



Rewarding Learning
ADVANCED
General Certificate of Education
2023

Economics

Assessment Unit A2 2
assessing
Managing the Economy in a Global World

[AEC21]



AEC21

MONDAY 5 JUNE, MORNING

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions in Section **A** and **B** and **one** question in Section **C**.
You are permitted to use a calculator in this paper.

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions including calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **4(b)**, **5(b)**, **(c)** and **(d)**, **6** and **7**. Quantitative skills will be assessed where appropriate.

Section A (20 marks)

Answer all questions

- 1 The table below shows selected information from Balance of Payments accounts for a country in 2020.

Item of account	Value of balance £bn
Trade in goods	5
Trade in services	–9
Primary income	–14
Secondary income	2
Financial account	
Capital account	–2
Net errors and omissions	3

(a) Calculate the value of the Balance on Current Account. [2]

(b) Calculate the value of the Balance on the Financial Account. [1]

- 2 The table below gives the level of government revenue, government spending and GDP for a country for the four years between 2018 and 2021. All figures are in US \$ billions. At the end of 2018 the value of the National Debt was equal to 90% of GDP.

Year	Government revenue	Government spending	GDP
2018	760	730	1,800
2019	770	780	1,870
2020	780	800	1,910
2021	800	840	2,000

Using the information in the table above, calculate the value of National Debt as a percentage of GDP at the end of 2021. [3]

- 3** A country had a fixed exchange rate of one pound equal to 4 US dollars. A devaluation of the currency occurs, so that one pound equals 3.6 US dollars. This has led to a 5 per cent rise in exports.

Using the concept of price elasticity of demand, explain the likely impact of this change on the value of export earnings. [4]

- 4** In a fictional world, Stormlands trades with three other countries: Reach, Riverlands and Vale.

The table below shows the percentage change in the value of the Stormlands Lira against the currencies of the other three countries over two years and the weighting of trade with each country.

Country	% change in exchange rate	Weighting
Reach	4	30
Riverlands	−10	60
Vale	12	10

- (a)** Using the information in the table above, calculate the percentage change in the trade-weighted exchange rate. [4]
- (b)** Analyse the likely impact of a fall in the exchange rate on the rate of inflation in Stormlands. [6]

Section B (40 marks)

Answer all questions

The case study which follows was compiled in December 2020. Read it carefully and answer the questions which follow.

5 Case study: The Global World

Source 1: The Rise of Globalisation

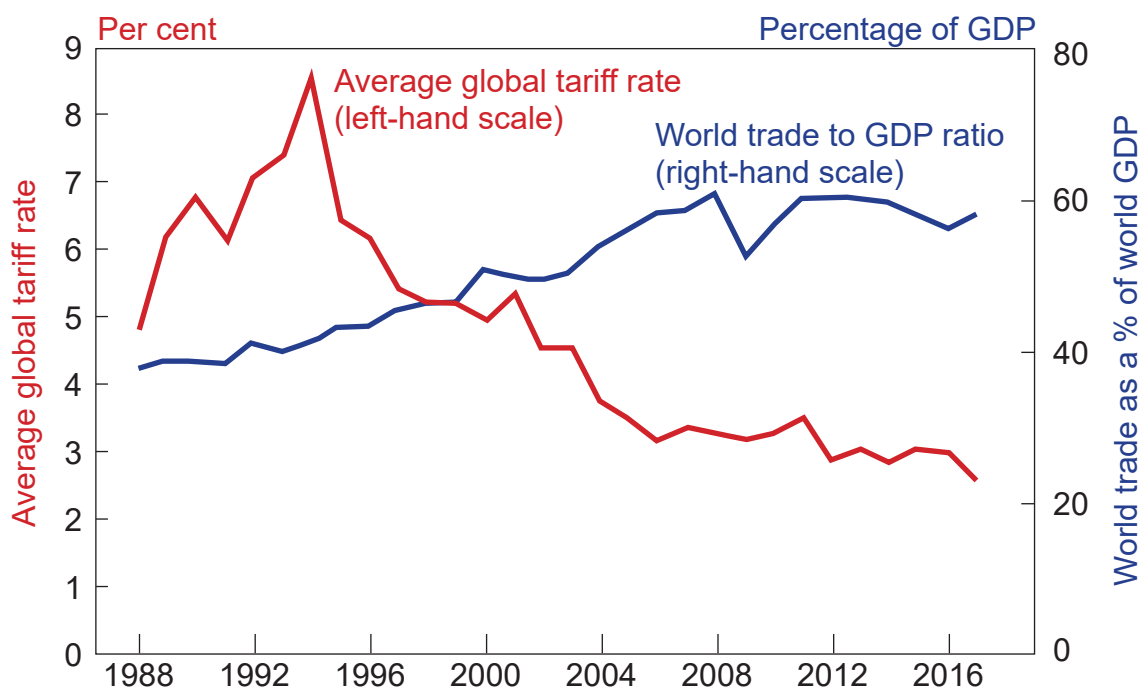
Globalisation has been one of the most important phenomena of the last three decades. Described by *The Economist* as the “Death of distance”, globalisation marks a major integration of the world economy with

