



GCE A LEVEL

A520U20-1



S25-A520U20-1



MONDAY, 19 MAY 2025 – AFTERNOON

ECONOMICS – A level component 2
Exploring Economic Behaviour

2 hours 30 minutes

A520U201
01

ADDITIONAL MATERIALS

A calculator.

A WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen. Do not use gel pen or correction fluid.

You may use a pencil for graphs and diagrams only.

Answer **all** questions.

Write your answers in the separate answer booklet provided, following the instructions on the front of the answer booklet.

Use both sides of the paper. Write only within the white areas of the booklet.

Write the question number in the two boxes in the left-hand margin at the start of each answer, for example

1	1
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Leave at least two line spaces between each answer.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the necessity for good English and orderly presentation in your answers.

Answer **all** questions.

1: It's all a load of rubbish

Extract 1

National Audit Office says Landfill Tax causes illegal disposal of rubbish

The traditional method of disposing of rubbish is to place it in large holes in the ground. This method of disposal, called 'landfill', creates many negative externalities. Methane emissions are a powerful greenhouse gas, and rainwater run-off from the sites may contaminate water supplies. Landfill sites can also affect nearby households through noise and smells.



In 1996, the UK government introduced a Landfill Tax to reduce the amount of waste going to landfill and to encourage recycling. **Figure 1** shows the Landfill Tax rates per tonne of waste. The tax is paid to the government by the owners of landfill sites, who also report the amount of waste deposited. The lower tax rate is paid on less damaging waste and some waste has no tax at all (it is exempt).

In practice, the tax burden is often passed on to the users of the sites, such as businesses or local authorities disposing of household weekly rubbish collections. This encourages these waste producers to consider more sustainable waste management options. This is the reason that households now have extra bins for recyclable materials.

Figure 1: Landfill Tax rates

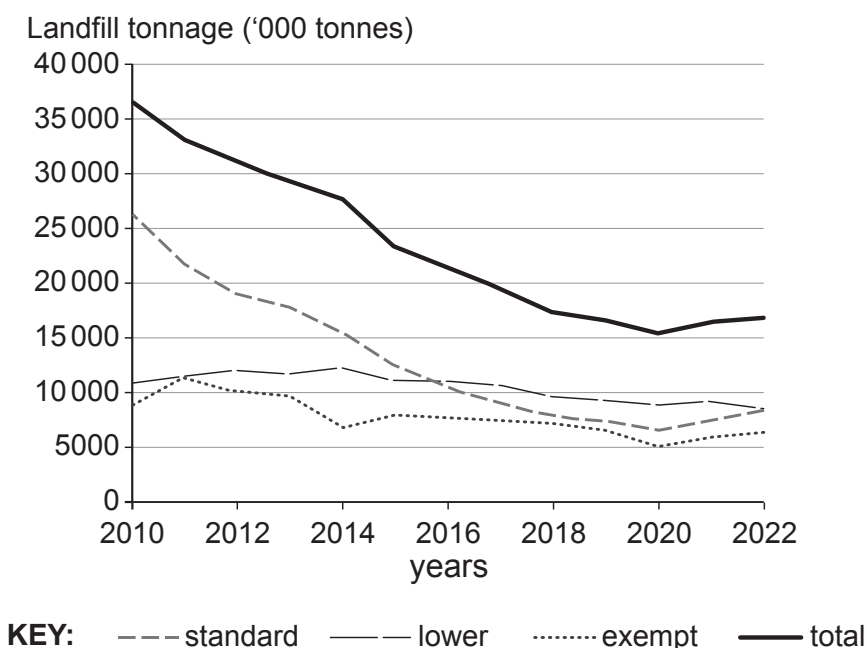
Material sent to landfill	From 1 April 2022	From 1 April 2023	From 1 April 2024
Standard rate (per tonne)	£98.60	£102.10	£103.70
Lower rate (per tonne)	£3.15	£3.25	£3.30

Source: HM Treasury

Note: 1 tonne is equivalent to 1000 kg

Figure 2 shows the amounts of waste being sent to landfill. Although the total has fallen, lower and exempt rated waste hasn't fallen. Some say this is because harmful waste is being mislabelled to avoid paying the standard tax.

Figure 2



A report published in February 2021 stated that the Landfill Tax had significantly reduced the use of landfill sites, but also caused more people and firms simply to throw away waste illegally, often just leaving it on the side of the road. After the Landfill Tax rate rose massively in real terms between 2010 and 2014, waste being sent to landfill fell by 65% and tax revenue doubled.

By 2022, the standard Landfill Tax rate had risen to be 40 times higher than the lower rate. This caused a big rise in the illegal disposal ('fly tipping') and mislabelling of waste. This reduced Landfill Tax revenue by nearly 50% to £626 million in 2022/23.

