Please check the examination details below before entering your candidate information

Candidate surname	Other names
StemUp Model Solution	

Centre Number | Candidate Number

Pearson Edexcel Level 3 GCE

Monday 19 May 2025

Morning (Time: 1 hour 30 minutes)

Paper reference **8EC0/02**

Economics A

Advanced Subsidiary

PAPER 2: The UK Economy – Performance and Policies

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are two sections in this question paper.
- Answer **all** questions in Section A.
- In Section B, answer **all** of questions 6(a) to 6(e) and **one** question from 6(f) **or** 6(g).
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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QUESTION 1 BEGINS ON THE NEXT PAGE

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SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

1 Between January 2020 and December 2020, the rate of unemployment in the UK increased from 3.9% to 5.2%. This was as a result of the UK economy experiencing a recession.

(a) Which **one** of the following best describes this cause of unemployment?

(1)

☒ **A** Cyclical

☐ **B** Frictional

☐ **C** Seasonal

☐ **D** Structural

(b) With reference to the information above, explain **one** possible effect of the increase in the rate of unemployment on the UK government budget.

(3)

The rise in the unemployment rate from 3.9% to 5.2% (an increase of 1.3 percentage points) means fewer people are in work paying income tax and National Insurance, and with lower incomes they spend less, so VAT receipts also fall. At the same time more people claim unemployment benefits, so government expenditure on welfare increases. Lower tax revenue and higher spending worsen the government budget, increasing the budget deficit, so the government must borrow more.

(Total for Question 1 = 4 marks)

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2 The table shows average UK house prices between January 2023 and March 2023.

Month and year	Average house price (£)
January 2023	286 321
February 2023	284 152
March 2023	281 555

(Source: adapted from https://landregistry.data.gov.uk/)

(a) Which **one** of the following can be deduced from the table?

(1)

☒ **A** Between January 2023 and February 2023, average UK house prices fell by £2 597

☒ **B** The average UK house price in March 2023 is 16.65% higher than in January 2023

☒ **C** The index number of average UK house prices for March 2023 is 100

☒ **D** The ratio of the average UK house price in February 2023 to the average UK house price in March 2023 is 1 : 0.99

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(b) Explain **one** likely impact of the fall in average UK house prices on existing homeowners between January 2023 and March 2023. Refer to the table on **page 4** in your answer.

(3)

Average UK house prices fell from £286 321 in January 2023 to £281 555 in March 2023, a fall of £4 766 or about 1.66%.

For existing homeowners, the value of their main physical asset has fallen, so their wealth decreases. This creates a negative wealth effect: homeowners feel less wealthy and less confident about their finances, so they are likely to save more and cut consumer spending. They are also less able to borrow against the value of their homes to fund spending. As a result consumption, and so aggregate demand, is likely to decrease.

(Total for Question 2 = 4 marks)

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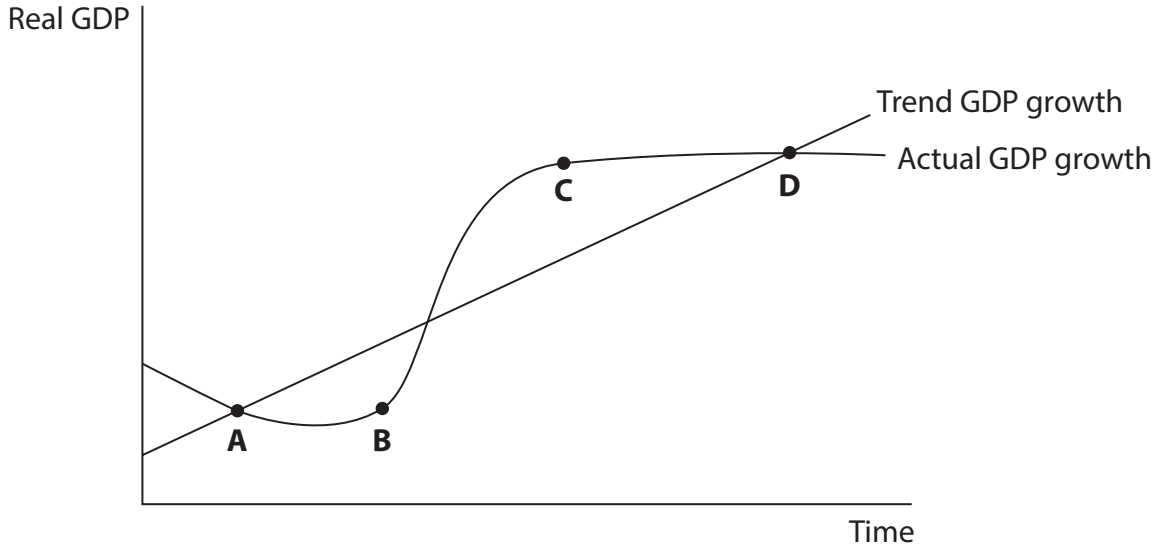
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3 It was forecast that the UK will experience a positive output gap in 2024.

(a) Which point on the trade cycle diagram illustrates a positive output gap?

(1)



- ☒ **A**
- ☒ **B**
- ☒ **C**
- ☒ **D**

(b) Explain **one** reason why it is difficult to measure the size of an output gap in an economy.

(2)

Potential (trend) GDP cannot be observed directly, so it has to be estimated. It depends on the size of the labour force and on productivity, which are hard to measure accurately, for example because of uncertainty about labour migration, discouraged workers who have left the labour market and the amount of underemployment. Actual GDP is also hard to measure because of the hidden economy, so the estimated output gap may be inaccurate.