- global trade increasing faster than GDP
- the growth of large multinational corporations which integrate manufacturing operations across the globe
- the large-scale movement of both people and capital.

All of this has been accompanied by significant economic dislocation as old patterns of trade, production and employment have changed.

A significant milestone in the process of globalisation was the creation of the World Trade Organization (WTO) which became operational on January 1st, 1995. It was the successor to the General Agreement on Tariffs and Trade (GATT) which had worked through a succession of “rounds” to reduce tariffs on traded goods. Those tariffs had fallen considerably, and the WTO was designed to take that process further by facilitating the agreement of further reductions and adjudicating trade disputes.

As can be seen in **Fig. 1** below, these falls in tariffs contributed to an increase in trade. It is widely argued that this has benefited consumers.



Source: © Bank of England

Fig. 1: Global tariffs and world trade

However, falls in tariffs were not the only factor driving globalisation. The use of standard containers to transport goods has led to significant falls in transport costs and these have been further reduced by economies of scale in shipping. Improvements in technology have reduced diseconomies of scale, allowing the growth of large multinational companies.

It is this latter development which is one of the most striking features of modern globalisation. Brands like Nike or McDonald's are recognised worldwide. Multinationals have also sprung from developing or recently developing countries: China's Ali Baba, India's INFOSYS and South Korea's Samsung are three of the more prominent examples. These corporations integrate production on a global scale. Apple employs 187 000 workers, but it subcontracts a significant proportion of its production to Taiwanese firm Foxconn, which operates plants across East Asia from Vietnam to the Philippines. The components of an iPhone are sourced from over 20 different companies, each with plants in many different countries.

Some economists praise multinational investment as being always a good thing. Others are more critical, arguing that multinationals invest for their own selfish reasons. Ha Joon Chang, a Korean economist, has pointed to multinationals engaging in social and environmental dumping, setting up in less developed countries so they can avoid environmental regulations and take advantage of low-paid workers with few rights. They manipulate prices so that they make no profits in countries with higher tax rates and instead declare their profits in tax havens. A significant part of multinational investment is the takeover of already existing firms in less developed countries such as telecommunications companies or airlines. This often leads to job losses and the sale of assets in those industries.

Source 2: Globalisation and Global Poverty

Globalisation has had a significant impact on world poverty. The proportion of people living in extreme poverty has fallen from 36% of the world's population in 1990 to just 9.9% in 2015. While this is to be celebrated, it should be noted that the gains from globalisation have not been evenly distributed either geographically or across the income distribution.

South Asia and East Asia, particularly, have experienced rapid economic growth over this period and, as a result, have seen massive falls in extreme poverty. Sub-Saharan Africa, on the other hand, has experienced much lower levels of growth and, consequently, extreme poverty remains a significant issue there.

When we look at the distribution of income we can see that globalisation has contributed to widening inequality, both within countries and across countries. According to Oxfam, the wealthiest 2153 billionaires have more wealth than 4.6 billion people, or 60% of the world's population. Economist Branco Milanovic has pointed out that globalisation has benefitted the super-rich and the middle classes in developing countries. However, the world's poorest have gained nothing at all, and middle and working class people in developed countries have actually seen their incomes decline in real terms.