In recent years, however, Landfill Tax rates have increased very little (**Figure 1**) and could thus act as a disincentive to the development of more recycling and energy facilities. However, a higher increase would increase the costs of local authorities and reputable firms, giving an even bigger advantage to firms that dispose of waste illegally. When the UK was in the EU, the UK was the 11th highest recycler with a rate of 43.86%, although this was below the EU average of 47.2%.

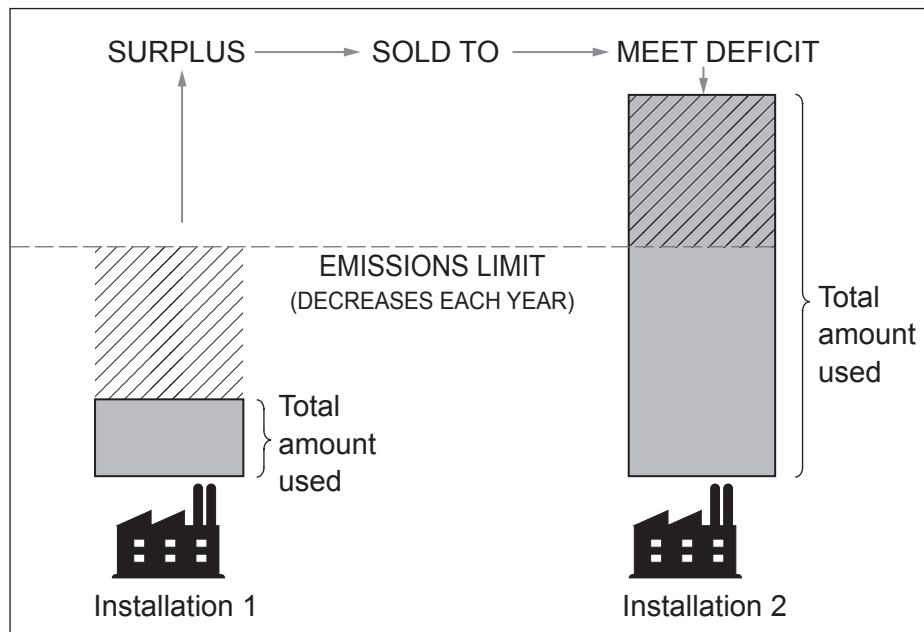
Extract 2

The UK creates its own trading emissions scheme

A UK Emissions Trading Scheme (UK ETS) replaced the UK's participation in the European Union's Emissions Trading Scheme (EU ETS) in 2021. The UK ETS is a government-run
 40 tradeable pollution permit system that caps the total level of greenhouse gas emissions. This creates a carbon market with a carbon price to reduce carbon emissions. Other countries have tried to decrease emissions with different policies, with Canada introducing a carbon tax where polluters pay a tax on each tonne of greenhouse gasses they emit.

Reforms to the UK scheme mean that, from 2024, industries will be required to bring their
 45 emissions down at the rate needed to reach the UK's goals for greenhouse gas emissions by 2050. This sends a clear signal to industry to invest in the long-term to reduce CO₂ emissions. Total permits will gradually be cut from 1365 million to 936 million. To ease this transition, extra allowances will also be made available to the carbon market between 2024 and 2027 to protect firms from international pressures.

Figure 3: The cap and trade system of the UK Emissions Trading Scheme



50 The UK ETS will be extended to cover sea transport from 2026 and to cover waste from 2028, while a phased removal of allowances for the aviation industry will be started in 2026.

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- i) On average, a typical household wheelie bin contains 65 kg of waste. Using the April 2024 standard tax rate, calculate how much will be paid in Landfill Tax if all of this waste goes to landfill. [2]
- ii) Using the data, outline **two** external costs that result from household waste going to landfill. [4]
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- Using a demand and supply diagram, explain how a sharp rise in the Landfill Tax will cause prices to rise in industries that send a lot of waste to landfill. [4]
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- The Consumer Prices Index (CPI) rose by 8.7% in the 12 months to April 2023. Use the data to calculate the real change in the standard rate of Landfill Tax rate between April 2022 and April 2023. [4]
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- Using an externalities diagram and the data, evaluate the extent to which the Landfill Tax could correct the market failure caused by waste being sent to landfill. [10]
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- Using a demand and supply diagram, explain why reducing the number of permits in the market for carbon from 1365 million to 936 million allowances/permits will in theory mean that industries “bring their emissions down at the rate needed to reach the UK’s goals for greenhouse gas emissions by 2050” (lines 44–46). [6]
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- Using the data, discuss the view that the use of tradeable pollution permits is better than a carbon tax as a means of reducing greenhouse gas emissions. [10]

2: Pakistan in crisis

Extract 1

Pakistan and the IMF

In July 2023, the International Monetary Fund (IMF) agreed to a \$3 bn financial support package for Pakistan after two years of economic instability. Pakistan needed support from the IMF due to both fiscal and balance of payments problems.

