

A-level ECONOMICS

Paper 2 National and International Economy

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page Answer Book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front cover of your Answer Book.
The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Context 1

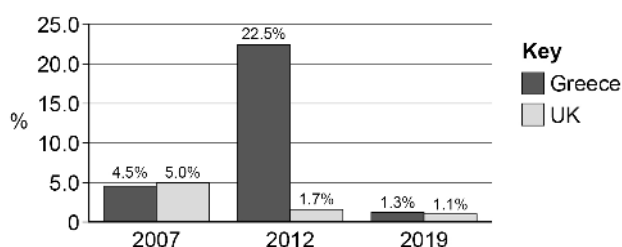
Total for this context: 40 marks

National debt and government spending

Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A

Figure 1: Annual average yields on long-term bonds, Greece and the UK, selected years, 2007 to 2019



Source: Official statistics, 2020

Figure 2: Selected statistics for Greece and the UK, 2012

	Greece	UK
GDP (\$bn)	245.7	2662.1
GDP per capita (\$)	22 242	41 791
National debt (\$bn)	391	2243
Population (millions)	11.1	63.7

Source: ONS, Eurostat, World Bank 2020

Extract B: Government debt: a Greek tragedy

In 2018, after years of tough government spending cuts (austerity), the Greek government emerged from its third and final international financial rescue package, although economists warned that the country still had a “long way to go”. The European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) have loaned Greece a total of €289bn (£240bn) since 2010.

1
5

The EU and IMF insisted that, in return for help, economic reforms were necessary to reduce Greece’s structural budget deficit. For many Greeks, especially the young, the years of economic hardship were severe. Higher taxes and reduced salaries and pensions led to riots on the streets. The government spending cuts also severely damaged private-sector jobs. In 2012–13, the unemployment rate peaked at 27.5%, but for those under 25 it was 58%. Eight years after austerity began, GDP was 25% below its 2010 level.

10

How did Greece find itself in this position in the first place? In 2007–08, the global financial crisis caused a worldwide recession. Many countries had huge government debts, but Greece was the worst affected with an unsustainable budget deficit following years of high government spending. In 2010, the country revealed the size of its huge budget deficit which led bond yields to soar and to a sovereign debt crisis. International lenders labelled Greek debt as ‘junk’ and the Greek Government was unable to borrow on financial markets. Greece was forced to ask for financial help.

15

But what now? In 2019, the Greek economy grew by 1.9%. It had a budget surplus (excluding interest payments on its debt) and the unemployment rate had fallen below 20%. However, the pandemic has harmed the Greek economy and the Greek government’s budget is again in deficit.

20

Source: News reports, 2020

Extract C: The end of government cutbacks in the UK?

In 2019, the UK government's debt repayment burden was at its lowest level in years and it was able to borrow at record low interest rates. Before the pandemic altered every governments' fiscal plans, the UK government said they would rip up years of self-imposed budgetary constraints and increase spending to improve living standards. For years, austerity had led to under-funded public services and a low level of investment in the nation's infrastructure. 1 5

The Chancellor of the Exchequer announced a planned increase in government expenditure of 4.1% in 2020, equivalent to £13.8bn, in a move designed to signal an end to austerity. This would have been the largest increase in 15 years.

The Chancellor said he was in a position to announce an increase in government spending after the annual budget deficit had fallen to 1.1% of GDP, well below the 2% target set by the Treasury. Under his plans, no government department would experience a real-terms reduction in its budget in 2020, and the Chancellor said this protection "is what I mean by the end of austerity". Announcing the spending review in the House of Commons, he said the cost of government borrowing had fallen to historic lows, giving the government further room to increase its expenditure. 10 15

However, faced with an ageing population and significant poverty and inequality, the structural budget deficit is likely to increase over the next 30 years. Some argue that the UK should increase taxes rather than add to the national debt. Ongoing funding is needed to maintain and improve public services, such as healthcare, and to rebuild the UK's social safety net by increasing spending on welfare to support the poor and vulnerable. 20

Source: News reports, 2020

0 1 Using the data in **Extract A** (Figure 1), calculate the mean annual yield on long-term bonds in Greece over the years shown. Give your answer to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A** (Figures 1 and 2) show that in 2012 Greece was more likely to have a problem with its national debt than the UK. [4 marks]

0 3 **Extract B** (line 9) states: 'The government spending cuts also severely damaged private-sector jobs.'

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector. [9 marks]

0 4 **Extract C** (lines 17–18) states: 'Some argue that the UK should increase taxes rather than add to the national debt.'

Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country's national debt is damaging for its economy. [25 marks]

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

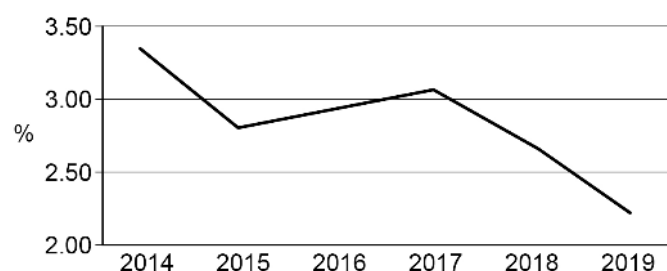
Total for this context: 40 marks

South Korea's economy

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: Annual real GDP growth rates (%) for South Korea, 2014–2019



Source: Worldbank, 2020

Figure 4: Consumer price index (CPI) for South Korea, 2014–2019 (June 2015 = 100)

Date	CPI index
31 Dec 2014	99.10
31 Dec 2015	100.22
31 Dec 2016	101.56
31 Dec 2017	102.99
31 Dec 2018	104.35
31 Dec 2019	105.12

Source: Official statistics, 2020

Extract E: South Korea: a model for development?

The Republic of Korea (South Korea) holds the number one spot in the recently released 2019 Bloomberg Innovation Index. This index scores economies using factors such as research and development (R&D) spending and the number of large high-tech companies. South Korea gained top scores worldwide for manufacturing value-added, as well as a measure that includes enrolment in higher education and the proportion of science and engineering graduates.

1

5

South Korea's transformation from one of the poorest countries in the world in the 1950s to a major industrial power and member of the Organisation for Economic Co-operation and Development (OECD) was exceptionally rapid, reflecting effective economic policies. South Korea's sound fiscal and monetary policy decisions, as well as high levels of investment in human and physical capital and a commitment to free trade, led to rapid growth. Per capita income increased from 6% of the OECD average in 1970 to 89% in 2017. Rapid development has been export-led, with large business groups, known as 'chaebols', making South Korea the world's sixth-largest exporter.

10

Investment in R&D has been an important driver of economic growth and industrial progress. It is a key factor that has contributed to the technological competitiveness and productivity of many developing countries. Some economists also point to the vital role the government played in helping to create the conditions needed for sustained economic growth. However, it is the private sector, working in conjunction with the government, which is key to South Korea's success. Samsung, Hyundai, Kia and LG are just some of the successful companies which sell to a worldwide market and drive innovation.

15

20

Source: News reports, 2019

Extract F: Is South Korea's miracle economic performance over?

Although growth in South Korea is forecast to be around 3% in 2019, this is far below its average rate of 7.3%, and the country finds itself with a negative output gap. Recently, exports declined for a tenth consecutive month and in September the consumer price index fell 0.4% from a year earlier. Some are wondering if South Korea's miracle economic performance is over.

1

5

Trade ministry data showed exports in September plunged 11.7% from a year earlier. Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year, requiring the Bank of Korea to cut interest rates further. The central bank cut its base rate of interest from 1.75% to 1.50% in July 2019, the first cut in three years, as falling global demand and increasing trade tensions damaged macroeconomic performance. However, the South Korean government and central bank issued statements, saying that Asia's fourth-largest economy would not fall into a long period of deflation.

10

South Korea is one of the world's top ten exporters and its trade problems have been made worse by a number of recent events. Overseas shipments by South Korea are heavily dependent on sales of computer chips and electronic goods, which have been suffering from a fall in chip prices. South Korea also became involved in a trade war with Japan which was referred to the World Trade Organisation (WTO). Slowing growth in China, the world's second-largest economy and South Korea's top market for exports, also damaged trade.

