

				2.6 Supply-side policies Big Questions 2.6: <ol style="list-style-type: none"> 1. Explain 3 supply side policies (explaining how the policy will affect the economy) that can be used to increase LRAS. 2. Which are more effective: interventionist or market based supply side policies? 3. Evaluate 3 supply side policies. 		<u>Example</u>	<u>U-tube</u>		
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The role of supply-side policies

124		Supply-side policies and the economy	<ul style="list-style-type: none"> • Explain that supply-side policies aim at positively affecting the production side of an economy by improving the institutional framework and the capacity to produce (that is, by changing the quantity and/or quality of factors of production). • State that supply-side policies may be market-based or interventionist, and that in either case they aim to shift the LRAS curve to the right, achieving growth in potential output. 	For 2.6 it is a good idea to revise the advantages + dis adv. of the market system in section 1: see webnotes 227, 231 and 232. See also items 181-184 in section 2.6 re aid or trade or the market vs intervention in terms of development.	<u>Example</u>	<u>U-tube</u>	4	
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Interventionist supply-side policies

125		Investment in human capital	• Explain how investment in education and training will		<u>Example</u>	<u>U-tube</u>	3	
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				raise the levels of human capital and have a short-term impact on aggregate demand, but more importantly will increase LRAS.					
126			Investment in new technology	<ul style="list-style-type: none"> Explain how policies that encourage research and development will have a short-term impact on aggregate demand, but more importantly will result in new technologies and will increase LRAS. 		<u>Example</u>	<u>U-tube</u>	3	
127			Investment in infrastructure	<ul style="list-style-type: none"> Explain how increased and improved infrastructure will have a short-term impact on aggregate demand, but more importantly will increase LRAS. 		<u>Example</u>	<u>U-tube</u>	3	
Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E
128			Industrial policies	<ul style="list-style-type: none"> Explain that targeting specific industries through policies including tax cuts, tax allowances and subsidized lending promotes growth in key areas of the economy and will have a short-term impact on aggregate demand but, more importantly, will increase LRAS. 		<u>Example</u>	<u>U-tube</u>	3	
Market-based supply-side policies									
129			Policies to encourage competition	<ul style="list-style-type: none"> Explain how factors including deregulation, privatization, trade liberalization and antimonopoly regulation are used to encourage competition. 	See 1.5 Items 58-68	<u>Example</u>	<u>U-tube</u>	3	
130			Labour market reforms	<ul style="list-style-type: none"> Explain how factors including reducing the power of labour unions, reducing unemployment benefits and abolishing 		<u>Example</u>	<u>U-tube</u>	3	

				minimum wages are used to make the labour market more flexible (more responsive to supply and demand).					
131			Incentive-related policies	<ul style="list-style-type: none"> Explain how factors including personal income tax cuts are used to increase the incentive to work, and how cuts in business tax and capital gains tax are used to increase the incentive to invest. 		<u>Example</u>	<u>U-tube</u>	3	

Evaluation of supply-side policies

132			The strengths and weaknesses of supplyside policies	<ul style="list-style-type: none"> Evaluate the effectiveness of supply-side policies through consideration of factors including time lags, the ability to create employment, the ability to reduce inflationary pressure, the impact on economic growth, the impact on the government budget, the effect on equity, and the effect on the environment. 		<u>Example</u>	<u>U-tube</u>	5	
Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	<u>Example</u>	<u>U-tube</u>	W E I G H T	W E B N O T E

TOK

Theory of knowledge: potential connections

How can we know whether government should support pure research, which might contribute to the sum total of human knowledge but which might never have an impact on technology? What other knowledge issues are relevant to investment in pure research?

Investment in education and training is a common supply-side policy. What other reasons could there be for supporting the education of the population? What knowledge issues arise in answering the question as to whether government should shoulder this responsibility or whether it should be left to the market?