- 5 2022 and 2023 were difficult years for Pakistan. Floods in the summer of 2022 left a third of the country under water, destroying the cotton harvest and leading to 7 million job losses in the textiles industry.

- 10 In early 2023, the Pakistani rupee depreciated sharply against the US \$ (**Figure 1**) after the government stopped intervening to support it. To stop the exchange rate from falling, the government had imposed import restrictions as well as intervening directly in the market using foreign currency reserves.

- 15 The government stopped intervening in the foreign exchange market, partly to meet the free-market conditions required by the IMF before they would provide the \$3 bn financial support package.

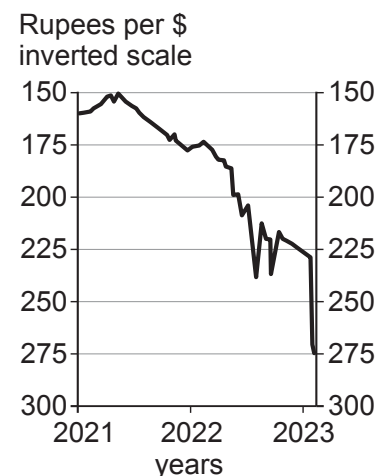
- 20 The IMF also wanted the government to stabilise the economy. Firstly, they required Pakistan to increase interest rates significantly to cut inflation. Secondly, the IMF wanted the government to bring the budget/fiscal deficit under control by removing subsidies on energy prices and cutting subsidies for agriculture. Indirect tax rates were also increased. These requirements were imposed even though the government argued that trying to reduce its budget deficit while it was recovering from the floods was impractical. Although \$9 bn of international aid was promised to help Pakistan to rebuild the infrastructure destroyed by the floods, this was believed to be less than half of the amount that was needed.

- 30 The level of Pakistan's national debt means that interest payments took over 50% of the Pakistan government's budget in 2023, with the government also needing to repay foreign lenders \$35 bn per year for the next five years.

- 35 At the same time, foreign exchange reserves fell to under \$5 bn, about the same value as one month's imports. Pakistan has had current account deficits averaging 5% of GDP in recent years and, although the government's restrictions on imports meant that the current account had a small surplus in 2023, this was not thought to be sustainable. In most years, the value of exports has been only 45% of that of imports, largely due to a lack of productivity in labour and capital markets.

The question for Pakistan is whether \$3 bn from the IMF will be too little, too late.

Figure 1: Pakistan: Exchange rate

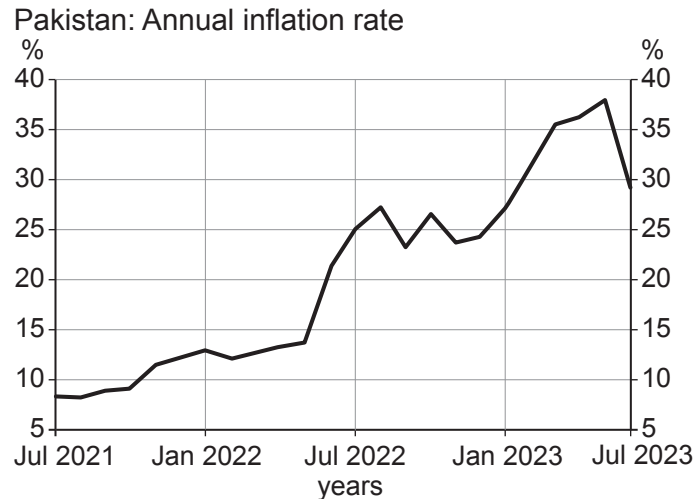


Extract 2

Inflation in Pakistan

- 40 Another major problem for Pakistan has been inflation. Inflation rose from 12% in January 2022 to 38% in June 2023 (**Figure 2**).

Figure 2

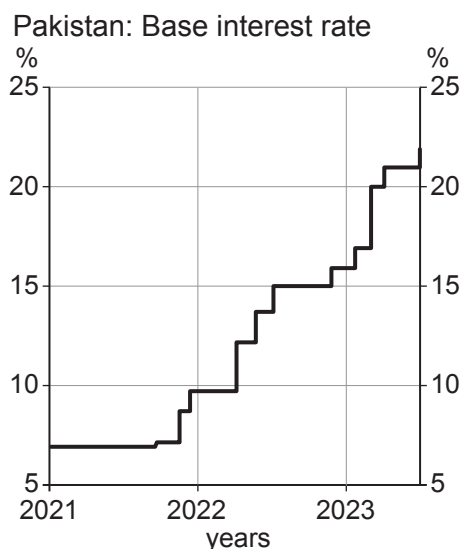


A wide range of factors contributed to prices rising so rapidly:

- problems with supply chains after the floods
- the removal of fuel subsidies
- 45 • the increase in indirect tax rates
- the impact of the depreciation of the rupee on import prices. Pakistan is very dependent on imported fuel and wheat.