15

Source: News reports, 2019

0 5

Using the data in **Extract D** (Figure 4), calculate South Korea's rate of inflation for the year ended 31 December 2019. Give your answer to **two** decimal places.

[2 marks]

0 6

Explain how the data in **Extract D** (Figures 3 and 4) show why the South Korean central bank may have been considering a further cut in its base rate of interest.

[4 marks]

0 7

Extract E (line 14) states: 'Investment in R&D has been an important driver of economic growth and industrial progress.'

With the help of a diagram, explain how investment in research and development (R&D) can help to increase the long-run growth rate of an economy.

[9 marks]

0 8

Extract F (lines 7–8) states: 'Economists said the data reinforced the view that the slump in South Korea's trade-reliant economy would continue beyond this year'.

Using the data in the extracts and your knowledge of economics, evaluate policies which could be used to boost South Korea's exports and increase its trade surplus.

[25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

Since 1992, the UK has had a floating exchange rate, and between August and December 2019, the pound sterling rose by around 10%. In the recent past, several nations, such as Japan, Switzerland and China, have actively intervened to influence the value of their currencies.

0	9
---	---

Explain how a government or central bank can intervene to prevent the value of its currency rising.

[15 marks]

1	0
---	---

Evaluate the possible impact on the cost of living **and** the standard of living in the UK of a sustained rise in the value of the pound sterling against other currencies, such as the euro and the US dollar.

[25 marks]

OR**Essay 2**

The savings ratio is the proportion of national income that is saved. The UK savings ratio reached 10.6% in 2015 but fell to 3.9% in 2017. This indicates rising consumption and a fall in savings across the economy. Economists debate whether or not this change in consumption and savings is beneficial.

1	1
---	---

Explain the main causes of rising consumption in an economy.

[15 marks]

1	2
---	---

To what extent do you agree that a fall in savings is beneficial for the UK economy? Justify your answer.

[25 marks]

OR

Essay 3

Commercial banks provide financial services for both individuals and businesses. In 2007–08, the financial crisis led many to argue for tighter regulation of the banks to prevent problems in financial markets affecting the real economy. However, financial markets are not the only source of cyclical instability. Governments can use a variety of policies to try to create a more stable economy.

- | | |
|---|---|
| 1 | 3 |
|---|---|
- Explain the role of commercial banks in the economy.
- [15 marks]**
-
- | | |
|---|---|
| 1 | 4 |
|---|---|
- Assess policies which can be used to reduce cyclical instability in the UK.
- [25 marks]**

END OF QUESTIONS

There are no questions printed on this page

Copyright information

For confidentiality purposes, all acknowledgements of third-party copyright material are published in a separate booklet. This booklet is published after each live examination series and is available for free download from www.aqa.org.uk.

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders may have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements. If you have any queries please contact the Copyright Team.

Copyright © 2021 AQA and its licensors. All rights reserved.



2 1 6 A 7 1 3 6 / 2

Question
number

0 1

$$\text{Mean} = (4.5 + 22.5 + 1.3) \div 3$$

$$= 28.3 \div 3 = 9.4333...$$

Mean annual yield on Greek long-term bonds = 9.4% (to one decimal place)

0 2

The national debt is the total accumulated stock of money owed by the government, built up from past budget deficits. A debt is more of a problem when it is large relative to the size of the economy and expensive to service.

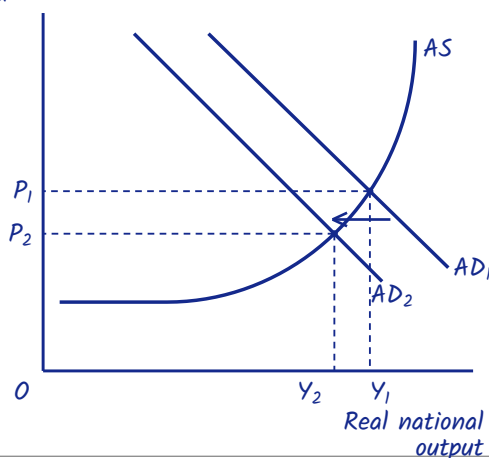
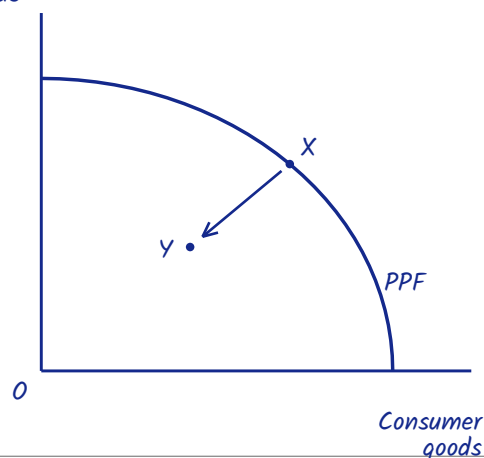
In 2012 Greece's national debt was $391 \div 245.7 = 159.1\%$ of GDP, compared with $2243 \div 2662.1 = 84.3\%$ for the UK, so relative to national income Greek debt was almost twice as large. Figure 1 shows that Greek long-term bond yields were 22.5% in 2012 against only 1.7% in the UK, over 13 times higher, showing lenders saw Greek debt as very risky and making debt interest far more costly to pay. Debt per person was similar (about \$35 225 in Greece and \$35 212 in the UK), but Greek GDP per capita was only \$22 242 compared with \$41 791, so Greek taxpayers faced a much heavier burden in repaying it.

0 3

Government spending (G) is expenditure by the public sector on goods and services such as healthcare, education and infrastructure, and it also pays the wages of public sector workers. The private sector is the part of the economy owned and run by individuals and firms. Unemployment is when people who are willing and able to work, and actively seeking work, cannot find a job. In Greece, spending cuts (austerity) were imposed to reduce the structural budget deficit.

G is a component of aggregate demand ($AD = C + I + G + X - M$). A cut in G therefore shifts AD to the left, from AD_1 to AD_2 , as shown in Diagram 1. Real national output falls from Y_1 to Y_2 and the price level falls from P_1 to P_2 .

Do not write outside the box

Diagram 1
Price
levelDiagram 2
Capital
goods

The fall in output hits the private sector directly. Many private firms supply the government, for example construction firms building roads and schools, so cancelled contracts mean less output. In addition, lower salaries and pensions for public sector workers, together with the higher taxes mentioned in Extract B, reduce households' disposable income, so they spend less in private shops, restaurants and other businesses. Through the negative multiplier, each fall in spending becomes someone else's fall in income, so the final fall in national income is a multiple of the original cut in G .

Because labour is a derived demand, when private firms sell less output they need fewer workers, so they cut hours, stop recruiting and make workers redundant. This is a rise in demand-deficient (cyclical) unemployment. Business confidence also falls and firms with spare capacity cut investment, which reduces AD further and can push the economy into recession, so the economy operates inside its PPF, moving from X to Y in Diagram 2. This helps explain why Greek unemployment peaked at 27.5% in 2012 to 13, and 58% for those under 25, with GDP still 25% below its 2010 level eight years later. If the unemployed lose skills or leave the labour force, the damage may become long term, as hysteresis reduces $LRAS$.