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(c) Define the term 'trade cycle'.

(1)

The trade cycle is the fluctuation in economic activity (real GDP) around its long-run trend over time, moving through the phases of boom, recession, trough and recovery.

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4 In 2023 the UK government reduced indirect tax on certain goods and services.

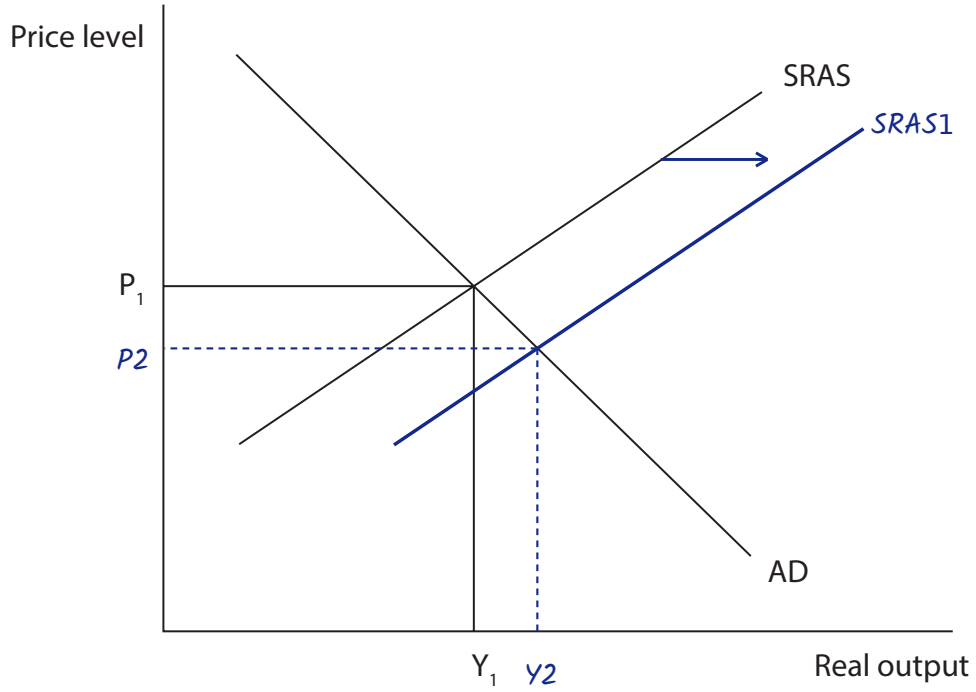
(a) Define the term 'indirect tax'.

(1)

An indirect tax is a tax on expenditure on goods and services, for example VAT, which is paid to the government by the seller and passed on to consumers through higher prices.

(b) Annotate the aggregate demand (AD) and short-run aggregate supply (SRAS) diagram below to show the likely impact of a reduction in indirect tax on the equilibrium level of real output and the price level.

(2)



A cut in indirect tax lowers firms' costs of production, so SRAS shifts right to SRAS1: the price level falls from P1 to P2 and real output rises from Y1 to Y2.

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(c) Which **one** of the following is an example of an indirect tax?

(1)

- ☒ **A** Corporation tax
- ☒ **B** Income tax
- ☒ **C** Inheritance tax
- ☒ **D** Value added tax

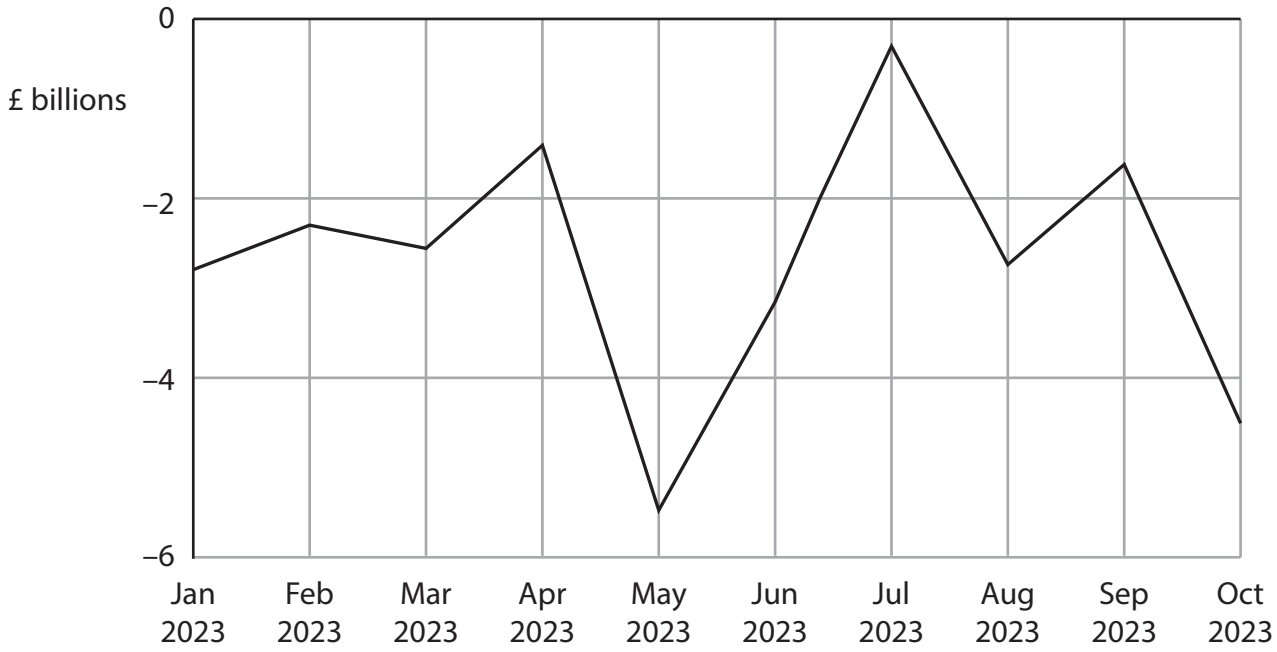
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5 The UK net monthly balance of trade in goods and services, by value, January 2023 to October 2023, is shown in the chart below.