- To try to reduce inflation to the central bank's target of 5–7%, and at the insistence of the IMF, the base interest rate was increased to 22% in June 2023 (**Figure 3**). These higher interest rates contributed to the World Bank cutting its growth forecast for Pakistan to only 0.4% for 2023.
- 50

Figure 3

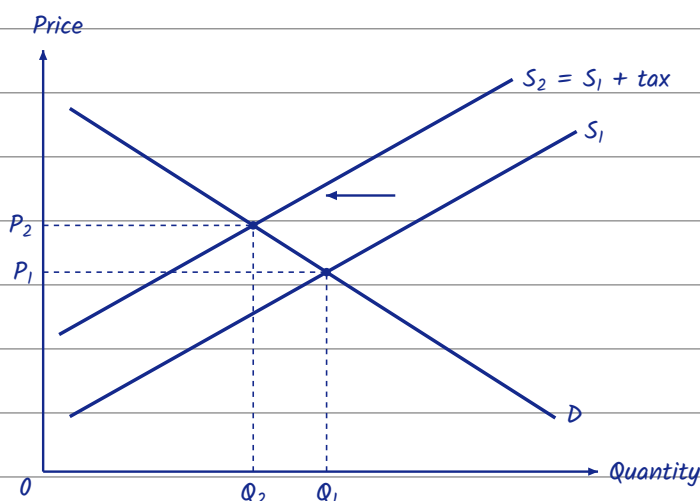


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- i) Use an exchange rate diagram to outline how import restrictions would have stopped the rupee from depreciating. [4]
- ii) Using the data, discuss the possible macroeconomic benefits to Pakistan of ending the policy of keeping the exchange rate artificially above its free market level. [10]
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- i) Using the data and an AD/AS diagram, explain **two** reasons why inflation rose in Pakistan (**Figure 2**). [6]
- ii) Using the data, discuss how effective the increase in interest rates is likely to have been in returning Pakistan's inflation to target. [10]
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- Using the data, discuss whether the IMF's fiscal recommendations (lines 16–22) are likely to be beneficial for Pakistan. [10]

END OF PAPER

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 1 (i)	<i>Landfill Tax = £103.70 per tonne × (65 ÷ 1000) tonnes = £103.70 × 0.065 = £6.74</i> <i>So £6.74 would be paid on one wheelie bin of waste.</i>
1 1 (ii)	<i>An external cost is a cost imposed on third parties who are not involved in the economic activity (here the disposal of waste), which is not reflected in the market price, so marginal social cost exceeds marginal private cost.</i> <i>First, landfill sites release methane, a powerful greenhouse gas (line 6), which adds to climate change, a cost borne by society as a whole rather than by the households throwing away the rubbish.</i> <i>Second, rainwater run-off from the sites may contaminate water supplies (lines 7 to 8), imposing health and clean-up costs on other users of the water.</i> <i>Nearby households also suffer noise and smells (lines 9 to 10).</i>
1 2	<i>The Landfill Tax is a specific (per unit) tax charged on each tonne of waste (Figure 1), so a sharp rise in it raises the costs of production of firms that send a lot of waste to landfill.</i> <i>As the diagram shows, at every price firms are now willing to supply less, so the supply curve shifts left (vertically up by the amount of the tax) from S_1 to $S_2 = S_1 + \text{tax}$. At the old price P_1 there is excess demand, so the price rises from P_1 to P_2 and the quantity falls from Q_1 to Q_2. Firms pass on part of the tax to their customers, more so the more price inelastic demand is.</i>



1 3

A nominal value is measured in current prices, whereas a real value is adjusted for inflation, so it shows the change in purchasing power. Real value = nominal value $\times$ (base year price index $\div$ current year price index).

$$\text{Nominal change} = (£102.10 - £98.60) \div £98.60 \times 100 = £3.50 \div £98.60 \times 100 = +3.55\%$$