0 4

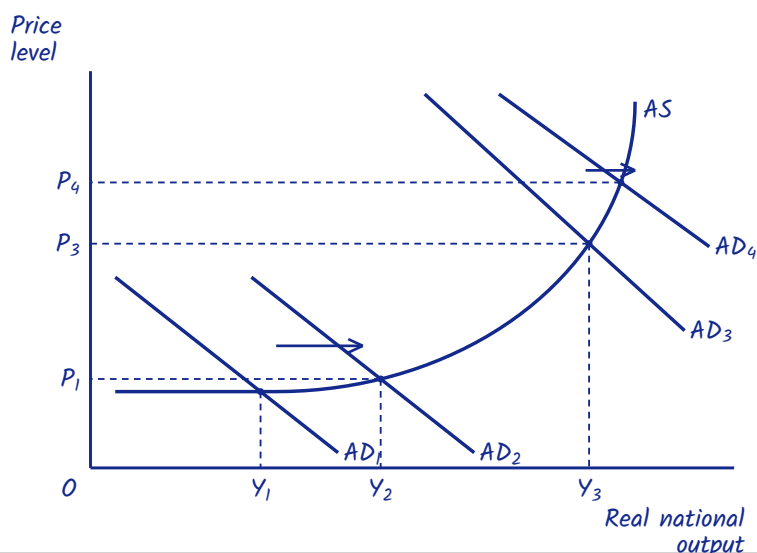
The national debt is the total stock of outstanding government borrowing accumulated over time, whereas the budget deficit is the annual flow of borrowing when government spending exceeds tax revenue in a year. The national debt rises

whenever the government runs a deficit. Whether a larger debt damages an economy depends on why it rises, how it is spent, how large it already is and how much it costs to service.

There are several reasons why a rising national debt may damage an economy. Firstly, debt must be serviced. The more the government owes, the more of its budget goes on interest payments, which have an opportunity cost: money spent on debt interest cannot be spent on schools or hospitals. If lenders begin to fear that the government may default, they demand higher yields. This is what happened to Greece: once it revealed the true size of its deficit in 2010, bond yields soared to 22.5% by 2012 (Extract A), its debt was labelled 'junk' and it was unable to borrow on financial markets at all (Extract B). Greece was forced to accept €289bn of loans from the EU, ECB and IMF on the condition that it imposed austerity, and the higher taxes and spending cuts that followed caused unemployment of 27.5% and left GDP 25% below its 2010 level.

Secondly, high government borrowing may cause crowding out. If the government borrows heavily it competes with firms for a limited pool of savings, pushing up interest rates. This raises the cost of borrowing for private firms, so private investment falls, offsetting the boost from higher government spending and reducing the long-run growth of productive capacity. Thirdly, if the extra spending financed by debt takes place when the economy is close to full capacity, it increases AD where the AS curve is inelastic, as shown by the shift from AD_3 to AD_4 in the diagram, causing demand-pull inflation with little rise in real output.

Finally, there is an intergenerational issue: debt built up today must be repaid by future taxpayers through higher taxes or lower spending, which may reduce work incentives and living standards in the future. This is why some argue in Extract C that the UK should raise taxes now rather than add to the national debt.



However, an increase in national debt is not necessarily damaging. During a recession, when the economy has a large negative output gap, private spending collapses, and government borrowing to maintain or raise spending boosts AD. As the diagram shows, when the economy is operating on the elastic part of the AS curve, the shift from AD_1 to AD_2 raises real output from Y_1 to Y_2 with almost no rise in the price level. The extra spending is magnified by the multiplier, and the resulting rise in incomes and fall in unemployment increases tax revenue and reduces benefit payments, so the debt partly pays for itself. In these conditions crowding out is unlikely, because there are idle savings, and higher government spending may even 'crowd in' private investment by raising firms' expected sales. Indeed, the Greek case suggests that cutting spending to reduce debt in a recession can be self-defeating, since GDP fell, making the debt ratio worse. Furthermore, borrowing can finance investment that raises the economy's long-run productive potential. Spending on infrastructure, education, training and healthcare (merit goods and public goods) increases the quantity and quality of the factors of production, shifting LRAS to the right. Extract C notes that austerity in the UK led to under-funded public services and low investment in infrastructure, so borrowing to fund such projects could increase future GDP by more than the cost of the interest. If the growth rate of GDP exceeds the interest rate on the debt, the debt-to-GDP ratio can fall over time even if the debt itself rises. Borrowing can also fund welfare spending to support the poor and vulnerable, reducing poverty and inequality, which Extract C identifies as significant problems in the

UK.

The cost of borrowing is also crucial. In 2019 UK long-term bond yields were only 1.1% (Extract A) and the UK's debt repayment burden was at its lowest level for years (Extract C), so the opportunity cost of extra borrowing was very low. The UK also has its own currency and central bank, a long record of never defaulting and a lot of its debt held for many years, so markets trust it. Greece, as a member of the euro, could not devalue or rely on its own central bank, so it was far more vulnerable to a loss of confidence. Moreover, the UK's budget deficit had fallen to 1.1% of GDP, below the Treasury's 2% target, which gave room to increase spending by 4.1% (£13.8bn) without risking the public finances.

Finally, the alternative to borrowing may itself be damaging. Raising taxes, as some suggest in Extract C, reduces disposable income and AD and may reduce incentives to work and invest; higher tax rates can even raise less revenue if they encourage avoidance or evasion, as the Laffer curve suggests. Some rises in debt are unavoidable: the pandemic forced governments around the world, including Greece and the UK, back into deficit as tax revenue fell and spending on support schemes rose. Allowing automatic stabilisers to work in such a shock protects jobs and firms and prevents a deeper recession.

In conclusion, an increase in national debt is not damaging in itself. It is most likely to be damaging when debt is already very high relative to GDP, as with Greece's 159.1% in 2012, when lenders lose confidence and interest rates are high, when the economy is close to full capacity, and when the borrowing funds current spending that does not raise future output. It is least likely to be damaging, and may be beneficial, when the economy has spare capacity, borrowing costs are low, as in the UK in 2019, and the money is spent on investment in infrastructure and human capital that raises long-run growth. The key issue is therefore not the size of the increase but its sustainability: whether economic growth can keep the debt-to-GDP ratio stable. In the long run, the UK's ageing population means the structural deficit is likely to grow, so a credible plan to keep debt sustainable remains important, but a rise in debt to support the economy and invest in public services is likely to do more good than harm.

Question
number

Do not write outside the box

Question
number

0 5

Rate of inflation = $(105.12 - 104.35) \div 104.35 \times 100$

= $0.77 \div 104.35 \times 100 = 0.7379...$

Rate of inflation for the year ended 31 December 2019 = 0.74% (to two decimal places)

0 6

The base rate of interest is the rate the central bank charges commercial banks to borrow from it, which influences all other interest rates in the economy. A cut makes borrowing cheaper and saving less attractive, raising consumption and investment and so boosting aggregate demand.

Figure 3 shows that real GDP growth fell from about 3.3% in 2014 to about 2.2% in 2019, the lowest rate shown, having fallen from about 3.1% in 2017.

Slowing growth suggests weak demand and, as Extract F says, a negative output gap, so lower rates could stimulate spending and investment. Figure 4 shows that inflation was only $(105.12 - 104.35) \div 104.35 = 0.74\%$ in 2019, down from 1.32% in 2018 and 1.41% in 2017, well below a typical 2% target and close to deflation. With low and falling inflation there is little risk that a rate cut would cause excessive inflation, so a further cut would help raise AD.

0 7

Investment is spending on capital goods, such as machinery and buildings, that increases the economy's productive capacity. Research and development (R&D) is spending by firms and government on discovering new products and new methods of production. Long-run economic growth is an increase in the productive potential of the economy, shown by an outward shift of the PPF or a rightward shift of the LRAS curve.

R&D leads to innovation. Process innovation means firms discover new, more efficient methods of production, such as automation or improved computer chips, so more output can be produced from the same inputs. This raises labour productivity (output per worker per hour) and lowers average costs of production.

Product innovation creates new goods, and firms then invest in new capital to produce them, which adds to the capital stock. Both increase the quantity and quality of the factors of production, so the productive capacity of the economy

Do not write outside the box

risers.

As shown in Diagram 1, this shifts the LRAS curve to the right from $LRAS_1$ to $LRAS_2$. Real national output increases from Y_1 to Y_2 and, with lower unit costs, the price level falls from P_1 to P_2 . In Diagram 2 the PPF shifts outwards from PPF_1 to PPF_2 , so the economy can produce more of both capital and consumer goods.