Source 3: The Death of Globalisation?

Globalisation has always had its critics. In the 1990s there was a significant anti-globalisation movement focused on the unethical practices allegedly pursued by large multinationals such as Gap and Nike, including pollution and exploitation of their labour force. More recently, people have been concerned that companies such as Amazon, Apple and Google have exploited the system by claiming that their profits are earned in low-tax regimes.

Critics have also focused on the COVID-19 pandemic and the Financial Crash of 2008, arguing that globalisation exacerbated these crises.

In the field of trade, reductions in tariffs have slowed down. The Doha round which began in 2001 has failed to reach a conclusion. More countries have started to use non-tariff barriers to restrict trade. During his presidency, Donald Trump was a vocal advocate of restricting trade and engaged in trade wars with China. Leading development economist Raymond Hammett said, "The trend of deglobalisation is very concerning. Actually, increased globalisation is the only way to ensure greater economic development in the poorest parts of the world."

- (a) Compare the trends in average global tariff rates and the global trade to GDP ratio shown in **Fig. 1**. [4]
- (b) Explain why large corporations may wish to expand their operations into other countries. [9]
- (c) Examine the likely impact of a reduction in tariffs on economic welfare and the volume of world trade. [12]
- (d) Critically examine the assertion by Raymond Hammett that increased globalisation is the only way to ensure greater economic development in the poorest parts of the world. [15]

Section C (30 marks)

Answer one question

- 6** As growth in world trade slows, some economists have called for the re-introduction of a system of fixed exchange rates to help boost trade and the global economy. However, on a typical day, the value of transactions in foreign currency markets is US \$6.6 trillion. As a consequence, critics argue, it would be impossible to manage a system of fixed exchange rates without significant regulation of those markets.

Critically examine whether it would be possible or desirable to introduce a system of fixed exchange rates in the global economy. [30]

- 7** The COVID-19 pandemic caused a significant shock to the world economy. In response, governments slashed interest rates. This came after a decade of global interest rates being at already historic lows. Some economists claim that, with interest rates at this level, monetary policy is no longer effective and the only way to stimulate the economy is for governments to borrow substantially and spend the money quickly.

Critically examine the view that monetary policy is no longer effective, and governments need to borrow money and rapidly increase spending in order to boost economic growth. [30]

THIS IS THE END OF THE QUESTION PAPER

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Surname	<i>StemUp Model Solution</i>
Answer booklet	Write the question number in the left-hand margin at the start of each answer.

Question
number

1 (a)

*Current account balance = trade in goods + trade in services + primary income
+ secondary income*

$$= 5 + (-9) + (-14) + 2 = -16$$

The current account is in deficit of £16 billion (-£16bn).

1 (b)

*The balance of payments must sum to zero: current + capital + financial + net
errors and omissions = 0, so $-16 + (-2) + \text{financial} + 3 = 0$. Financial
account = $16 + 2 - 3 = +£15\text{bn}$, a surplus of £15 billion.*

2

National debt at end of 2018 = $90\% \times \$1,800\text{bn} = \$1,620\text{bn}$.

Budget deficits (spending - revenue): 2019 = $780 - 770 = \$10\text{bn}$; 2020 = $800 - 780 = \$20\text{bn}$; 2021 = $840 - 800 = \$40\text{bn}$. Total extra borrowing = $10 + 20 + 40 = \$70\text{bn}$.

National debt at end of 2021 = $1,620 + 70 = \$1,690\text{bn}$.

Debt as % of GDP = $1,690 / 2,000 \times 100 = 84.5\%$ of GDP.

3

*The devaluation from $\pounds 1 = \$4$ to $\pounds 1 = \$3.6$ is a fall of $0.4/4 \times 100 = 10\%$, so
the foreign currency price of exports falls by about 10%. PED for exports =
 $\% \Delta Q_d / \% \Delta P = +5\% / -10\% = -0.5$.*

*As PED is less than 1 (ignoring the sign), demand for exports is price inelastic:
the percentage rise in the volume of exports (5%) is smaller than the
percentage fall in their price (10%). Therefore total export revenue falls.*

*Earnings in dollars become $0.9 \times 1.05 = 0.945$ of their original value, a fall of
about 5.5%, so the devaluation is likely to reduce the value of export earnings.*

4 (a)

Weighted change = % change $\times$ weight for each country:

Reach: $4 \times 30 = 120$; Riverlands: $-10 \times 60 = -600$; Vale: $12 \times 10 = 120$.