(Source: adapted from https://tradingeconomics.com/united-kingdom/balance-of-trade)

(a) Which **one** of the following can be deduced from the chart?

(1)

- ☒ **A** The government was spending less than it received in taxation
- ☒ **B** The government was spending more than it received in taxation
- ☒ **C** The value of imports was greater than the value of exports
- ☒ **D** The value of imports was smaller than the value of exports

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(b) Explain **one** likely reason for the deficit in the UK balance of trade in goods and services. Refer to the chart on **page 10** in your answer.

(3)

One likely reason is that UK consumers have a high marginal propensity to import. The chart shows the UK had a deficit on the balance of trade in goods and services in every month from January to October 2023, reaching about −£5.5 billion in May 2023 and just over −£4 billion (about −£4.5 billion) in October 2023. As real incomes rise, UK households spend a large share of any extra income on imported goods such as cars, electronics, clothing, food and energy, which the UK does not produce enough of domestically. Imports therefore rise faster than exports, so the value of imports is greater than the value of exports, and the trade balance stays in deficit.

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

Read Figures 1 and 2 and Extract A in the Source Booklet before answering Question 6.

Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

6 (a) With reference to Figure 1, explain the term 'rate of economic growth'.

(4)

(b) With reference to the first paragraph of Extract A, explain the likely relationship between real incomes and subjective happiness.

(5)

(c) With reference to Extract A and your own knowledge, assess the limitations of using GDP to compare living standards over time.

(10)

(d) With reference to the information provided, explain **two** factors that the Bank of England's Monetary Policy Committee may have considered when changing the base interest rate.

(6)

(e) Discuss the likely macroeconomic effects of a decrease in government expenditure on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)

EITHER

(f) Evaluate the possible causes of inflation in the UK.

(20)

OR

(g) Evaluate the use of market-based supply-side policies to increase UK employment.

(20)

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6 (a) With reference to Figure 1, explain the term 'rate of economic growth'.

(4)

The rate of economic growth is the percentage change (increase) in real GDP, the total value of goods and services produced in an economy, over a period of time, usually one year. A positive rate means real output is increasing, while a negative rate means real output is falling.

Figure 1 shows that the UK rate of economic growth was negative in 2020, at around −9.5%, due to the global health crisis, so real output fell. It was highest in 2021, at around 7.5%, as the economy recovered. It is then forecast to be only about 0.5% in 2023 and 0.6% in 2024.

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(b) With reference to the first paragraph of Extract A, explain the likely relationship between real incomes and subjective happiness.

(5)

Real income is income adjusted for inflation, so it measures the quantity of goods and services households can actually buy. Subjective happiness is how satisfied people feel with their own lives. There is likely to be a positive relationship between them, so if real incomes fall, subjective happiness is likely to decrease.

The first paragraph of Extract A states that real income per household is estimated to decrease by around 0.9% in 2024, which would be the largest reduction in living standards since Office for National Statistics records began in the 1950s. This is because a high rate of inflation, due to rising import prices of food, fuel and energy, is reducing the purchasing power of incomes.

With lower purchasing power, people spend less on goods and services, so they consume less of the things that give them satisfaction, and they may not be able to afford larger repayments on mortgages or loans for durable goods. This makes people anxious about their ability to repay debts and less confident about the future, reducing happiness further. Lower real incomes also mean less saving for the future or retirement, so people feel less financially secure.

However, the relationship is not exact: as incomes rise, each extra pound adds less to happiness, which also depends on health, relationships and job security.

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(c) With reference to Extract A and your own knowledge, assess the limitations of using GDP to compare living standards over time.

(10)

GDP (gross domestic product) is the total value of goods and services produced in an economy over a year, while living standards refer to the material welfare and quality of life of the population. Using GDP to compare living standards over time has several limitations.

Firstly, as Extract A states, GDP figures may be in nominal terms. Nominal GDP includes the effect of rising prices, so in a period of high inflation, such as when CPI inflation peaked at around 11.1% in October 2022 (Figure 2), nominal GDP rises even if real output and living standards do not. The UK government also questions the reliability of inflation data, so even when GDP is converted into real terms using a price index, the real figures may be inaccurate, distorting comparisons over time.

Secondly, GDP does not account for population changes. If a rise in net migration increases the population, as Extract A suggests, total GDP rises, but income per person, and so living standards, may remain unchanged or fall. Percentage changes in GDP can also be misleading without any reference to the total level of GDP.

Thirdly, GDP says nothing about the distribution of income. Growth varies across the UK, with jobs and wages distributed unevenly between regions and income groups, so the average household may not be better off even if GDP rises.

In addition, GDP excludes the hidden economy, barter, subsistence and unpaid work such as caring and volunteering, as this output is not bought or sold and so it is unrecorded; this undervalues real output. GDP also ignores quality of life issues such as health, education, leisure time and pollution, which are difficult to measure but strongly affect living standards. Spending on investment goods may even raise future living standards at the expense of current living standards.

