Supply Side Policies

# Starter Discussion Question

**Instructions:** Discuss the below question with your group

*What factors affect Aggregate Supply?*

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| Discussion notes: |

# Presentation 1 – Intro to Supply Side Policies

Complete the activities below so as to have a complete set of Notes:

**Definition:** *Supply Side Policies*

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**Diagrams:** An increase in long run productive potential (PPF & AS AD)

**Key Notes:** Two types of Supply Side Policies

*Market-based supply-side policies*

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*Interventionist supply-side policies*

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**Key Question:** Why are Supply Side policies so important for the economy?

*Connect the reason to the correct explanation*

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| **Long term growth:** |  | Allows output to rise into the long run without increased price level |
| **Higher living standards:** |  | Increases in AD with stationary AS will eventually see no growth in actual output |
| **Non-inflationary growth:** |  | More competition can lower prices, boosting consumer surplus |
| **Welfare gains:** |  | Increased profits and incomes will boost tax revenues for government |
| **International competitiveness:** |  | Policies that increase productivity will lead to a greater output derived from factors of production, and more goods and services to go round |
| **Budget Balance:** |  | Firms can compete with foreign rivals, boosting net exports |

**Key Notes:** *General Evaluations*

*Knock on effects:*Supply-side policies which involve increased government spending (e.g. education reforms) may also increase AD

*Recessions:* supply-side policies cannot tackle an output gap caused by suppressed AD

*Unemployment:* Short term unemployment may occur as capital replaces workers

*Time lag:*Policies may take time to have an effect on AS

*Likelihood of government failure:*There are a number of cases of poorly administered government supply-side polices which have not had the desired outcome

# File:A 95 year old woman with her pet rooster, Havana, Cuba.jpgArticle Task: Default retirement age of 65 to end - Ministers confirm

**Instructions:**

* Read, highlight and annotate the article
* Answer the questions
* Discuss your answers as a class

**Article**

*The Default Retirement Age (DRA) is to be phased out this year, the government has confirmed.*

It means employers will no longer be allowed to dismiss staff just because they have reached the age of 65. The Department for Business said that as well as benefiting individuals, "the freedom to work for longer will provide a boost to the UK economy". Employers had called for the changes to be delayed for a year to allow greater legal clarity over the plans. The Employment Relations Minister Edward Davey told the BBC it would still be possible for employers to force people to retire if they were no longer up to the job. "I think this [change] is really beneficial and should not be the problem some people suggest," he told the BBC. "As of now, you are still able under the Employment Rights Act 1996 to fairly dismiss someone if you go though the proper processes - and one of the reasons you can dismiss someone fairly includes capability."

Justification

Presently, firms can use the DRA to make staff retire at 65. Ditching the DRA was first proposed by the coalition government in July last year - largely to tackle issues around the ageing population and the shortfall in pension savings. And it has now been confirmed following a consultation process. The change means that from 6 April, bosses will not be able to issue any notifications for compulsory retirement using the DRA procedure. Between 6 April and 1 October, only those people who were told before 6 April, and who are due to retire before 1 October, can be compulsorily retired using DRA.

Finally, after 1 October, employers will not be able to use DRA to force staff to retire. However, individual employers will still be able to operate a compulsory retirement age "provided that they can objectively justify it". The Department for Business gives two examples of where this might be the case - for air traffic controllers and police officers. It added that it had worked with conciliation service Acas to provide comprehensive guidance for companies on the removal of DRA.

'Uncertainty'

Employer groups had called on the government to delay introducing the change. John Cridland, Director-General Designate of the CBI, said the government's new guidance was inadequate and did not deal with how firms could retire staff if they were no longer capable of doing their jobs properly. "There is not enough clarity for employers on how to deal with difficult questions on performance," he said. "Less than three months is not enough time for businesses to put in place new procedures. "The outcome will be more unpleasant and costly legal action," he added. Mr Davey told the BBC that such fears were exaggerated. "Two thirds of firms at the moment do not operate a fixed retirement age," he said. "The evidence that performance and effectiveness decline after 65 is just not there." Unions have demanded "clear guidance" from both employers and workers to raise awareness of what protection from unfair dismissal and age discrimination older workers will have.

**Questions**

Explain how this policy should affect the AS curve and hence the economy.

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What are the concerns raised regarding this policy? Why may it not actually increase growth?

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How are these concerns dismissed? Do you think this is likely?