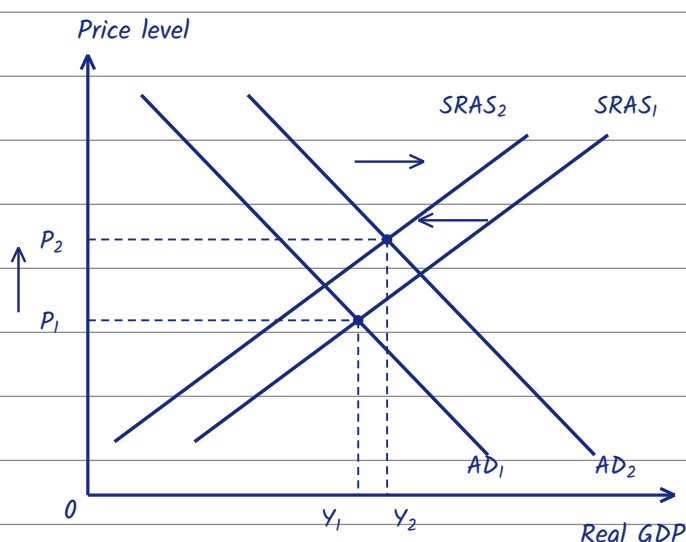
Sum = $120 - 600 + 120 = -360$. Sum of weights = 100.

Change in trade-weighted exchange rate = $-360 / 100 = -3.6\%$, a fall of 3.6%.

4 (b)

A fall in the exchange rate (depreciation) of the Lira, such as the 3.6% fall in the trade-weighted index in part (a), means each Lira buys less foreign currency. Inflation is a sustained rise in the general price level, measured by the CPI. Ceteris paribus, a depreciation is likely to raise inflation through three channels.

First, there is a direct effect on the CPI basket. Imports become more expensive in Lira, for example a 10% fall against the Riverlands currency, Stormlands' largest trading partner (weight 60), raises the Lira price of goods from Riverlands. Imported consumer goods such as food, fuel and clothing are in the CPI basket, so measured inflation rises immediately.



Second, cost-push inflation. Firms that import raw materials, components and energy face higher costs of production. To protect their profit margins they pass these higher costs on as higher prices, shifting SRAS to the left from $SRAS_1$ to

$SRAS_2$ in the diagram, raising the price level. Higher prices may also lead workers to demand higher wages, causing a wage-price spiral.

Third, demand-pull inflation. Stormlands' exports become cheaper in foreign currency, so export volumes rise, while dearer imports lead consumers to switch to domestic goods. Net exports ($X - M$) are a component of AD ($C + I + G + X - M$), so AD shifts right from AD_1 to AD_2 , and via the multiplier the price level rises from P_1 to P_2 as shown. This effect is larger if the economy is close to full capacity.

The size of the impact depends on how open Stormlands is, the price elasticities of demand for exports and imports, whether firms absorb the higher costs in their margins, and the size of the fall, which is only 3.6% overall because of rises against Reach and Vale. Overall the depreciation is likely to raise inflation in Stormlands.

5 (a)

Fig. 1 shows an inverse relationship between the two series. The average global tariff rate rose from about 4.9% in 1988 to a peak of about 8.8% in the mid-1990s (a rise of about 79.5%), then fell steadily to about 2.8% by 2016, a fall of about 68% from the peak and 42.8% overall since 1988. In contrast, the world trade to GDP ratio rose from about 38% in 1988 to about 59% in 2016, an increase of about 55%. However, while tariffs kept falling, the trade ratio has been fairly static since about 2007 and fell sharply in 2008 to 2009 due to the financial crash and Great Recession.

5 (b)

A multinational corporation (MNC) is a firm with its headquarters in one country and production or service operations in more than one country, achieved through foreign direct investment (FDI). Firms such as Nike, McDonald's and Samsung (Source 1) expand abroad for several reasons, all linked to the objective of profit maximisation by raising revenue or reducing costs.