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However, GDP remains useful. It is a standard, internationally recognised measure that is well understood, regularly collected and easy to compare over time, and it is possibly still the best single measure available. Many limitations can be reduced by using real GDP per capita, which removes the effects of inflation and population growth and gives an indication of average incomes, a key determinant of living standards. Standard of living is also subjective, so it cannot be measured perfectly by any indicator.

Overall, GDP has significant limitations, and it is the combination of nominal data, unreliable inflation figures and the omission of distribution and quality of life that has the most significant impact on the reliability of comparisons over time. GDP is best used in real per capita terms alongside other indicators, such as the Human Development Index or measures of wellbeing.

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(d) With reference to the information provided, explain **two** factors that the Bank of England's Monetary Policy Committee may have considered when changing the base interest rate.

(6)

One factor the MPC considered is the forecast rate of inflation, as it must meet the government's inflation target of 2% ± 1% (CPI). Figure 2 shows that CPI inflation rose from about 5.5% in January 2022 to a peak of around 11.1% in October 2022, far above target, so the MPC raised the base interest rate from about 0.25% to 5.25% by August 2023 in anticipation of further increases in the price level.

Through the transmission mechanism, higher interest rates increase the cost of borrowing and the reward for saving, reducing consumption and investment. This lowers AD and demand-pull pressure, bringing inflation expectations closer to the 2% target; by October 2023 inflation had fallen to about 4.6%.

A second factor is the rate of economic growth. Figure 1 shows growth is forecast to slow to about 0.5% in 2023 and 0.6% in 2024, and Extract A forecasts slower growth between 2024 and 2028. The MPC wants AD to grow in line with the UK's productive potential: raising interest rates further could cause a recession and higher unemployment, so it held the base rate at 5.25% from August to October 2023 to avoid over-tightening while inflation was already falling.

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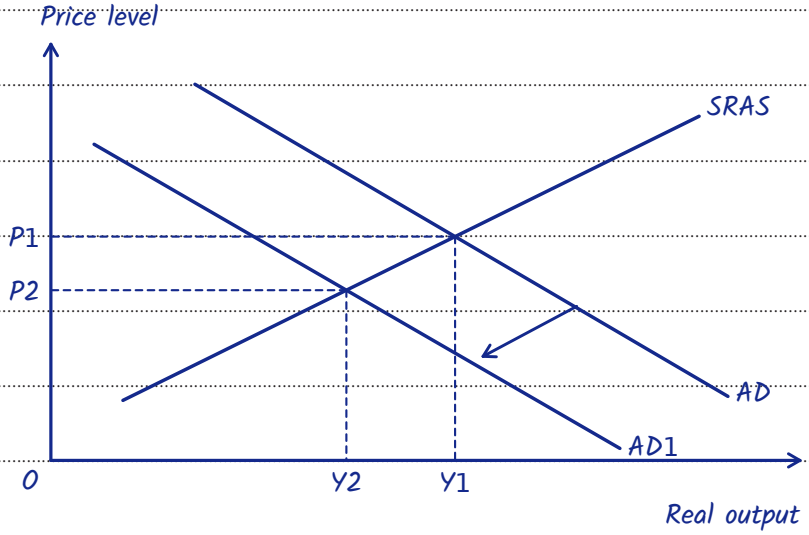
(e) Discuss the likely macroeconomic effects of a decrease in government expenditure on the UK economy. Use an aggregate demand and aggregate supply diagram to support your answer.

(15)

Government expenditure is spending by the government on goods and services such as health, education and defence. Extract A states that the tax cut can only be funded by decreasing government expenditure on public services in the long run, with spending needing to decrease by a third, as a proportion of GDP, between 2024 and 2028.

Government spending is a component of aggregate demand (AD = C + I + G + (X – M)) and an injection into the circular flow of income. A decrease in G therefore shifts AD to the left from AD to AD1, as shown on the diagram. The price level falls from P1 to P2 and real output falls from Y1 to Y2.

The fall in real output means slower or even negative economic growth, at a time



when Figure 1 already forecasts growth of only about 0.5% to 0.6% in 2023 and 2024. The effect is magnified by the negative multiplier: public sector workers and firms supplying the government lose income, so they spend less, which reduces the incomes of others, and the final fall in real GDP is larger than the initial cut in spending.

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Unemployment is likely to increase, as fewer workers are needed in public services and, since labour is a derived demand, private firms facing lower demand also cut jobs. This creates cyclical unemployment, lowering incomes further.

Inflation is likely to decrease, as lower AD reduces demand-pull pressure. With CPI inflation still at about 4.6% in October 2023 (Figure 2), above the 2% target, this could help the MPC bring inflation back to target and allow interest rates to fall sooner.

There may also be positive effects. Lower spending would improve the UK's budget balance, reducing the budget deficit and the need to borrow, which lowers future debt interest payments. However, if welfare payments or public services used by poorer households are cut, there will be greater income inequality.

In the long run, cuts to public services such as education, healthcare and infrastructure could reduce the productive potential of the economy, as a less healthy and less skilled workforce lowers productivity, shifting LRAS to the left and reducing potential growth.

However, the size of these effects depends on the magnitude of the fall in AD. A cut of a third as a proportion of GDP is very large, so the effects on output and unemployment could be significant, but if it is phased in over 2024 to 2028 the impact each year will be smaller.

The impact also depends on where AD lies on a Keynesian LRAS curve. If the economy has spare capacity, the fall in AD mainly reduces real output and employment with little effect on prices; if it is close to full capacity, the main effect is a lower price level with little loss of output. As a positive output gap was forecast for 2024, the cut may reduce inflation without a large fall in output.

