard national support as a corporate right. When such industries grow complacent or uncompetitive, they may still remain potent politically. Thus they can draw resources away from more competitive parts of the economy, or compel governments to protect them from competition well beyond their maturity into economic adulthood.

- How can we know whether government should support pure research, which might contribute to the sum total of human knowledge but which might never have an impact on technology?
- What other knowledge issues are relevant to investment in pure research?
- Investment in education and training is a common supply-side policy. What other reasons could there be for supporting the education of the population?
- What knowledge issues arise in answering the question as to whether government should shoulder this responsibility or whether it should be left to the market?

PRACTICE QUESTIONS

1 Using an appropriate diagram(s), explain how supply-side policies are expected to affect national income. (10 marks) [AO2], [AO4]

2 Distinguish between market-based supply policies and interventionist policies. (10 marks) [AO2]

3 **a** Explain two possible supply-side factors that may cause an increase in the level of unemployment. (10 marks) [AO2]

b Evaluate the view that demand-side policies are more effective than supply-side policies in reducing the level of unemployment. (15 marks) [AO3]

4 **a** Explain the difference between demand-side and supply-side economic policies. (10 marks) [AO2]

b 'Higher economic growth can only be achieved through the implementation of supply-side policies.' Discuss. (15 marks) [AO3]

To access Quiz 19, an interactive, multiple-choice quiz on this chapter, please visit www.pearsonbacconline.com and follow the onscreen instructions.