$$\text{Real index} = 103.55 \times 100 \div 108.7 = 95.26$$

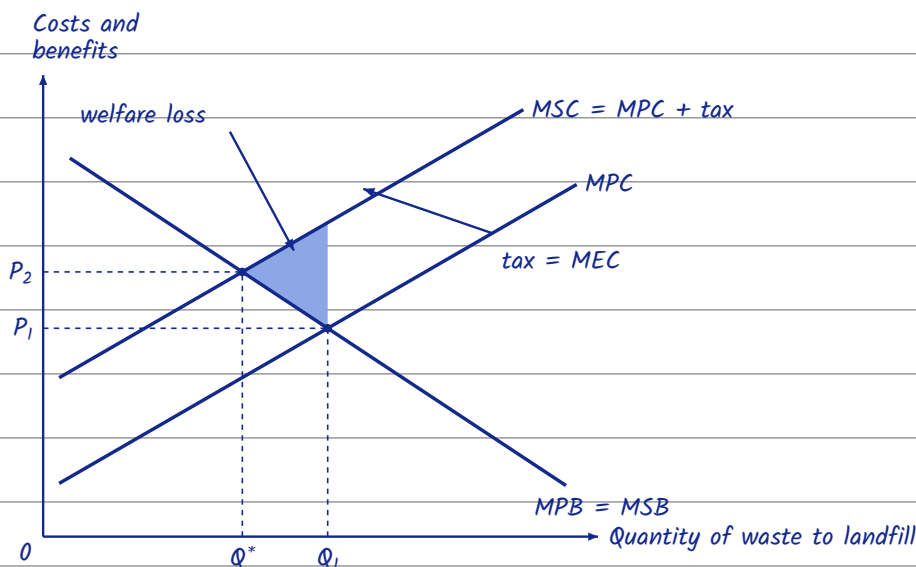
(Check: $£102.10 \times 100 \div 108.7 = £93.93$ in April 2022 prices.)

$$\text{Real change} = 95.26 - 100 = -4.74\%$$

So the standard rate fell by 4.74% in real terms (a negative real change), even though it rose by 3.55% in nominal terms.

1 4

Waste sent to landfill creates negative externalities: methane emissions, contaminated water run-off, noise and smells (lines 5 to 10) are external costs borne by third parties and not reflected in the price of landfill, so it is a negative production externality. As the diagram shows, the marginal social cost (MSC) exceeds the marginal private cost (MPC) by the marginal external cost (MEC). The free market disposes of Q_1 tonnes, where $MPC = MPB$, rather than the social optimum Q^* , where $MSC = MSB$. Too much waste goes to landfill and the shaded triangle is the welfare loss, so the market fails.



The Landfill Tax is an indirect, specific tax of £103.70 per tonne at the standard rate (Figure 1). If it is set equal to the MEC it internalises the externality: MPC shifts up to $MPC + \text{tax} = MSC$, the price of landfill rises from P_1 to P_2 and quantity falls from Q_1 to Q^* , where $MSC = MSB$, removing the welfare loss and achieving allocative efficiency. This applies the polluter pays principle and gives businesses and local authorities an incentive to switch to recycling and incineration (lines 17 to 20). The evidence supports this: after the rate rose massively in real terms between 2010 and 2014, waste sent to landfill fell by 65% (line 27), and Figure 2 shows total tonnage falling from about 36 500 to about 17 000 thousand tonnes between 2010 and 2022. The revenue (£626 million in 2022/23) could also be hypothecated to make alternatives such as recycling cheaper.

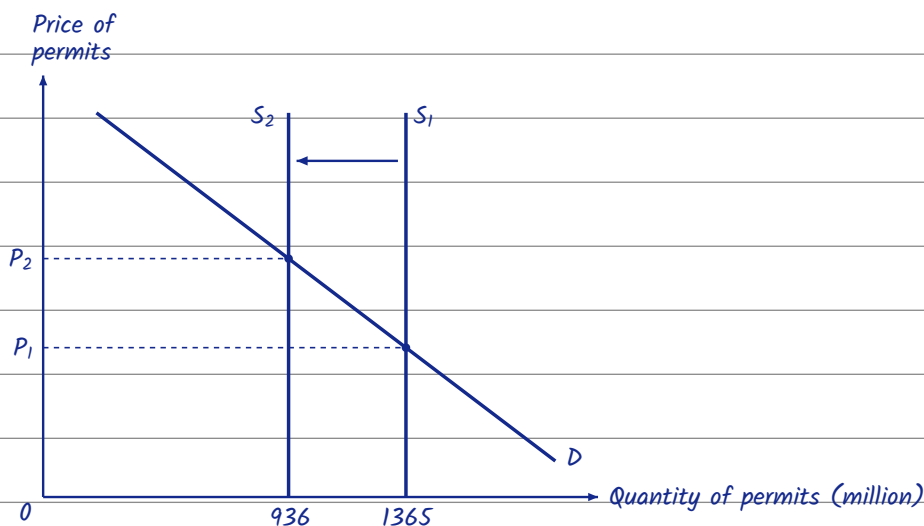
However, the tax may only partly correct the failure. It is very difficult to put a money value on the MEC, so the tax may be set too low or too high, a form of government failure. The tax has also created new external costs: once the standard rate was 40 times the lower rate, fly tipping and mislabelling of waste rose (lines 28 to 29), which is why lower and exempt rated tonnage has not fallen (Figure 2) and revenue fell by nearly 50%. Illegally dumped waste may do more damage than landfill. Figure 2 also shows that total tonnage has flattened since about 2018 and risen slightly after 2020, as rates have

increased very little and have fallen in real terms (Figure 1), so the tax may now be below the MEC. If waste producers have few alternatives, demand for landfill is price inelastic and the tax mainly raises costs for firms and council tax payers. UK recycling of 43.86% is still below the EU average of 47.2% (lines 35 to 36).