Other components of AD may offset the cut. The £10.4 billion cut to National Insurance contributions raises disposable income and consumption, and 100% tax

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relief on capital machinery encourages investment, so AD may not fall overall. Lower government borrowing could also reduce interest rates and crowd in private investment. Net trade also matters, as weaker inflation makes UK exports more competitive.

The effect also depends on which areas of public services are cut: cutting capital spending on infrastructure harms long-run growth far more than cutting inefficient current spending. Finally, there are time lags and implementation lags, and if the UK government changes, the planned cuts to public services may not take place at all.

Overall, a decrease in government expenditure is likely to reduce real output and employment and lower inflation in the short run, while improving the budget balance. The size of the effect depends on the scale and timing of the cuts and on how much spare capacity there is; if the cuts fall on public services that support productivity, the long-run cost to growth could outweigh the fiscal benefits.

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EITHER

(f) Evaluate the possible causes of inflation in the UK.

(20)

OR

(g) Evaluate the use of market-based supply-side policies to increase UK employment.

(20)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 6(f)** ☒ **Question 6(g)** ☒

Write your answer here:

Option 6(f)

Inflation is a sustained increase in the general price level over time, measured in the UK by the Consumer Prices Index (CPI). Figure 2 shows CPI inflation rose from about 5.5% in January 2022 to a peak of around 11.1% in October 2022, more than five times the 2% target, before falling to about 4.6% by October 2023.

Extract A states that economists expect a high rate of inflation due to rising import prices of food, fuel and energy, and a strong demand for consumer goods.

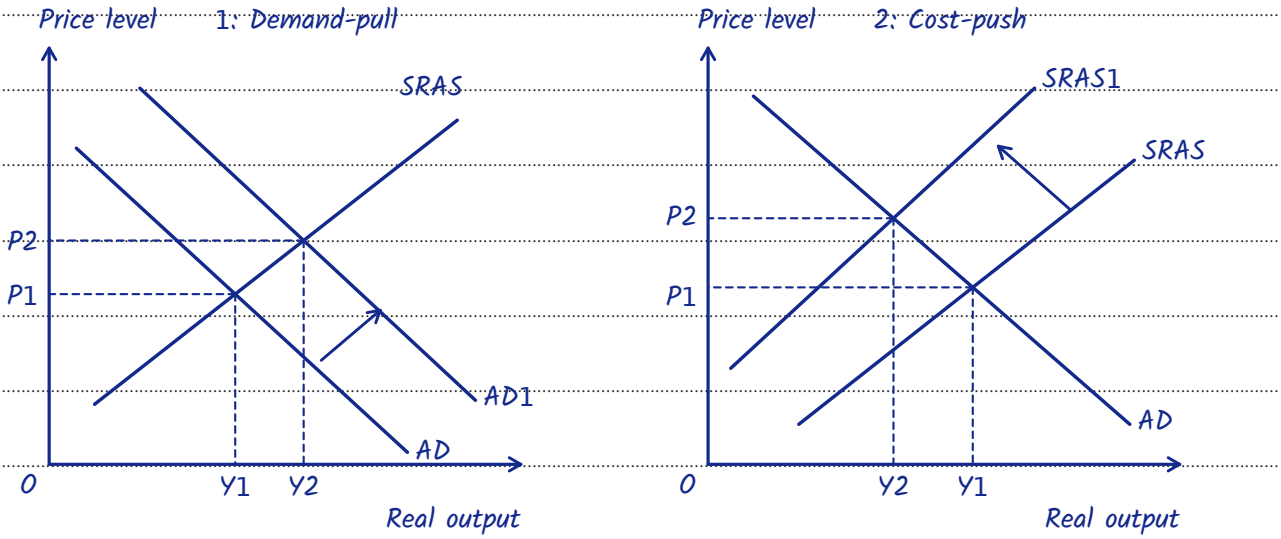
One cause is cost-push inflation, caused by a decrease in SRAS. Rising import prices of food, fuel and energy increase firms' costs of production, since energy and raw materials are inputs for almost every industry. Firms pass on these higher costs as higher prices to protect their profit margins, so SRAS shifts left from SRAS to SRAS1 (diagram 2): the price level rises from P1 to P2 and real output falls from Y1 to Y2. The UK is a net importer of energy and food, so it is exposed to global price rises, such as those after the war in Ukraine began in 2022, which helps explain the jump in inflation from about 7% in March 2022 to 9% in April 2022 as energy bills rose. Cost-push pressure is made worse by a decrease in the external value of the pound, which makes imports relatively more expensive, and by any

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increase in indirect taxes.

Higher prices may then lead workers to demand higher wages to maintain their real incomes. In a tight labour market wages rise, increasing firms' costs further and raising inflation expectations, causing a wage-price spiral.

A second cause is demand-pull inflation, caused by an increase in AD (C + I + G + X – M). Extract A highlights a strong demand for consumer goods. After the global health crisis, households spent savings built up during lockdowns, and growth reached about 7.5% in 2021 (Figure 1). Expansionary monetary policy, with the base rate at only about 0.25% in January 2022, made borrowing cheap, increasing consumption and investment, while expansionary fiscal policy, such as pandemic support and



childcare subsidies, raised government expenditure. AD shifts right from AD to AD1 (diagram 1); as the economy nears full capacity firms cannot raise output fast enough, so the price level rises from P1 to P2 as real output rises from Y1 to Y2.

Inflation may also be caused by weak growth in LRAS. Low UK productivity, a lack of technological advancements, little improvement in education and skills and weak competition policy mean productive capacity grows slowly, so increases in AD create a positive output gap, which was forecast for 2024, and higher prices rather than higher output.