Diagram 1
Price
level

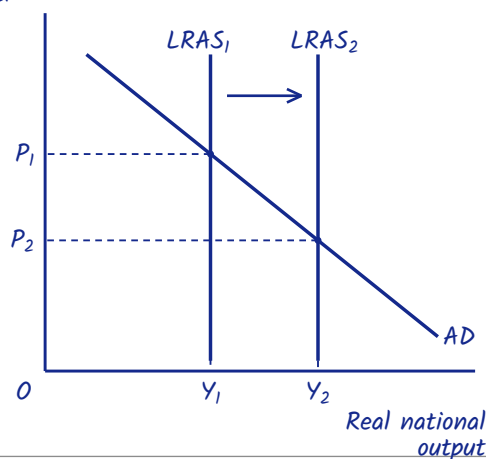
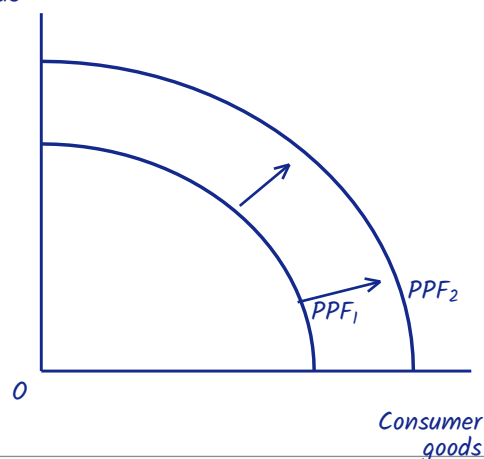


Diagram 2
Capital
goods



The effect on the long-run growth rate can be cumulative. One technological breakthrough often leads to further breakthroughs, and the knowledge spills over to other firms and industries, so productivity keeps rising year after year rather than in a single step. Lower costs and better products also make a country's firms more internationally competitive, raising exports and profits, which in turn finance more R&D and investment. Extract E shows this in South Korea: it ranks first in the 2019 Bloomberg Innovation Index, based partly on R&D spending and high-tech firms, and firms such as Samsung, Hyundai, Kia and LG drive innovation and sell to a worldwide market. This helps explain how per capita income rose from 6% of the OECD average in 1970 to 89% in 2017. However, R&D is risky, there are long time lags before it raises productive capacity, and its benefits depend on having a skilled, educated workforce to use the new technology, which South Korea has through its high numbers of science and engineering graduates.

A trade surplus occurs when the value of a country's exports of goods and services exceeds the value of its imports, so net trade ($X - M$) is positive.

Exports are an injection into the circular flow and a component of AD, so higher exports raise output, incomes and employment through the multiplier effect. This matters greatly for South Korea, the world's sixth-largest exporter, whose growth has been export-led (Extract E). In 2019, exports fell for ten consecutive months and plunged 11.7% in September (Extract F), contributing to growth of only around 3%, far below its average of 7.3%, and a negative output gap. Policies to boost exports include exchange rate policy, supply-side policies, protectionism and trade diplomacy.

Firstly, the authorities could try to lower the value of the won. A lower exchange rate makes South Korean exports cheaper in foreign currencies and imports more expensive in won. The Bank of Korea could sell won and buy foreign currency, or cut interest rates further, which reduces hot money inflows and the demand for the won. As shown in Diagram 1, this shifts the supply of won to the right from S_1 to S_2 , or reduces demand, lowering the exchange rate from ER_1 to ER_2 . The July 2019 cut in the base rate from 1.75% to 1.50% would have this effect, and with inflation of only 0.74% (Extract D) there is little risk of excessive inflation. If the Marshall-Lerner condition holds, so that the combined price elasticities of demand for exports and imports exceed one, the trade balance improves. Higher net exports shift AD to the right from AD_1 to AD_2 in Diagram 2, raising real output from Y_1 to Y_2 and reducing the negative output gap.

Diagram 1: market for won
Exchange rate
(\$ per won)

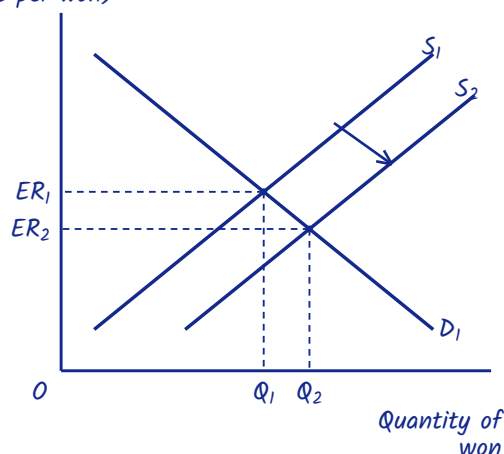
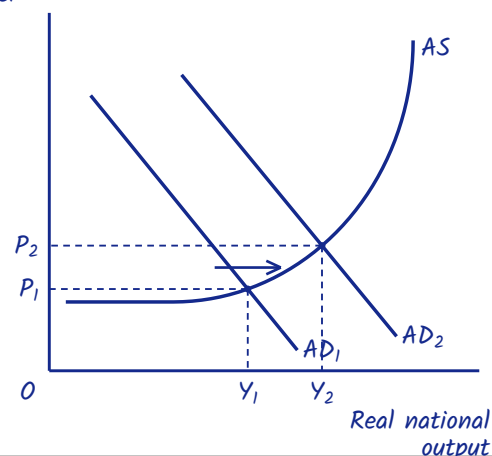


Diagram 2
Price level



However, a depreciation may be less effective than it seems. Following the J-curve, the trade balance may worsen at first because contracts are fixed and demand is price inelastic in the short run. South Korea's exports are heavily dependent on computer chips and electronics, where the problem in Extract F is a fall in world chip prices and falling global demand, especially slowing growth in China, its top export market. Making exports cheaper does little if foreign incomes are falling, because demand for these goods is income elastic. A weaker won also raises the price of imported raw materials and components, raising firms' costs and possibly causing cost-push inflation, which erodes the competitive gain over time. Deliberately manipulating the currency could also be seen as unfair by trading partners and lead to retaliation, and it misallocates resources by protecting less efficient exporters.

Secondly, supply-side policies could improve the non-price competitiveness and productivity of South Korean exporters. Government subsidies or tax credits for R&D, spending on education and training and investment in infrastructure would raise productivity, lower unit costs and improve product quality, shifting LRAS to the right. South Korea already has strengths here, ranking first in the Bloomberg Innovation Index with top scores for manufacturing value-added and science graduates (Extract E), and its chaebols such as Samsung and LG compete on design and technology rather than price alone. Diversifying exports away from dependence on chips would also make export earnings less vulnerable to falls in one market. These policies have the advantage of raising long-run growth without causing inflation or retaliation. However, they are costly, add to government spending, and have long time lags, so they would not solve the immediate slump described in Extract F. Since South Korea is already highly competitive, the scope for further gains may also be limited.

Thirdly, South Korea could use protectionism, such as tariffs or quotas on imports, to reduce M and so increase the trade surplus. However, this would be likely to provoke retaliation, particularly given the existing trade war with Japan, which has been referred to the WTO. As a highly trade-reliant economy, South Korea would lose more from retaliation against its exports than it gains from fewer imports.

Tariffs would also raise the cost of imported components used by its own exporters and break WTO rules. A better approach is trade diplomacy: resolving the dispute with Japan through the WTO and negotiating free trade agreements would open new markets and reduce barriers to its exports, which is consistent with its long-term commitment to free trade.