Access to markets and consumers. Domestic markets may be saturated, so expanding abroad increases sales and allows greater economies of scale, which

the source notes have been helped by technology reducing diseconomies of scale.

Many services must be produced close to the consumer: people will not travel abroad to buy a burger, so McDonald's needs local outlets. Regulations on financial or professional services may mean only firms located in a country can supply it.

Avoiding trade barriers. Producing inside a market avoids tariffs, quotas and non-tariff barriers. Japanese car firms such as Nissan invested in the UK to sell into the EU Single Market without paying the Common External Tariff. Rules of origin, or bans such as the EU ban on imports of certain poultry, may make local production essential.

Access to raw materials. Oil, mining and agribusiness firms such as Chiquita must invest where natural resources, soils and climate are located.

Lower costs of labour and regulation. Firms can access low-paid workers with few rights for labour-intensive work such as stitching trainers, as Apple does through Foxconn plants across East Asia, or highly skilled labour, for example software engineers at Infosys in India. Ha Joon Chang points to social and environmental dumping, where firms locate in countries with weak environmental regulations, such as steel or chemical plants with lax rules on emissions, lowering costs and raising profit margins.

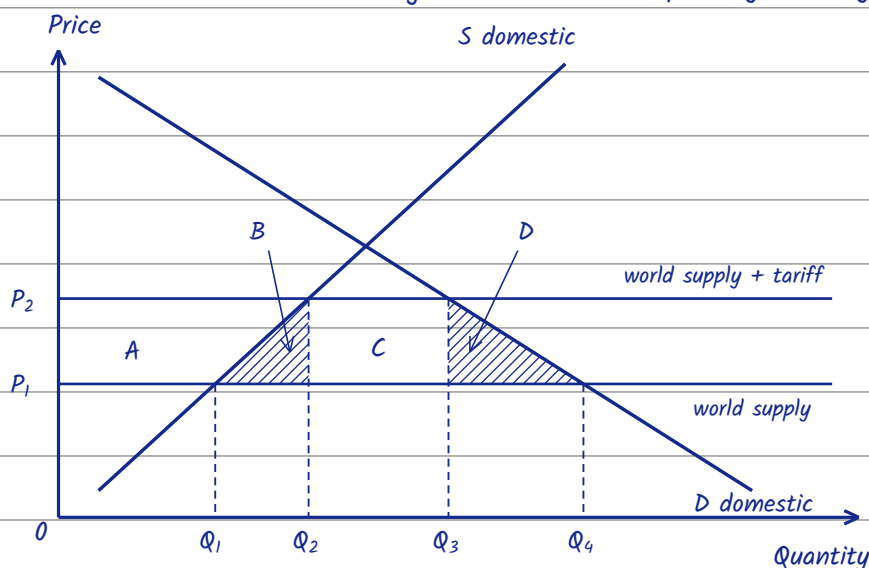
Lower taxes. MNCs can use transfer pricing to declare profits in low-tax countries such as Ireland or tax havens like the Cayman Islands, as with Amazon, Apple and Google (Source 3), reducing their corporation tax bill.

Finally, acquiring existing firms abroad, such as telecoms companies or airlines, is a fast way to gain market share, brand recognition and assets, and spreading operations across countries diversifies risk. Overall, the main motive is to raise long-run profits by increasing revenue and cutting average costs.

5 (c)

A tariff is a tax on imported goods which raises their price above the world price. Fig. 1 shows the average global tariff rate falling from about 8.8% in the mid-1990s to about 2.8% by 2016 under GATT and the WTO. Economic welfare

is the total of consumer and producer surplus plus government revenue. The diagram shows the effect of removing a tariff in an importing country.



Removal of a tariff: imports rise from Q_2Q_3 to Q_1Q_4

With the tariff, the domestic price is P_2 (world supply + tariff). When the tariff is removed, the price falls to the world price P_1 . Domestic demand extends from Q_3 to Q_4 , while domestic production contracts from Q_2 to Q_1 as less efficient domestic producers cannot compete. Imports therefore rise from Q_2Q_3 to Q_1Q_4 . Since one country's imports are another's exports, a series of tariff reductions across countries raises the volume of world trade, consistent with the world trade to GDP ratio rising from 38% to 59% in Fig. 1.