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In practice, inflation is likely to be the result of a combination of factors, and the significance of the most important factor changes over time. In 2021 demand-pull factors were important as the economy recovered, but the sharp rise in 2022 was mainly cost-push, driven by global energy and food prices: inflation was 9% to 11% while growth was slowing, which is more consistent with falling SRAS than with excess demand.

The magnitude of inflation depends on the size of the shifts in AD and SRAS and on spare capacity: if the economy is operating on the horizontal section of a Keynesian LRAS, an increase in AD raises output with little inflation.

The cause also matters for policy. Demand-pull inflation is often seen as less of a concern because the increase in AD can be carefully controlled by monetary policy: the MPC raised the base rate from about 0.25% to 5.25% between January 2022 and August 2023. Cost-push inflation is more of a concern as the central bank has very limited tools to control global commodity prices, and raising interest rates also reduces output, risking stagflation.

Many cost-push factors are temporary. Prices of raw materials and energy are volatile and likely to decrease as global supply increases, which helps explain why inflation fell to about 4.6% by October 2023. If the external value of the pound increases, the relative price of imports also decreases. In contrast, supply-side weaknesses (a decrease in LRAS) only cause inflation after a significant time lag, but their effect is long-term.

Overall, the main cause of high UK inflation in 2022 to 2023 was cost-push inflation from rising import prices of food, fuel and energy, made worse by strong post-pandemic demand and a wage-price spiral. As global energy prices stabilise the cost-push effect is fading, so the remaining risk comes from demand and wage pressures and from weak productivity growth, which the MPC can only partly control

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through interest rates.

Option 6(g)

Supply-side policies aim to increase the productive capacity of the economy by improving the quantity and quality of the factors of production. Market-based supply-side policies do this by reducing government intervention and improving incentives in free markets, for example through tax cuts, benefit reform and deregulation. Extract A states that these policies are expected to increase total employment by 200 000 between 2024 and 2028.

The most significant policy is the £10.4 billion cut to National Insurance contributions for employees. This raises take-home pay at any given wage, increasing the reward from working relative to not working. This incentive effect brings additional people into work and encourages existing workers to work longer hours, increasing the supply of labour; it is likely to result in an extra 94 000 full-time workers. A larger labour force shifts LRAS to the right from LRAS to LRAS1 (diagram): potential real output rises from Y1 to Y2 and the price level falls from P1 to P2, so employment can grow without inflation.

Secondly, stricter benefit rules stop benefits for people who can work but do not take a job offered to them, or who do not actively seek work for six months. This reduces the incentive to remain on out-of-work benefits, encouraging claimants into jobs and reducing voluntary unemployment. Changes to the national minimum wage can support this by making work pay more than benefits.

Thirdly, 100% tax relief on investment in capital machinery reduces the cost of investment and is expected to increase overall investment by 0.5% by 2028. As firms expand they need more workers, and higher productivity lowers unit costs, making UK firms more competitive and raising the derived demand for labour.

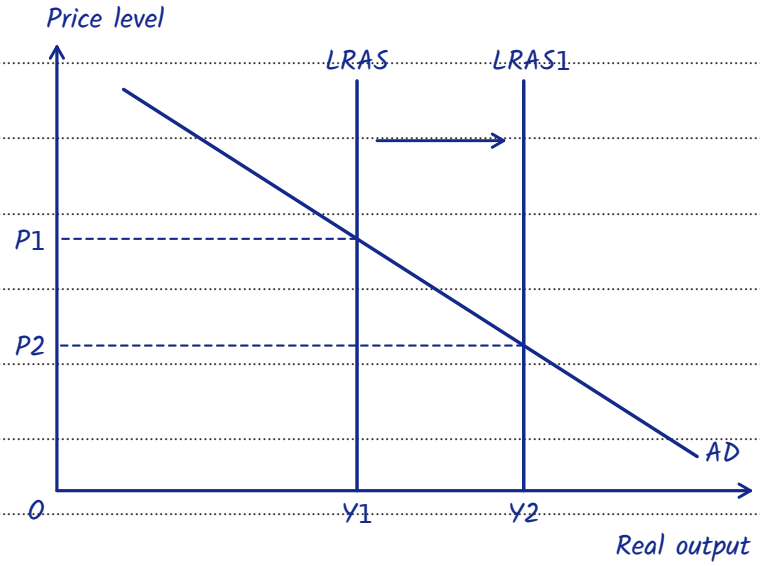
Childcare subsidies let more working parents take jobs, while relaxing migration rules

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gives firms access to skilled workers to fill vacancies; economists suggest net migration is contributing more to potential growth. Deregulation and privatisation could also encourage firms to expand and hire.

However, effectiveness depends on the magnitude of the change. An increase of 200 000 in total employment is significant, but small relative to a UK workforce of over 33 million, and the 94 000 extra workers is only a forecast.

The benefit reforms may not be effective: economists claim their impact on GDP will be relatively insignificant, as most of those affected will take on work with limited hours and very low pay. Employment figures rise, but with underemployment and in-work poverty, and harsher sanctions may increase hardship and inequality.



The tax relief will not prevent business investment falling in the short term, as higher interest rates, with the base rate rising to 5.25% by August 2023 (Figure 2), make it more expensive for firms to borrow. New machinery may also replace workers in some industries.

There are time lags and implementation lags: supply-side policies take a long time to feed through into the economy, and the benefits of the tax relief only increase over time as technology advances. There are also conflicts with other objectives: the tax

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cuts must be funded by cutting government expenditure on public services by a third as a proportion of GDP, which reduces AD and public sector jobs, and the budget deficit makes it difficult to pay for further tax breaks.