Overall, the Landfill Tax has corrected much of the market failure, especially between 2010 and 2017, but its effect has weakened. It is more likely to reach the social optimum if it rises in real terms and is combined with stronger enforcement against fly tipping, a smaller gap between the two rates and investment in recycling, rather than being used on its own.

15

Under the UK ETS the government caps total emissions, so the supply of permits is fixed and perfectly inelastic (vertical) at $S_1 = 1365$ million. Firms demand permits because they need them to emit (a derived demand), so the price of permits is set at P_1 where demand meets supply.



As the diagram shows, cutting permits to 936 million (a 31.4% fall) shifts the supply curve left from S_1 to S_2 . At P_1 there is now excess demand, so firms bid the carbon price up to P_2 . Total emissions cannot exceed the cap, so they must fall to 936 million tonnes.

The higher carbon price raises the cost of polluting, so it becomes cheaper for many firms to invest in cleaner methods of production, such as renewable

energy or more efficient capital, than to buy permits at P_2 . Firms that can cut emissions cheaply will do so and sell their surplus permits (Figure 3). Because the cap is cut gradually each year in line with the 2050 goals, emissions fall at exactly the rate needed, and the clear long-term signal (line 46) encourages this investment.

1 6

Tradeable pollution permits (TPPs) are a market-based policy where the government caps total emissions and issues permits that can be bought and sold, while a carbon tax, as in Canada (lines 42 to 43), charges polluters a fixed amount for each tonne of greenhouse gas emitted.

The main advantage of TPPs is certainty over the quantity of emissions. Under the UK ETS the government sets the cap directly, and cutting permits from 1365 million to 936 million (a 31.4% fall) guarantees that emissions fall at the rate needed for the 2050 goals (lines 44 to 47). With a tax, the government must estimate the marginal external cost and how price elastic firms' demand to pollute is; if it is inelastic, emissions may fall very little. Secondly, TPPs cut emissions at the lowest total cost. Firms that can reduce emissions cheaply do so and sell their surplus permits (Installation 1, Figure 3) to firms with high abatement costs (Installation 2), so fewer resources are used to reach the target. Thirdly, as the cap tightens the carbon price rises automatically, giving firms a dynamic incentive to develop cleaner technology and a "clear signal to industry to invest in the long-term" (line 46), and firms have certainty over their legal limit. The scheme can also be widened, to sea transport from 2026 and waste from 2028 (line 50).

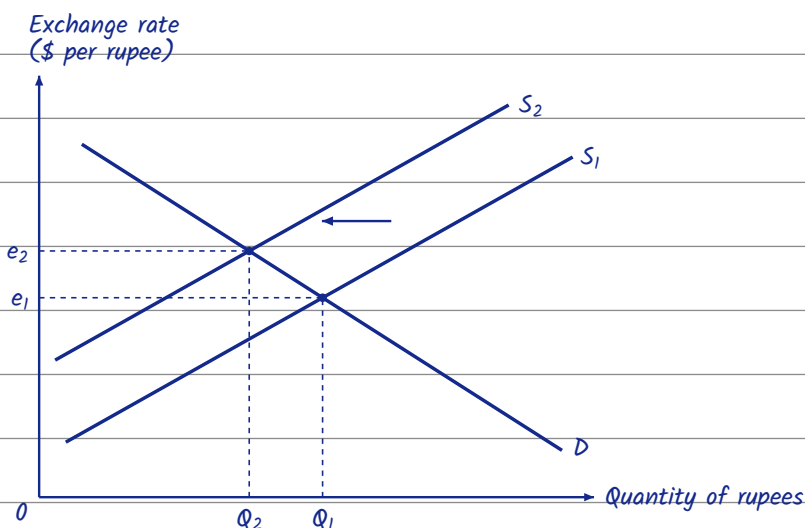
However, a carbon tax has important strengths. It gives firms certainty over the price of carbon, whereas permit prices can be volatile and deter long-term investment. A tax is simpler, more transparent and cheaper to administer, while TPPs involve monitoring, transaction costs of trading and a risk of misreporting. A tax raises revenue directly, which can compensate poorer households for higher energy costs, whereas permits that are given away raise nothing. Crucially, TPPs

only work if the cap is tight: many schemes, such as the early EU ETS, issued too many permits, so the price collapsed and firms simply bought more. The UK is releasing extra allowances between 2024 and 2027 to protect firms from international pressures (lines 47 to 49), and aviation allowances are only phased out from 2026, which weakens the scheme in the short run. Waste is not covered until 2028, whereas a tax could cover it at once. Both policies risk carbon leakage if firms move abroad.