Welfare effects. Consumers gain from lower prices: consumer surplus rises by $A + B + C + D$, and they enjoy more choice as imports become more affordable, as Source 1 says, benefiting consumers. Domestic producers lose producer surplus of area A , and the government loses tariff revenue of area C . Areas A and C are transfers to consumers, so the net welfare gain is the shaded triangles $B + D$: B is the gain in productive efficiency as resources stop being wasted on high-cost domestic production, and D is the gain in allocative efficiency from consumption of units valued above the world price. Removing the deadweight loss of the tariff means resources are allocated according to comparative advantage, raising world output, and greater competition raises dynamic efficiency and innovation. Exporters also benefit from lower tariffs abroad, creating jobs

and growth.

However, the impact depends on several factors. The rise in trade depends on the price elasticity of demand for imports and the size of the tariff cut: with tariffs already low at around 2.8%, further cuts give smaller gains. Fig. 1 shows that the trade ratio stalled after 2007 even as tariffs fell, so other factors, such as containerisation and lower transport costs, MNC supply chains and the business cycle, matter, while non-tariff barriers are increasingly used (Source 3). Welfare gains are unevenly distributed: domestic workers in import-competing industries may become structurally unemployed, infant industries in developing countries may never develop, and governments relying on tariff revenue may lose funds for public services. The current account may worsen as imports rise. Overall, a reduction in tariffs is very likely to increase the volume of world trade and raise total economic welfare, since consumers' gains outweigh producers' and governments' losses by $B + D$. However, the gains are smaller when tariffs are already low and are not shared equally, so compensating the losers is needed for everyone to be better off.

5 (d)

Globalisation is the increasing integration of the world economy through trade, FDI by multinationals, and movements of capital and people. Economic development is broader than economic growth: it is an improvement in living standards and welfare, including reduced poverty, better health, education and life expectancy, greater freedom and choice, measured by indicators such as the HDI. Raymond Hammett argues that increased globalisation is the only way to ensure development in the poorest countries.

The case for Hammett's view. Globalisation allows the poorest countries to specialise according to comparative advantage and export to larger markets, gaining economies of scale and foreign currency. Export-led growth increases real GDP via the multiplier, creating jobs and tax revenue for health and education. Source 2 shows extreme poverty fell from 36% of the world's population in 1990 to 9.9% in 2015, with massive falls in South and East Asia where growth was

rapid. FDI by MNCs fills the savings gap, transfers technology, skills and management expertise and creates employment, and developing countries now have MNCs of their own, such as Samsung, Infosys and Alibaba. Globalisation gives access to a wider range of cheaper products and modern technology such as mobile phones. Freer movement of labour allows workers to earn higher wages abroad and send remittances home, which are a larger flow of capital to LDCs than official aid, and returning migrants bring skills and capital. Further trade liberalisation in agriculture, the aim of the stalled Doha round, would particularly benefit the poorest countries that export agricultural commodities.

The case against. Growth is necessary but not sufficient for development. Source 2 shows the gains have been very unevenly distributed: sub-Saharan Africa has had much lower growth and extreme poverty remains high, Milanovic finds the world's poorest have gained nothing at all, and Oxfam reports that 2,153 billionaires have more wealth than 4.6 billion people. Globalisation has widened inequality within and between countries. Ha Joon Chang argues MNCs engage in social and environmental dumping, exploiting low-paid workers and polluting, and use transfer pricing to declare profits in tax havens, depriving LDCs of tax revenue. Takeovers of existing firms such as telecoms companies have led to job losses and asset sales. The removal of tariffs has damaged domestic infant industries and led to the dominance of foreign-owned multinationals. Emigration of the most able causes a brain drain. Global capital flows create instability, as in the 2008 crash, and the growth in transport of goods contributes to climate change, which harms the poorest most. There may also be a loss of domestic culture.

There are also alternative routes to development. Countries can invest in human capital, health and infrastructure, improve governance and property rights, and receive aid and debt relief. Notably, successful East Asian economies such as South Korea and China used infant industry protection, capital controls and an active state rather than simply opening up, which challenges the word 'only'.