The impact also depends on whether the economy has spare capacity, that is, the elasticity of the LRAS. If unemployment is cyclical because of weak AD, increasing labour supply does not create jobs, so demand-side policies may be more effective; with growth forecast at only about 0.5% to 0.6% in 2023 to 2024, weak demand may limit the jobs available.

Overall, market-based supply-side policies, especially the National Insurance cut, are likely to increase UK employment in the long run by improving incentives to work, and the expected 200 000 rise is meaningful. However, the impact is likely to be modest and slow given high interest rates and weak demand, and many of the jobs created may be low paid. They will be most effective if combined with interventionist policies such as education and training, and with demand-side policies that ensure there are enough jobs for the extra workers.

(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS
TOTAL FOR PAPER = 80 MARKS

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Pearson Edexcel Level 3 GCE

Monday 19 May 2025

Morning (Time: 1 hour 30 minutes)

Paper reference **8EC0/02**

Economics A

Advanced Subsidiary

PAPER 2: The UK Economy – Performance and Policies

Source Booklet

Do not return this Booklet with the question paper.

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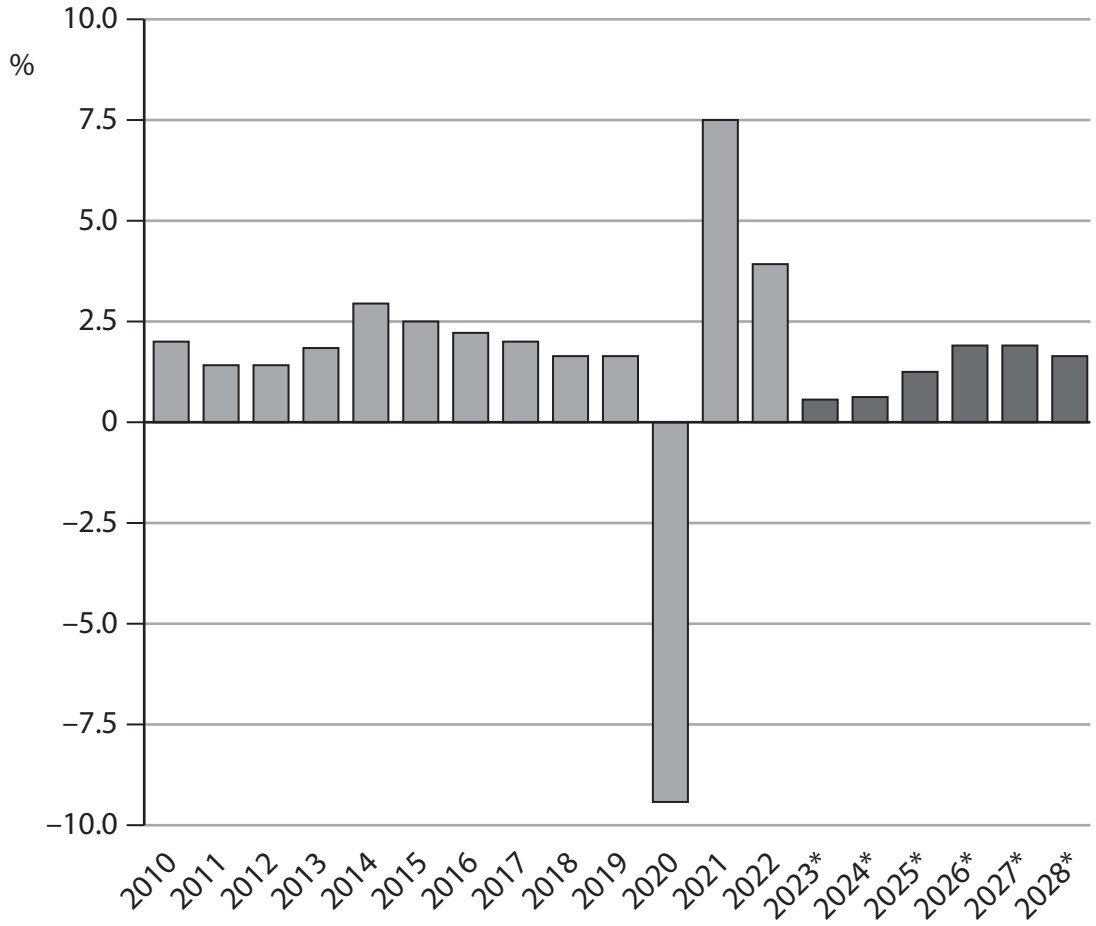
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Sources for use with SECTION B

Read Figures 1 and 2 and Extract A before answering Question 6.