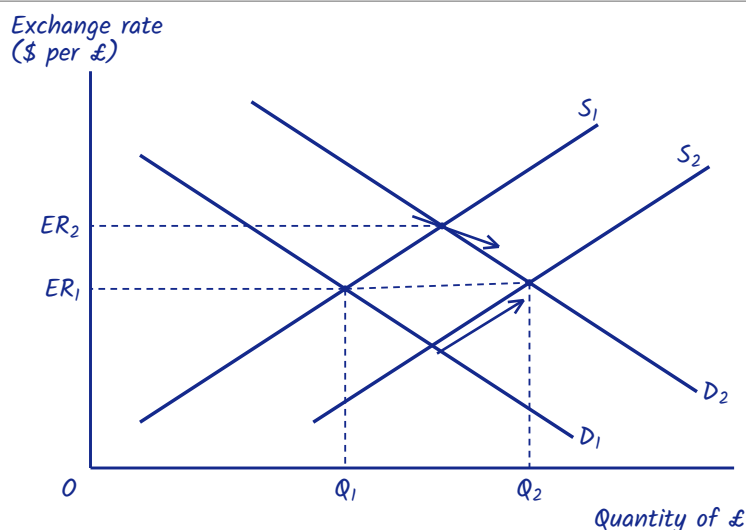
Finally, the government could use expenditure-reducing policies, such as higher taxes or higher interest rates, to reduce domestic demand and so reduce spending on imports. This would increase the trade surplus but would conflict with other macroeconomic objectives: with growth slowing, a negative output gap and inflation close to zero, it would reduce growth further, raise unemployment and risk the deflation the authorities want to avoid. It is therefore inappropriate in this context.

It is also worth questioning whether a larger trade surplus should be the main objective. A large surplus means South Korea depends on foreign demand, which leaves it exposed to external shocks such as trade wars, slowing growth in China and the pandemic, which disrupted global trade. A large surplus may also lead to appreciation of the won in the long run and to pressure from trading partners. Boosting domestic consumption could provide a more balanced and stable source of growth.

In conclusion, the most effective policy depends on the cause of the slump. Since the main problems are external, falling world demand, falling chip prices and trade disputes, which South Korea has limited power to control in a globalised world, no domestic policy can fully restore export growth in the short run. A modest cut in interest rates leading to a lower won is the quickest and cheapest option given low inflation and the negative output gap, but its effect is limited by weak foreign demand. In the long run, supply-side policies that maintain South Korea's lead in innovation and diversify its exports, combined with diplomacy to end the trade war with Japan, are the most sustainable way to increase exports without causing retaliation or inflation. Protectionism and expenditure-reducing policies should be avoided.

An exchange rate is the price of one currency in terms of another, for example $\text{£}1 = \$1.30$. In a floating exchange rate system, such as the UK's since 1992, the exchange rate is determined by the demand for and supply of the currency on the foreign exchange (forex) market. In a managed float, the government or central bank intervenes to influence the exchange rate, as Japan, Switzerland and China have done. A rise in the value of a currency is an appreciation. Countries may wish to prevent an appreciation because it makes their exports more expensive in foreign currencies and imports cheaper, which worsens the current account, reduces AD and may cause unemployment and deflation, as was a concern in Switzerland and Japan.

The demand for a currency comes from foreigners buying the country's exports, investing in its assets, and speculators buying it in anticipation of a rise. The supply comes from residents buying imports, investing abroad and speculators selling. A currency will tend to rise if demand increases, for example because of strong export sales, high interest rates attracting hot money, or speculation. In the diagram, an increase in demand from D_1 to D_2 would raise the exchange rate from ER_1 to ER_2 .



The most direct form of intervention is for the central bank to sell its own currency on the forex market in exchange for foreign currencies, or gold. This increases the supply of the domestic currency, shifting the supply curve to the right from S_1 to S_2 , so the exchange rate is held at ER_1 rather than rising to ER_2 . The foreign currency bought is added to the country's foreign exchange

reserves. The Swiss National Bank did this on a huge scale after 2011 to stop the franc rising, and China built up reserves of over \$3 trillion partly by selling yuan. A big advantage is that a central bank can create unlimited amounts of its own currency, so in principle it can always prevent an appreciation, unlike defending against a depreciation, which is limited by the size of its reserves. However, the extra money may increase the money supply and cause inflation unless it is sterilised, for example by selling government bonds.

A government may go further and fix or peg the exchange rate, or set a ceiling, such as the Swiss franc's ceiling of 1.20 francs per euro between 2011 and 2015. The central bank then commits to buying or selling whatever amount of currency is needed to stop the rate rising above the ceiling. A credible commitment also deters speculators from buying the currency, so less intervention is needed.

Indirect intervention uses monetary policy. If the central bank reduces interest rates, the return on holding deposits and bonds in that currency falls relative to other countries. This reduces inflows of hot money and may lead to outflows, which reduces the demand for the currency and increases its supply, shifting D to the left and S to the right, so the exchange rate falls or stops rising. Lower interest rates also boost domestic consumption, including spending on imports, which increases the supply of the currency. In extreme cases, such as in Switzerland and Japan, interest rates have even been made negative. Similarly, quantitative easing increases the money supply and lowers long-term interest rates, which tends to reduce the value of the currency.

Governments can also influence capital flows. They can relax exchange controls and encourage residents and firms to invest abroad, which increases the supply of the domestic currency as it is exchanged for foreign currency. They can also impose restrictions or taxes on inflows of foreign capital, reducing demand for their currency. A sovereign wealth fund can be used to buy overseas assets; for example, China has bought large amounts of US government bonds and Norway's fund invests its oil revenues abroad, both of which increase the supply of the domestic currency on the forex market. Finally, central bank announcements and forward guidance that it is prepared to intervene can change speculators'

expectations, reducing speculative demand.

In summary, a government or central bank can prevent its currency rising either directly, by selling its currency and building up reserves, or indirectly, by lowering interest rates, increasing the money supply and encouraging capital outflows, all of which reduce demand for or increase the supply of the currency.

1	0
---	---

The cost of living refers to the prices of the goods and services that households typically buy, and changes in it are measured by the rate of inflation, using the CPI. The standard of living refers to the economic welfare of the population, influenced by real income per head, consumption possibilities, employment, health, education and the environment. A sustained rise in the value of the pound (an appreciation) means each pound buys more foreign currency, for example a rise from €1.10 to €1.25 or \$1.25 to \$1.40. It may be caused by higher UK interest rates attracting hot money, strong inward investment, or speculation, as with the 10% rise between August and December 2019. As shown in Diagram 1, a rise in the demand for pounds from D_1 to D_2 raises the exchange rate from ER_1 to ER_2 . An appreciation is likely to reduce the cost of living. As each pound buys more foreign currency, the sterling price of imports falls. The UK imports a large proportion of its food, clothing, consumer electronics and energy, so the prices of these goods fall directly. Firms also pay less for imported raw materials and components, so their costs of production fall, shifting SRAS to the right from $SRAS_1$ to $SRAS_2$ in Diagram 2. In addition, UK exports become more expensive abroad, so foreign demand falls, and UK consumers switch from domestic goods to cheaper imports, so net exports fall and AD shifts left from AD_1 to AD_2 . Both effects reduce the price level from P_1 to P_2 , so inflation falls. Domestic firms facing cheaper foreign competition are also forced to cut prices and improve efficiency.

Diagram 1: market for £
Exchange rate
(€ per £)

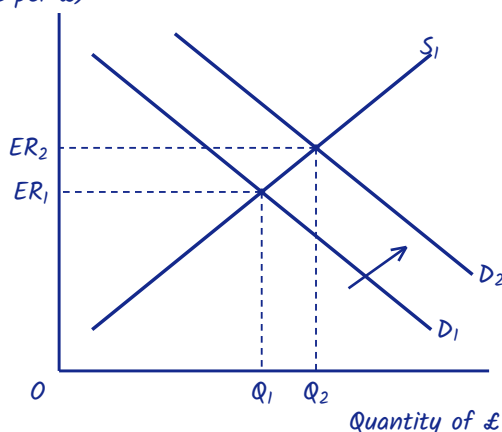
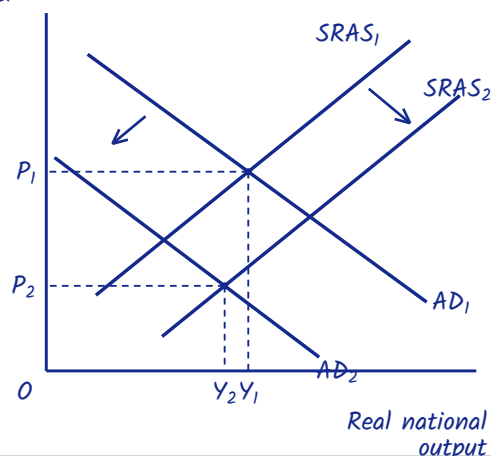


Diagram 2
Price level



A lower cost of living raises the standard of living for many people. With lower inflation, real incomes rise, as a given nominal wage buys more goods and services, increasing consumption possibilities. People holidaying abroad or buying foreign goods online gain directly from improved purchasing power. Those on fixed incomes, such as pensioners and those living on savings or benefits that are not uprated quickly, are likely to gain most. Lower inflation may also allow the Bank of England to keep interest rates lower, benefiting borrowers.