Evaluation. Whether globalisation promotes development depends on the

institutions and policies of the country: strong governance, education and regulation allow countries to capture the gains, while weak states may be exploited. It depends on the type of globalisation, since trade in goods and FDI that creates jobs is more beneficial than volatile short-term capital flows, and on the terms of integration: removing developed countries' agricultural subsidies and tariffs would help LDCs more than forcing them to open their own markets. The time scale matters, as the costs of restructuring come first while gains appear in the long run.

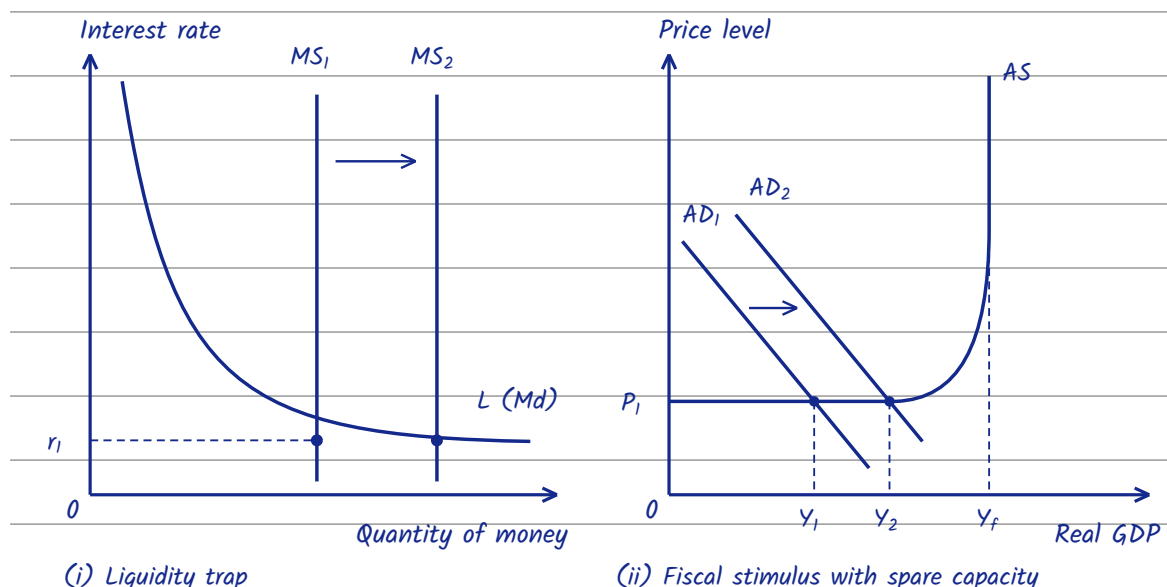
In conclusion, increased globalisation has been a powerful engine of growth and poverty reduction, and it is hard to see the poorest countries developing in isolation, so Hammett is right that it is important. However, he overstates the case by calling it the only way: without investment in human capital, good governance and policies to spread the gains and protect the environment, globalisation may increase inequality rather than ensure development. It is a necessary condition, but not sufficient on its own.

7

Monetary policy is the use of interest rates, the money supply and credit conditions by the central bank, such as the Bank of England's MPC, to influence aggregate demand and meet its inflation target of 2% CPI. Fiscal policy is the use of government spending and taxation. Following the 2008 financial crisis, Bank Rate was cut to 0.5% and stayed close to that for a decade, and during the COVID-19 pandemic it was cut further to 0.1%. The claim is that monetary policy is no longer effective and that governments must borrow and spend quickly.

Why monetary policy may be ineffective. Normally a cut in interest rates reduces the cost of borrowing and the reward for saving, so consumption and investment rise; it reduces mortgage payments, raising disposable income; it raises asset prices, creating a wealth effect; and it causes a depreciation of the exchange rate, boosting net exports. AD shifts right and real GDP rises. However, when rates are already close to zero, there is little room to cut

further; this is the zero lower bound. Keynes described a liquidity trap, shown in diagram (i): at very low interest rates the liquidity preference curve becomes perfectly elastic because people expect bond prices to fall and prefer to hold cash, so an increase in the money supply from MS_1 to MS_2 leaves the interest rate at r_1 and fails to stimulate spending.