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# Presentation 2a – Examples of Market Based Supply Side Policies

Complete the activities below so as to have a complete set of Notes:

**Key Notes:** Elaborate on the below policy responses

*Privatisation:* The transfer of inefficient state-owned firms into the private sector

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*Evaluation 1:*

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*Evaluation 2:*……………………………………………………………………………………………………………………………………………………………………………………

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*Deregulation:* Removing legal restrictions on business to encourage competition

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*Evaluation:*

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*Reducing corporation tax:* Cutting taxes on business profits

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*Evaluation:*

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*Labour market reforms:*Reducing the power of trade unions and other regulations

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*Evaluation:*

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# Presentation 2b – Examples of Interventionist Supply Side Policies

Complete the activities below so as to have a complete set of Notes:

**Key Notes:** Elaborate on the below policy responses

*Education and training:*Increased quantity and quality of education and training

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*Evaluation:*

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*Work visas/immigration:*Improvements in the ease of immigration into an economy

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*Evaluation:*

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*Public Sector Investment:* Government spending on improved infrastructure such as transport links can boost productivity

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*Evaluation:*

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*Increased Housing Supply:*Building affordable homes in expensive areas can make it easier for workers to move and find jobs reducing geographical immobility

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*Healthcare provision:*Firms can face substantial costs from time lost to ill-health

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# File:Ségolène Royal 2007.jpgArticle Task: Supply Side Economics – File:Nicolas Sarkozy in 2010.jpg Interventionist or Free market

**Instructions:**

* Read, highlight and annotate the article
* Answer the longer questions
* Discuss your answers as a class

**Article**

*Examining the plans of historical French presidential candidates*

France, unlike the UK or the USA, tends to be mistrustful of free market supply-side economics. In the 2007 presidential elections, the different candidates put forward a range of policies which were interventionist rather than free market in nature. The Socialist candidate, for example, Ségolène Royal proposed a sharp rise in the level of the minimum wage, an extension of the law to more workers giving them a right to work a basic 35 hour week, and giving state-funding for young people to get their first job. The cap which limits taxes paid by individuals on their income and wealth to 60 per cent would be abolished, increasing taxes for very high income earners and wealthy individuals. Firms that paid large amounts of their profit to shareholders in dividends would pay higher taxes on profits than firms which retained profit to invest back in the company. Aid given to companies which set up in high unemployment areas would have to be repaid if they subsequently moved the jobs created abroad.

Nicholas Sarkozy, the right wing candidate who won the election, was slightly more free market in his approach. He proposed cutting the limit on taxes on income and wealth paid by individuals from 60 per cent to 50 per cent. Firms would not have to pay any employer taxes on overtime pay given to workers who worked more than the 35 hour week. There would be a more flexible contract of employment for employees which would give employers more rights to sack them. Unemployment benefits would be cut if an unemployed person turned down two job offers. Taxes would be cut for private investment to start-up companies. Taxes on company profits would be cut to the European average. However, companies which gave increases in dividends which were much higher than the increases they gave to workers in wages would be taxed more heavily on their profits.

Source: adapted from the Financial Times, 30.3.2007

**Questions**

Explain how any three measures proposed by the two candidates might increase economic growth of the French economy.

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Evaluate whether Ségolène Royal’s policies were more interventionist than those of Nicholas Sarkozy.

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# Assignment

**Essay questions (Section C)**

1. Evaluate the use of supply-side policies to achieve economic growth.

[25]

1. The productivity gap between the UK and other developed economies reached its widest for 20 years in 2014, following the flat-lining of the economy after the 2008 global financial crisis.

Evaluate the policies that the UK government could adopt to improve productivity.

[25]

1. The UK’s current account deficit reached 5.5% of GDP in 2014, the largest annual deficit since modern records began in 1948.

Evaluate the use of supply-side policies as a means to reduce a current account deficit.

[25]

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| **Planning Grid: Aim = 5 paragraphs - 2 KAA points (16); 2 Eval points (9) with a conclusion** | |
| **KAA Point 1 = signpost key point** |  |
| Application |  |
| Main concept & diagram |  |
| **Eval Point 1 = relate to your earlier point & re-read the title** |  |
| Context / evidence |  |
| **KAA Point 2 = signpost key point** |  |
| Application |  |
| Main concept & diagram |  |
| **Eval Point 2 = relate to your earlier point & re-read the title** |  |
| Context / evidence |  |
| **Conclusion = judgement** |  |
| Context; what does it depend on? |  |