However, a sustained rise in the pound may reduce the standard of living through its effect on jobs and incomes. The fall in net exports reduces AD, which through the negative multiplier reduces real output from Y_1 to Y_2 , as Diagram 2 shows if the AD shift dominates. Export industries such as manufacturing, tourism and higher education, and firms competing with imports, lose sales, so they cut output and make workers redundant. Lower disposable income for these workers and their communities reduces their consumption and living standards, which may be concentrated in regions dependent on manufacturing. Lower profits may also reduce investment, slowing long-run growth and future living standards. The current account deficit is likely to widen.

The extent of these effects depends on several factors. Firstly, it depends on the price elasticities of demand for exports and imports. If demand for UK exports is price inelastic, because they are high quality or specialist, such as financial services or pharmaceuticals, export volumes will not fall much, so the effect on jobs is small. Secondly, firms may not pass on lower import prices to consumers,

particularly if they expect the exchange rate to be volatile, in which case they widen their profit margins and the fall in the cost of living is smaller. Many firms also hedge currency risks, so effects are delayed. Thirdly, the magnitude matters: the rise must be large and sustained to have a big impact, as there are time lags of up to two years before changes in trade volumes are fully felt. Fourthly, the state of the economy matters. If the economy is close to full capacity with inflation above the 2% target, a stronger pound helps reduce inflation without much harm to output, so living standards are likely to rise. If the economy has a negative output gap, the fall in AD could cause rising unemployment and even deflation, reducing living standards. The impact also differs between stakeholders: consumers, importers and pensioners gain, while exporters and their workers lose. Living standards are also partly subjective and depend on non-economic factors, such as health and the environment, so a lower cost of living does not automatically mean a better quality of life, although cheaper imports may also include cheaper medicines and educational goods. Finally, an appreciation may be self-correcting. As the current account deficit widens, the higher supply of pounds to buy imports and the reduced demand for pounds to buy exports put downward pressure on the exchange rate. If the rise was caused by higher interest rates, the Bank of England could later lower them. The effects on the cost and standard of living may therefore be temporary. In conclusion, a sustained rise in the pound is very likely to reduce the cost of living in the UK, because the UK depends heavily on imported goods. Its effect on the standard of living is less certain. In the short run most consumers, especially those on fixed incomes, are likely to be better off through higher real incomes. However, in the long run, if the appreciation makes UK firms uncompetitive, the loss of jobs, output and investment in export industries could outweigh this, particularly when the economy is weak. On balance, I judge that the overall effect is likely to be positive for living standards if the rise is moderate and the economy is strong, but harmful if it is large and occurs during a downturn.

1 1

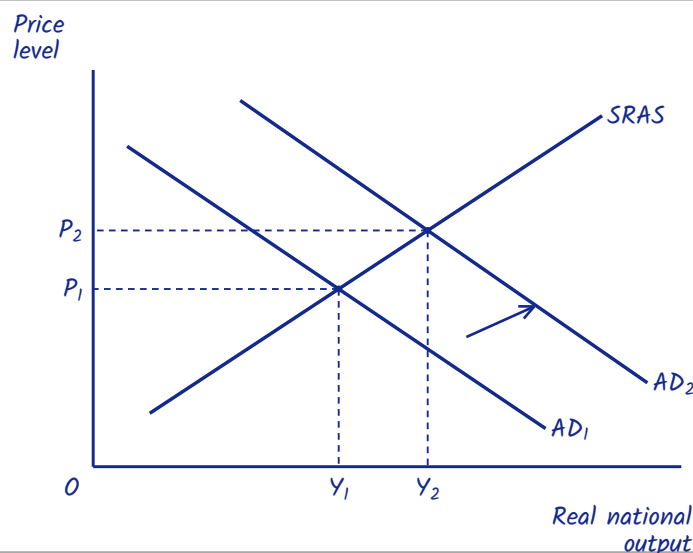
Consumption (C) is spending by households on goods and services. It is the largest component of aggregate demand in the UK, around 60% of GDP. Saving is the part of disposable income that is not spent. The marginal propensity to consume (MPC) is the proportion of an increase in income that is spent, and the marginal propensity to save (MPS) is the proportion saved, with $MPC + MPS = 1$ in a closed economy without taxes. The fall in the UK savings ratio from 10.6% in 2015 to 3.9% in 2017 shows that households were spending a greater proportion of their income.

The most important cause of rising consumption is rising real disposable income. Disposable income is income after direct taxes and including state benefits. As real incomes rise, households can afford to buy more goods and services, and Keynes argued that consumption is mainly a function of current income. Real disposable income rises when real wages grow, when employment rises and unemployment falls, as more people have a wage, and when the government cuts income tax or national insurance, or raises benefits. Since low-income households have a higher MPC, redistribution towards them also raises total consumption. Secondly, lower interest rates encourage consumption. A cut in Bank Rate reduces the return on savings, so the opportunity cost of spending falls and households save less. It also reduces the cost of borrowing, encouraging people to buy goods such as cars and furniture on credit. For households with variable-rate mortgages, lower rates reduce monthly repayments, increasing discretionary income. Low interest rates in the UK after 2009, at 0.5% and then 0.25% in 2016, help explain the fall in the savings ratio. Related to this is the availability of credit: if banks relax lending criteria, offering cheaper loans, credit cards and car finance, consumers can spend more than their current income.

Thirdly, the wealth effect. When the value of assets such as houses and shares rises, households feel wealthier and more confident, so they spend more and save less. Rising house prices also allow homeowners to borrow more through equity withdrawal, remortgaging to fund spending. Fourthly, consumer confidence and expectations matter. If households expect their incomes to rise and their jobs to be secure, they are more willing to spend and to borrow, reducing precautionary

saving. Expectations of future inflation can also bring spending forward, as people buy before prices rise.

A rise in consumption increases aggregate demand, shifting the AD curve to the right from AD_1 to AD_2 in the diagram, raising real output from Y_1 to Y_2 and the price level from P_1 to P_2 .



Rising consumption can then become self-reinforcing. Through the multiplier effect, the extra spending becomes income for firms and workers, who in turn spend a proportion, the MPC, of it, so national income rises by a multiple of the initial increase in spending, and consumption rises further. If firms expect higher sales to continue they invest in more capital through the accelerator effect, creating more jobs and incomes and therefore more consumption. Falling unemployment also raises confidence further.

In summary, the main causes of rising consumption are rising real disposable incomes, lower interest rates and easier credit, rising asset prices and household wealth, and higher consumer confidence, with multiplier and accelerator effects magnifying any initial increase.

1	2
---	---

Savings are the part of disposable income not spent on consumption. The savings ratio measures savings as a percentage of household disposable income, and in the UK it fell from 10.6% in 2015 to 3.9% in 2017. A fall in savings may be caused by low interest rates, rising confidence, rising house prices or, more worryingly, by households having to dip into savings because real wages are falling. Whether it is

beneficial depends on its effects on the main macroeconomic objectives of economic growth, low unemployment, low and stable inflation and a satisfactory current account, in both the short run and the long run.