On balance, TPPs are better at guaranteeing that emissions fall to a specific target, which is what the UK's 2050 goals require, provided the cap is set tightly and free allowances are reduced over time. A carbon tax is better where simplicity, a stable price and revenue matter more. Which is better therefore depends on how strictly the cap is enforced; a permit scheme with a price floor could combine the advantages of both.

2 1 (i)

Pakistan's imports are paid for in foreign currency, so importers must sell (supply) rupees to buy US dollars. Imports are therefore part of the supply of rupees on the foreign exchange market. Import restrictions cut the value of imports, so fewer rupees are supplied: the supply curve shifts left from S_1 to S_2 . As the diagram shows, this raises the exchange rate from e_1 to e_2 (Q_1 to Q_2), offsetting the downward pressure on the rupee, so it is stopped from depreciating.



2 1 (ii)

Keeping the rupee artificially high required the government to buy rupees with its foreign currency reserves and to restrict imports (lines 9 to 11). Ending this policy has several possible macroeconomic benefits.

First, it stops the drain on foreign exchange reserves, which had fallen to under \$5 bn, only about one month's imports (line 32). Those dollars can instead be used to service the external debt, as Pakistan must repay foreign lenders \$35 bn a year for five years (lines 30 to 31), reducing the risk of default. Second, ending intervention was a condition of the IMF's \$3 bn support package (lines 12 to 15), which may also raise the confidence of other lenders and investors. Third, import restrictions can be removed, so firms can obtain the raw materials and components they need to expand output, and consumers have more choice. Fourth, the rupee depreciated from about 175 to nearly 300 rupees per \$ (Figure 1), making exports cheaper abroad and imports dearer. In the long run this may reduce the current account deficit, which has averaged 5% of GDP (line 33), and higher net exports raise AD, so through the multiplier real GDP grows, unemployment falls and tax revenue rises, easing the fiscal position.

However, the benefits may be small in the short run. Pakistan is very dependent on imported fuel and wheat (lines 46 to 47), so demand for imports is price inelastic, and the floods destroyed the cotton harvest and hit the textiles industry (lines 5 to 7), so exports, already only 45% of imports (line 36), cannot easily rise. The Marshall-Lerner condition is therefore unlikely to hold in the short run and, as the J-curve suggests, the current account may worsen before it improves; the 2023 surplus relied on import restrictions and was "not sustainable" (lines 34 to 35). The depreciation also raises import prices, adding cost-push inflation when inflation was already 38% in June 2023 (line 41), cutting real incomes on top of the removal of fuel subsidies and higher indirect taxes. Higher costs may lead to job losses and weaker growth, making the budget deficit harder to close, and foreign currency debt becomes dearer to repay in rupees.

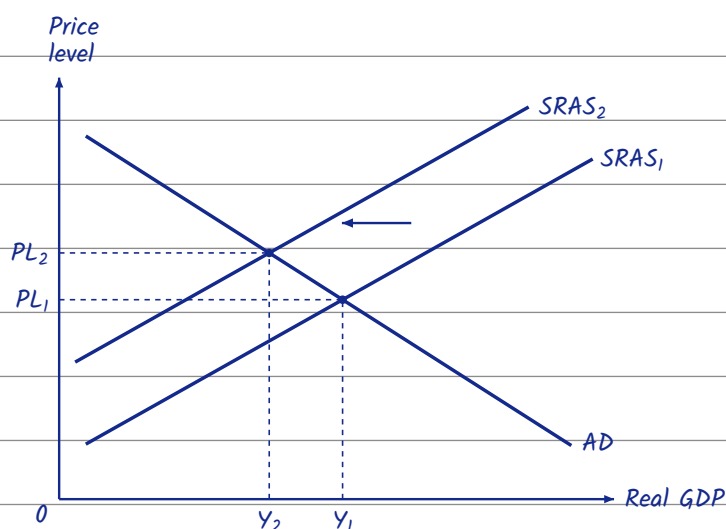
Overall, ending the policy is likely to be beneficial in the long run because it was unsustainable: reserves were almost exhausted and IMF support depended on it. In the short run, however, the costs of higher inflation and lower living standards are likely to outweigh the gains, and the size of the long-run benefit depends on whether Pakistan can raise productivity (lines 36 to 37) so that the cheaper rupee actually boosts exports.

2 2 (i)

Figure 2 shows inflation rising from about 8% in July 2021 to 38% in June 2023. This was cost-push inflation: rising costs of production shift SRAS to the left.

Reason 1: the depreciation of the rupee (Figure 1). Pakistan is very dependent on imported fuel and wheat (lines 46 to 47), so a fall from about 175 to nearly 300 rupees per \$ means imports cost far more in rupees. Firms' costs of energy, food and raw materials rise and they pass these on to consumers in higher prices to protect their profit margins.