In a deep recession like COVID-19, confidence is very low, so even cheap credit does not encourage firms to invest or consumers to borrow; consumption and investment become interest inelastic, like 'pushing on a string'. Banks may be unwilling to lend if they fear defaults. Monetary policy is also asymmetric: raising rates is effective at reducing inflation, but cutting them is less effective at stimulating demand. Monetary policy also works with long time lags of 18 to 24 months.

However, interest rates are not the only tool of monetary policy. Since 2009 central banks have used Quantitative Easing (QE), creating new money to buy government bonds and other assets. This raises bond prices and lowers long-term interest rates, increases bank reserves and raises asset prices, supporting lending, wealth and spending. The Bank of England's QE reached £895bn by 2021, and there is evidence it prevented a deeper recession and deflation. Central banks can also use forward guidance, negative interest rates,

as in the eurozone and Japan, and even helicopter money, giving newly created money directly to households. In addition, the real interest rate (nominal rate minus inflation) can be negative if inflation is positive, which still encourages spending. So monetary policy is weakened but not entirely ineffective, although QE has side effects: it inflates asset prices, increasing wealth inequality, and may store up inflation.

The case for government borrowing and rapid spending. Keynesians argue that in a recession with a large negative output gap, fiscal policy is more powerful. An increase in government spending is an injection that shifts AD to the right directly, and via the multiplier ($1/(1 - MPC)$) national income rises by more than the initial spending. As diagram (ii) shows, with spare capacity, AD_1 to AD_2 increases real GDP from Y_1 to Y_2 with little rise in the price level.

Spending quickly matters because of the time lags of fiscal policy and to prevent hysteresis, where long-term unemployment erodes skills. With interest rates at historic lows, the cost of borrowing is low, and spending on infrastructure, such as green energy or flood defences, can also shift LRAS to the right, raising long-run growth and generating future tax revenue. In 2020 the UK government borrowed over £300bn, around 15% of GDP, to fund the furlough scheme and support for firms, which limited the rise in unemployment.

The case against. Classical and monetarist economists argue that government borrowing causes crowding out: higher demand for loanable funds raises interest rates and reduces private investment, and if the economy is close to full employment (the vertical part of the AS curve at Y_f) extra spending only causes inflation, as seen in 2022. Ricardian equivalence suggests households save more in expectation of future taxes, reducing the multiplier. Rising national debt (UK debt passed 100% of GDP in 2020) means higher debt interest payments, which have an opportunity cost in terms of spending on health or education, and raises questions of intergenerational fairness as future taxpayers repay the debt. If debt rises too far, bond markets and credit rating agencies may lose confidence, raising bond yields, as in Greece in 2010 or the UK gilt market after

the 2022 mini-budget, so governments cannot borrow endlessly. Spending quickly may also be wasteful, with poor value for money, and infrastructure projects often take years to begin, so rapid spending is difficult.

Evaluation. The effectiveness of each policy depends on the circumstances. When interest rates are at the zero lower bound and there is a large output gap, as in 2020, fiscal policy is likely to be more effective and crowding out less likely, since interest rates are low and private sector demand is weak. It also depends on what the borrowing funds: borrowing for capital expenditure that raises productive capacity is more justifiable than borrowing for current spending. The size of the multiplier depends on the marginal propensity to import and save, and on whether spending is targeted at low-income households with a high MPC. The initial level of debt matters, since a country with low debt and its own central bank has more fiscal space. Finally, monetary and fiscal policy can work together: QE helped keep government borrowing costs low during the pandemic.

In conclusion, it is too strong to say monetary policy is no longer effective: QE and forward guidance still have some effect, and rate rises since 2022 show monetary policy is effective at controlling inflation. However, when rates are near zero and confidence is weak, monetary policy alone is much less powerful, and government borrowing to fund rapid, well-targeted spending, especially investment in infrastructure, is the most effective way to boost growth in the short run. This should be temporary and combined with a credible plan to reduce the deficit once recovery is under way, to maintain bond market confidence.