UK living standards and supply-side policies

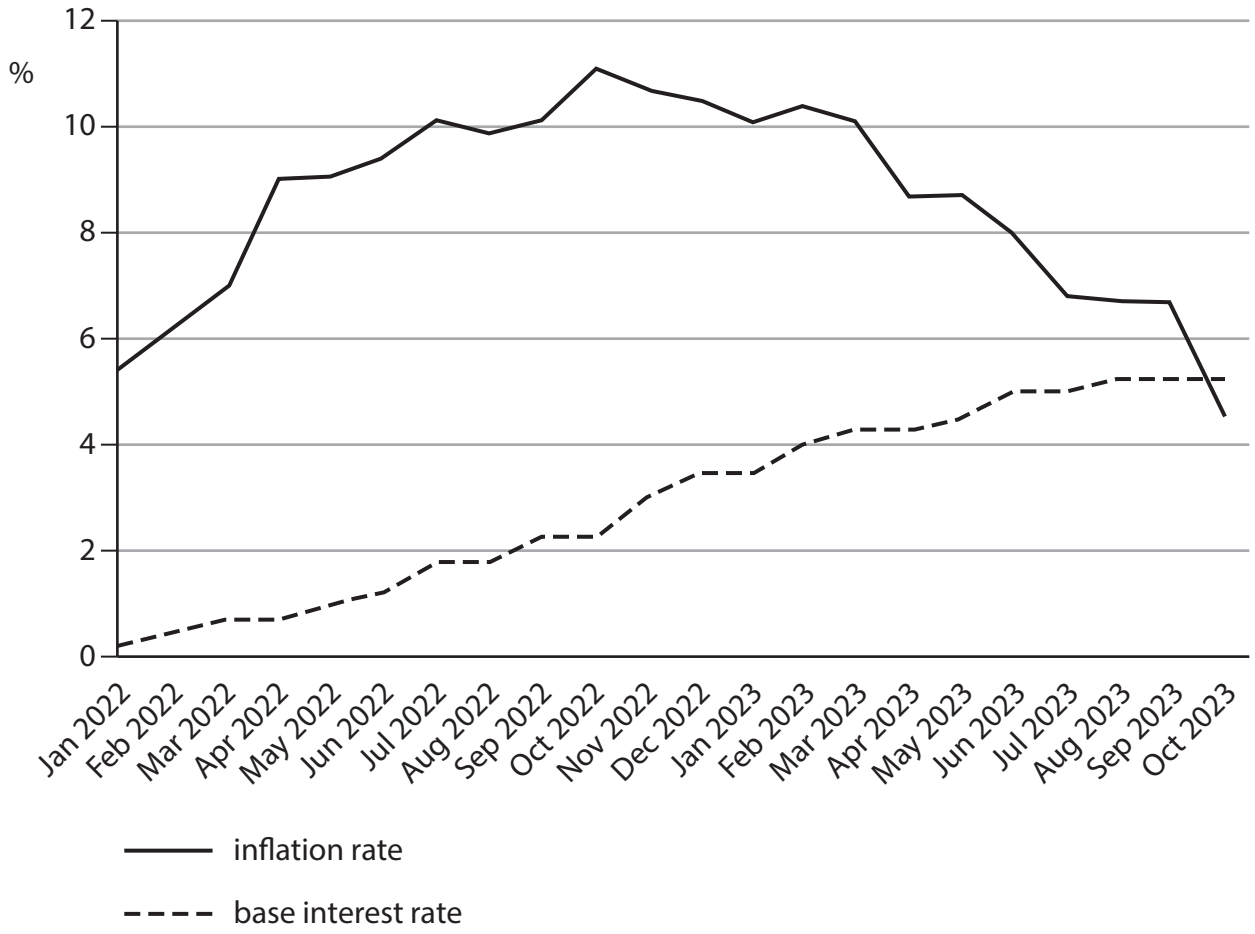
Figure 1: UK rate of economic growth, 2010 to 2028



* Data from 2023 to 2028 are forecast figures

(Source: adapted from https://www.statista.com/statistics/375195/gdp-growth-forecast-uk/)

Figure 2: UK inflation rate* and base interest rate, January 2022 to October 2023



* Measured by Consumer Prices Index (CPI). This is the year-on-year inflation rate calculated monthly.

(Source: adapted from www.statista.com and www.tradingeconomics.com)

Extract A

Economic reforms

Economists forecast that the UK will experience a slower rate of economic growth between 2024 and 2028. They also expect a high rate of inflation due to rising import prices of food, fuel and energy, and a strong demand for consumer goods. As a result, real income per household is estimated to decrease by around 0.9% in 2024. This decrease would be the largest reduction in living standards since the Office for National Statistics records began in the 1950s.

However, the UK government argues that there are some limitations of using GDP to compare living standards over time. One main reason is the fact that GDP figures are in nominal terms. The government questions the reliability of inflation data as it believes that the Monetary Policy Committee (MPC) of the Bank of England will keep a high base interest rate to control inflation. The government also claims that the forecast by economists fails to consider the market-based supply-side policies it introduced in November 2023 to improve living standards.

The government's £10.4 billion cut to National Insurance contributions for employees is the most significant policy, expected to increase employment and living standards. It is forecast to bring additional people into work and encourage more people to work longer hours. This is likely to result in an extra 94 000 full-time workers.

The government has also taken measures to encourage more out-of-work benefits claimants into jobs. It introduced stricter benefit rules for people who can work but do not take a job offered to them. This includes stopping people's benefits if they do not actively engage in seeking employment in six months. This is likely to result in a further increase in employment figures. But economists claim that its impact on GDP will be relatively insignificant. This is because most of those affected by this policy will take on work with limited hours and very low pay.

These market-based supply-side policies, combined with measures centred on childcare subsidies for working parents, are expected to increase total employment by 200 000 between 2024 and 2028. The government argues that the expected increase highlights that it is better to "unlock the potential we have at home", rather than encouraging migration. However, several economists suggest that a rise in net migration is contributing more to an increase in the UK's potential economic growth.

Furthermore, the UK government's decision to offer 100% tax relief on investment in capital machinery will increase overall investment by 0.5% by 2028. The benefits of this effective tax cut for firms are estimated to increase over time, as technology advances and productivity improves. However, this tax cut will not prevent business investment falling in the short term, as higher interest rates are making it more expensive for firms to borrow.

Economists suggest that this tax cut can only be funded by decreasing government expenditure on public services in the long run. Government expenditure will need to decrease by a third, as a proportion of GDP, between 2024 and 2028.

(Source: adapted from https://www.ft.com/content/5ff3538b-aed2-4898-b423-f0c61da728ff)