Reason 2: the removal of fuel subsidies and the rise in indirect tax rates (lines 44 to 45). Removing subsidies immediately raises fuel prices that had been kept artificially low, increasing transport and production costs across the economy, while higher indirect taxes raise firms' costs per unit, which are passed on to consumers.



As the diagram shows, both shift $SRAS_1$ left to $SRAS_2$, so the price level rises

from PL_1 to PL_2 while real GDP falls from Y_1 to Y_2 .

2 2 (ii)

The central bank raised the base interest rate from 7% in 2021 to 22% in June 2023 (Figure 3) to return inflation to its target of 5 to 7% (line 48).

In theory higher interest rates reduce inflation through several channels.

Borrowing becomes more expensive and saving more rewarding, so households cut consumption, especially of credit-financed durable goods, and those with variable-rate loans have less disposable income. Firms face a higher cost of borrowing, so investment falls. Higher rates may also attract hot money inflows, raising the demand for and value of the rupee, which makes imported fuel and wheat cheaper and eases cost-push pressure. Lower C , I and net exports shift AD to the left, reducing demand-pull pressure and making it harder for firms to raise prices. There is evidence this is working: the World Bank cut its growth forecast to only 0.4% for 2023 (lines 49 to 51), showing demand is contracting, and Figure 2 shows inflation falling from 38% to about 29% by July 2023 once the rate reached 22%.

However, the rise is unlikely to return inflation to target quickly. At about 29%, inflation is still more than four times the top of the 5 to 7% target, so a very large fall is needed. Most of the inflation is cost-push: supply chain problems after the floods, the removal of fuel subsidies, higher indirect taxes and the fall in the rupee (lines 43 to 47). Interest rates work on AD , so they can do little about these supply-side causes except by causing a deep recession and higher unemployment. The exchange rate channel may also fail: with reserves under \$5 bn, huge debt repayments and economic instability, investors may not see Pakistan as a safe place for hot money, and Figure 1 shows the rupee kept falling as rates rose. Figure 3 shows rates rising for about 18 months while inflation kept rising. Higher rates can even raise costs for firms with variable-rate loans, and if workers expect high inflation and demand higher wages, inflationary expectations become embedded. Monetary policy also works with long time lags.

Overall, the rise in interest rates is likely to have had only a limited effect in returning inflation to target, although the fall at the end of Figure 2 suggests it is beginning to bite and may help anchor expectations. Much of any fall will depend on the one-off cost shocks of 2022 to 2023 dropping out of the annual rate and on the rupee stabilising; interest rates alone cannot bring inflation down to 5 to 7% quickly without severe damage to growth.

2 3

The IMF required Pakistan to reduce its budget deficit by removing energy subsidies, cutting agricultural subsidies and raising indirect tax rates (lines 19 to 22). This is contractionary fiscal policy (fiscal consolidation).

There are strong reasons why it could be beneficial. Pakistan's debt is so large that interest payments took over 50% of the government's budget in 2023

(lines 29 to 30), and it must repay foreign lenders \$35 bn a year for five

years. Cutting the deficit slows the growth of debt, reduces future interest

payments, freeing money for health, education or infrastructure, and lowers the

risk of default. Meeting the conditions unlocks the IMF's \$3 bn and signals

credibility to other lenders, which may lower bond yields and borrowing costs.

Less government borrowing reduces crowding out, so private investment may rise,

boosting long-run growth and living standards. Removing energy subsidies ends a

price distortion and cuts over-consumption of fuel, much of which is imported,

helping the current account, while cutting agricultural subsidies may push

farmers to become more efficient and move to higher value-added products.

Lower demand also supports the 22% interest rate in reducing inflation.

However, the recommendations may harm Pakistan in the short run.

Contractionary fiscal policy reduces AD when growth is forecast to be only 0.4%

(line 50), and through the negative multiplier this could cause a recession and

higher unemployment, on top of the 7 million job losses in textiles (line 6).

Falling incomes reduce tax revenue, so the deficit may fall by less than

expected. The removal of fuel subsidies and higher indirect taxes directly raised

prices (lines 44 to 45), adding to inflation of 38%, and these measures are

regressive, hitting the poorest hardest, widening inequality and risking social unrest. Cutting farm subsidies while agriculture recovers from floods that left a third of the country under water may reduce food supply further. The government itself argued that cutting the deficit during the flood recovery was impractical (lines 22 to 25), especially as the \$9 bn of aid was less than half of what was needed, and the \$3 bn package is small compared with \$35 bn of annual repayments.

Overall, some fiscal consolidation is necessary because debt interest of over 50% of the budget is unsustainable, so the recommendations are likely to be beneficial in the long run. However, timing and scale matter: imposing austerity during a flood recovery and an inflation crisis is likely to be damaging in the short run, so the policy would be more beneficial if it were phased in and protected the poorest and spending on reconstruction.