In the short run, a fall in savings means a rise in consumption, the largest component of AD. AD shifts to the right and, through the multiplier, real output and incomes rise by more than the initial increase in spending. As shown in Diagram 1, if the economy has spare capacity, AD shifting from AD_1 to AD_2 raises real output from Y_1 to Y_2 with little rise in the price level. Firms need more workers to produce the extra output, so demand-deficient unemployment falls. Higher sales also raise firms' profits and, through the accelerator, encourage investment, which raises productive capacity in the long run. Higher incomes raise tax revenue and reduce spending on benefits, improving the government's budget position. Keynes's paradox of thrift suggests that if everyone tries to save more, AD and income fall, so total saving may not rise at all; by the same reasoning, a fall in saving can make the whole economy better off when demand is weak.

Diagram 1
Price
level

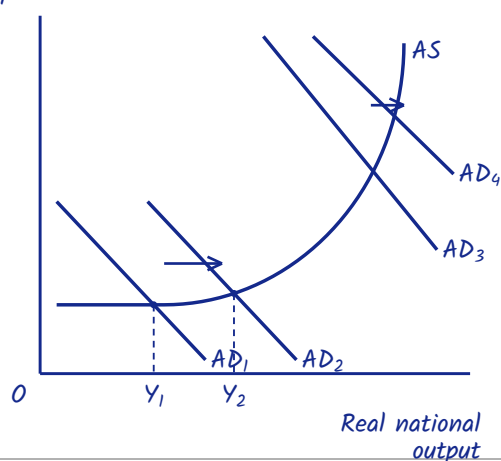
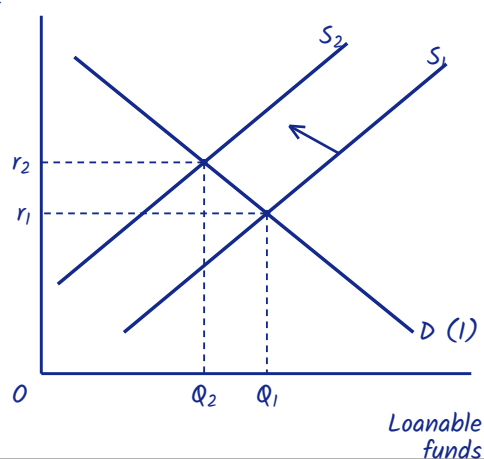


Diagram 2: loanable funds
Real interest
rate



However, a fall in savings is not always beneficial. If the economy is already close to full capacity, the rise in consumption shifts AD from AD_3 to AD_4 along the inelastic part of the AS curve in Diagram 1, causing demand-pull inflation with little extra output. Rising demand for scarce labour may also push up wages, causing cost-push inflation. Higher inflation reduces the real incomes of those on fixed incomes and may force the Bank of England to raise interest rates.

A fall in savings may also worsen the current account. The UK has a high marginal propensity to import, so much of the extra consumption is spent on imported goods, which leaks out of the circular flow and widens the current account deficit. If domestic inflation rises, UK goods also become less price competitive, reducing exports. The UK has run a current account deficit for many years, and financing it relies on inflows of foreign capital, which could be withdrawn.

In the long run, savings are needed to fund investment. Banks use deposits to lend to firms, so in the loanable funds model shown in Diagram 2, a fall in savings shifts the supply of loanable funds to the left from S_1 to S_2 , raising the real interest rate from r_1 to r_2 and reducing the quantity of funds borrowed for investment from Q_1 to Q_2 . Lower investment means a smaller increase in the capital stock, lower productivity growth and slower long-run economic growth, which has been a long-standing UK problem. Countries with high savings ratios, such as China and Germany, have been able to finance high levels of investment. However, in an open economy the UK can borrow savings from abroad, and with very low interest rates in 2015 to 2017 a shortage of funds for investment seemed unlikely.

Low savings also make households and the economy more vulnerable. If households have little savings and high levels of debt, they cannot cope with a shock such as job loss, so consumption collapses sharply in a recession, making the economic cycle more volatile. The financial crisis of 2007 to 08 showed how a debt-fuelled consumption boom can end in a deep recession. Savings act as a stabiliser, allowing households to smooth their consumption. Low saving also means many people will have inadequate pensions, which with an ageing population may increase future pressure on government spending.

The overall effect depends on several factors. Firstly, the cause of the fall matters: if savings fall because households are confident and real incomes are expected to rise, it is likely to be sustainable, but if it is because real wages are falling and households are borrowing to maintain living standards, as many argued was the case in the UK in 2017 when inflation exceeded wage growth, it is a

sign of weakness. Secondly, it depends on the position of the economy in the economic cycle: a fall in savings is helpful in a recession with a large negative output gap, but harmful in a boom. Thirdly, it depends on whether the fall is temporary or long lasting; a fall from an unusually high level of 10.6% may simply be a return to normal.

In conclusion, I agree that a fall in savings can be beneficial for the UK economy in the short run, because consumption boosts AD, growth and employment, particularly when there is spare capacity, as there was after the financial crisis. However, a sustained fall to very low levels is likely to be harmful in the long run, because it reduces funds for investment, worsens the current account, and leaves highly indebted households vulnerable to shocks, making the economy less stable. On balance, a moderate fall from a high level is beneficial, but the UK's fall to 3.9%, driven partly by falling real wages and rising household debt, was more a cause for concern than a sign of strength.

1 3

A commercial bank is a financial institution, such as Barclays, Lloyds, HSBC or NatWest, that accepts deposits from and makes loans to households and firms. Commercial banks are retail or high street banks, as distinct from investment banks, which deal with large firms and financial markets, underwriting share issues and trading in securities. Commercial banks are part of financial markets, which bring together savers and borrowers. They are private sector businesses that aim to make a profit.

The first role of commercial banks is to accept deposits. Households and firms deposit money in current accounts and savings accounts, where it is safe and secure and earns interest. This encourages saving, which is needed to finance investment, and protects people from the risk of keeping cash. Deposits are guaranteed up to £85 000 per person by the Financial Services Compensation Scheme, which helps maintain confidence.

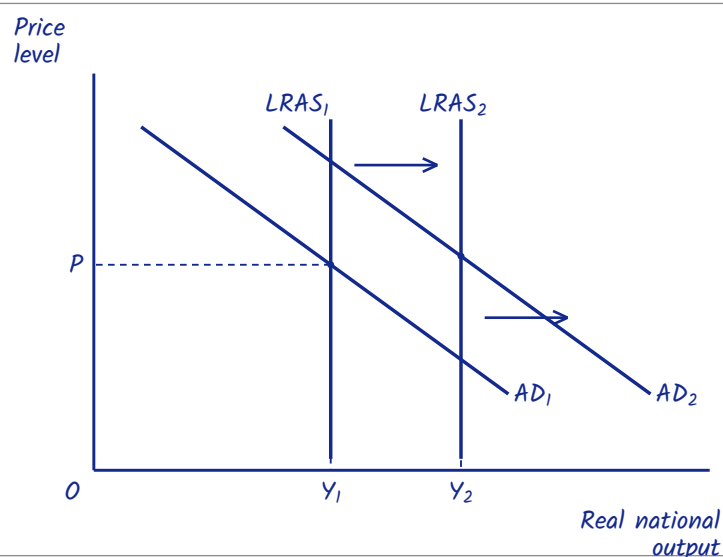
The second key role is lending. Banks act as financial intermediaries, channelling the savings of those with surplus funds to those who wish to borrow. They provide overdrafts, personal loans, credit cards and mortgages to households, and loans to firms. Banks make a profit because they charge a higher interest rate on loans than they pay on deposits; the difference is the interest rate spread. By pooling deposits, banks can lend for long periods, such as 25-year mortgages, while depositors can still withdraw their money at short notice, which is known as maturity transformation. They also assess the creditworthiness of borrowers and spread risk across many loans, which individual savers could not do.

Thirdly, banks provide an efficient payments system. They give access to cash through ATMs and branches, process debit and credit card payments, cheques, direct debits and online and mobile transfers. An efficient means of payment reduces transaction costs, allowing specialisation and trade to take place easily. Banks also offer other financial services, including foreign currency exchange, insurance, share dealing and business advice.

Commercial banks also create credit. When a bank makes a loan, it credits the borrower's account with a new deposit, so most money in the UK is created by commercial banks rather than the Bank of England. Banks keep only a fraction

of deposits as liquid reserves. For example, if a bank holds 10% of deposits as reserves, a new deposit of £1000 allows it to lend £900, which is spent and redeposited in another bank, which can then lend £810, and so on. In theory, the credit multiplier is $1 \div \text{reserve ratio}$, so the initial £1000 could support up to £10 000 of deposits. In practice, lending is limited by the demand for loans, the creditworthiness of borrowers, the need to keep enough liquidity and capital, and regulation by the Prudential Regulation Authority.

Because they create credit, commercial banks have a major effect on the economy. Lending to households increases consumption, particularly of durable goods and houses, and lending to firms finances investment. Both are components of AD, so when banks expand lending, AD shifts to the right from AD_1 to AD_2 , raising real output and employment, as shown in the diagram. Investment in new capital financed by bank loans also increases the productive capacity of the economy, shifting LRAS to the right from $LRAS_1$ to $LRAS_2$, so banks contribute to long-run economic growth.



Banks are also important in the transmission of monetary policy. When the Bank of England changes Bank Rate, commercial banks change the interest rates on their loans and savings accounts, which affects borrowing, saving and spending. However, because banks are profit seeking, they may take excessive risks, lending too much in booms and then cutting lending sharply in a downturn. In 2007 to 08 this caused the financial crisis, when a shortage of liquidity and capital led to a credit crunch which reduced AD and caused a recession.

In summary, commercial banks keep savings safe, act as intermediaries between savers and borrowers, provide the payments system, and create credit, which makes them vital to consumption, investment and economic growth, although their lending can also be a source of instability.

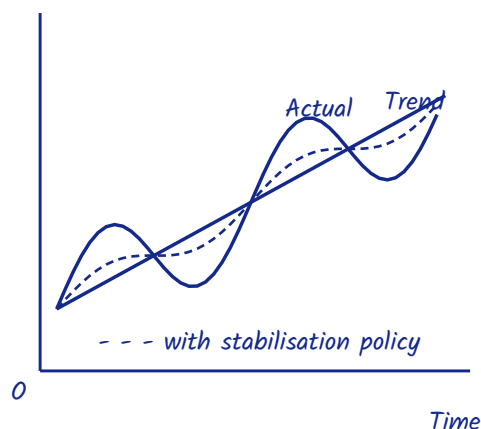
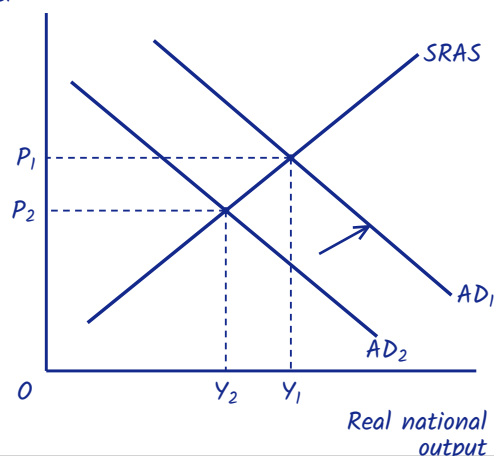
1 4

Cyclical instability refers to fluctuations in real GDP around its long-run trend rate of growth, known as the economic cycle, with periods of boom, when there is a positive output gap, and recession, when there is a negative output gap.

Instability is damaging because recessions cause cyclical unemployment, lost output and business failures, while booms cause demand-pull inflation and asset price bubbles. Uncertainty also discourages investment, reducing long-run growth.

Policies to reduce instability include monetary policy, fiscal policy, supply-side policies and financial regulation, and the aim is to dampen the cycle, as shown in Diagram 1.

Monetary policy is the main policy used in the UK. The independent Bank of England's Monetary Policy Committee sets Bank Rate to meet the 2% CPI inflation target. In a recession, it can cut Bank Rate, which reduces commercial banks' interest rates, encouraging borrowing for consumption and investment, reducing saving, and lowering the exchange rate, which boosts net exports. This shifts AD to the right from AD_2 back to AD_1 , as shown in Diagram 2. In a boom, raising Bank Rate reduces AD and inflationary pressure. When Bank Rate is close to zero, the Bank can use quantitative easing, buying government bonds to increase the money supply and lower long-term interest rates, as it did after 2009 and in 2020. Because the Bank of England is independent, its decisions are credible and free from political pressure, so it can act pre-emptively, using forecasts and forward guidance to influence expectations.

Diagram 1: economic cycle
Real
GDPDiagram 2
Price
level

However, monetary policy has limitations. There are time lags of up to two years before a change in interest rates has its full effect, so the Bank must rely on forecasts, which can be wrong. In a deep recession, low interest rates may not boost spending if confidence is very low, a liquidity trap, and banks may be unwilling to lend, as after 2008. With interest rates at 0.1% in 2020, the Bank had little room left to cut. Monetary policy is also less effective against supply shocks, such as a rise in oil prices, where higher interest rates to fight inflation would deepen the fall in output.

Fiscal policy can also reduce instability. Automatic stabilisers work without any government decision: in a recession, tax revenue falls and spending on unemployment benefits rises, so the budget deficit increases and supports AD; in a boom, the opposite happens. Discretionary fiscal policy, demand management, involves deliberately changing government spending and tax rates. In a recession, higher government spending, for example on infrastructure, increases AD directly and has a multiplier effect, raising national income by a multiple of the initial injection. Fiscal policy was very important during the pandemic, when the furlough scheme protected millions of jobs, and it can be targeted at particular regions or groups. However, discretionary fiscal policy suffers from time lags in recognising the problem, deciding on policy and implementing it, so it may take effect when the economy has already recovered, making instability worse. It also increases the budget deficit and national debt, and high debt may limit the government's ability to borrow in the future. Politicians may also use fiscal policy for electoral reasons

rather than stability.

Supply-side policies can make the economy more resilient to shocks. Policies to create a more flexible labour market, such as training and education, help workers move between industries as demand changes, so a shock leads to less long-lasting unemployment. Policies that encourage investment increase productive capacity, so the economy can meet rising demand without inflation. However, supply-side policies take many years to work and are designed to raise long-run growth rather than to respond to short-term fluctuations, so they are a complement to, not a substitute for, demand-side policies.

Financial regulation is also important, because the 2007 to 08 crisis showed that financial markets can be a major source of instability. Since then the Financial Policy Committee monitors systemic risk, the Prudential Regulation Authority requires banks to hold more capital and liquid assets, and the Financial Conduct Authority protects consumers. Banks are stress-tested to check they can survive a severe downturn, and retail banking has been ring-fenced from riskier investment banking. Macroprudential tools, such as limits on high loan-to-value mortgages, can reduce credit booms and house price bubbles. These measures reduce the risk of a banking crisis causing a deep recession. However, regulation may reduce lending and therefore growth, banks may find ways around rules, and new risks may develop in less regulated shadow banking.

The effectiveness of each policy depends on the cause of the instability. Demand shocks are best dealt with by monetary and fiscal policy, whereas supply shocks, such as the oil price shocks of the 1970s or the pandemic, create a trade-off between inflation and output that demand-side policies cannot solve. Many shocks are external and unpredictable, such as the global financial crisis or a pandemic, and the UK as an open economy cannot prevent them, only reduce their impact.

Some economists, such as Minsky, also argue that stability is destabilising: long periods of stability encourage excessive borrowing and risk-taking, which eventually causes a crisis, so some instability may prevent complacency.

In conclusion, no single policy can eliminate cyclical instability. The UK's combination of an independent central bank using interest rates and QE,

automatic fiscal stabilisers and stronger financial regulation was successful in keeping the economy stable for long periods, such as the 'Great Moderation' before 2007. Monetary policy is the most flexible and best tool for normal fluctuations, but in deep recessions, when interest rates are close to zero, active fiscal policy is essential, as the pandemic showed. Financial regulation is vital to prevent the most damaging crises, while supply-side policies make the economy more resilient in the long run. The most effective approach is therefore a coordinated mix of policies, chosen according to the cause of the instability.

Question
number

Do not write outside the box