



## Worksheet 8: Two-sided arguments answers

1 Discuss whether or not the demand for air travel is likely to increase in the future.

### Why demand for air travel would increase

- Global incomes increase, which could make air travel more affordable
- Advances in technology can make air travel faster/cheaper
- More routes can be opened
- Globalisation may encourage the movement of passengers/transport of cargo
- Substitutes to air travel, e.g. car travel, can become slower/more expensive

### Why demand for air travel would not increase

- Ticket fares may increase, e.g. due to some low-cost carriers going out of business
- Fears of a pandemic could mean fewer passengers
- Pressure groups may campaign against the environmental footprint of air travel

2 Discuss whether or not an increase in population always increases government spending.

### Why higher population would increase government spending

- If birth rates increase, the government may have to provide more healthcare for babies and mothers and/or more nurseries/schools may need to be built
- Government may spend more on social benefits for women during maternity leave
- Net immigration may necessitate more housing/healthcare/social infrastructure
- If workers immigrate but are unable to find employment, unemployment benefits would have to be paid
- If there is net immigration of senior citizens, more social services for the elderly may be needed

### Why higher population would not increase government spending

- If net immigration increases the labour force, potential economic growth may occur and average incomes may increase, therefore reducing the need for government support
- The country may have been underpopulated, so there might be enough resources/healthcare/education to support the extra population



3 Discuss whether healthcare should be provided by the private or the public sector.

Why healthcare should be provided by the private sector

- The profit motive and competition may result in better quality healthcare/greater choice/more efficient admission to hospitals
- Prices may be more affordable
- Competition may stimulate innovation, leading to technological advancements in medicine/new cures discovered
- Wages of doctors and nurses may be higher in the private sector, therefore increasing their supply

Why healthcare should be provided by the public sector

- The private sector may charge higher prices that the poor cannot afford
- Government may ensure greater affordability and accessibility (e.g. maintain hospitals in towns with few residents only)
- Monopolies may develop in the private sector, which may practise price exploitation
- Healthcare is a merit good and would be underconsumed if left to the private sector

4 Discuss whether or not an increase in saving is always beneficial.

Why an increase in saving is beneficial

- May relieve demand-pull inflationary pressures
- Greater financial stability for savers in the future
- The higher saving may be the result of an increase in incomes
- Saving fuels investment as commercial banks will have greater capacity to lend
- Families may have greater ability to afford children's education/have more income after retirement
- May reduce spending on imports, therefore reducing a balance of trade deficit
- Increased demand for banking saving schemes, increasing the customer base of commercial banks

Why an increase in saving is not beneficial

- Lower spending may reduce aggregate demand and therefore economic growth and output, reducing employment
- Companies selling big-ticket items would experience a decrease in demand
- The higher saving may be a result of pessimistic consumer expectations



- 5 Discuss whether or not the actions of trade unions always improves the living standards in an economy.

Why trade union action improves living standards

- Trade unions may succeed in negotiating higher wages, which increases incomes, so workers can afford more goods and services
- Trade unions may succeed in negotiating better working conditions/shorter working hours/longer holidays, which improves workers' health/reduces stress
- Trade unions may provide more training, which increases workers' skills and earning potential
- Trade unions may successfully mediate between workers and employers, therefore avoiding industrial action, so workers do not forgo any wages lost during a strike
- Trade unions may fight against discrimination, therefore reducing the wage differentials between, e.g. males and females

Why trade union action may not improve/may worsen living standards

- Trade unions may be weak and have low bargaining power and therefore be unsuccessful in their demands
- Living standards may improve only for members of the trade union, not the whole population
- Other factors influencing living standards may deteriorate, e.g. greater pollution
- Successful wage demands may cause cost-push inflation, reducing citizens' ability to afford goods and services
- Successful wage demands of blue-collar trade unions may reduce wage differentials between skilled and unskilled occupations
- Strong trade unions may reduce the efficiency of the labour market, making it more difficult to hire/retrain workers and reducing the flexibility of firms
- Strong trade unions may encourage firms to become more capital-intensive, therefore increasing technological unemployment

- 6 Discuss whether or not supply-side policies always reduce inflation.

Why supply-side policies reduce inflation

- Education and training increase productivity, therefore lowering production costs and increasing aggregate supply, which increases the economy's productive capacity and lowering cost-push inflation
- Effective deregulation may increase the role of the private sector and encourage competition, leading to lower prices
- Labour market reforms may reduce trade union power, therefore weakening their wage demands and reducing cost-push inflation
- Subsidies on R&D may lead to innovation/technological breakthroughs, resulting in more cost-efficient production

Why supply-side policies may not reduce inflation

- Some supply-side policies, e.g. education and training, may necessitate greater short-term government spending, increasing aggregate demand and creating demand-pull inflation
- The government may be unable to predict the demand for skills in the future and may train workers in the wrong set of skills, therefore being unable to effectively increase productive capacity
- Successful supply-side policies could increase the competitiveness and demand for exports, increasing net exports and creating demand-pull inflation
- The resulting increase in productivity as a result of training may be outweighed by a greater increase in cost of wages, resulting in cost-push inflation
- Other factors may have a greater effect on reducing aggregate supply, e.g. a natural disaster



- 7 Discuss whether or not a government should always encourage an increase in the share of secondary sector activity.

Why a government should encourage the secondary sector

- Many secondary sector jobs are better paid than primary sector jobs, as they require more skills
- The process of industrialisation is a sign of economic development
- Manufacturing industries create more added value, leading to exports with higher added value and therefore greater GDP
- Less need for the country to import high added value/expensive secondary goods may result in a current account surplus
- If the secondary sector is capital-intensive, there might be greater efficiency/lower production costs

Why a government should not encourage the secondary sector

- Many secondary sector industries are polluting, which may lead to worsened health of the population
- Better for the government to encourage the growth in tertiary sector share
- Not all occupations in the secondary sector are better paid than the primary (e.g. a factory worker versus an engineer on an oil rig)
- Secondary-sector firms may be capital-intensive, therefore not increasing employment
- Some secondary sector output with a low degree of processing adds little value
- The secondary industries may require imported raw materials, so the current account may go into deficit
- The country should maintain its independence in primary industry if this is agriculture/food supply

- 8 Discuss whether or not a rise in unemployment would be a cause for concern for a government.

Why a rise in unemployment would be a cause for concern

- Higher unemployment means less resources and lower economic efficiency
- Higher unemployment may reduce incomes and fewer goods and services would be afforded, increasing poverty
- Lower output means lower economic growth and lower export potential
- Standards of living may fall if the unemployed are unable to afford healthcare and/or education
- Structural unemployment may persist over the long term
- The lower incomes and consumption are likely to reduce tax revenue
- More unemployment benefits paid creates an opportunity cost for the government and may result in a budget deficit
- Long-term unemployment may lead to a discouraged worker effect and/or loss of skills

Why a rise in unemployment would not be a cause for concern

- The rise may be minimal/insignificant
- The unemployment rate may still be within the government's unemployment target
- There might be lower demand-pull inflation due to the fall in spending and aggregate demand
- Cyclical unemployment is likely to fall as soon as the business cycle picks up
- Frictional unemployment is likely to be short-term and may enable workers to gain more/better skills and/or find better-paid jobs
- Higher unemployment weakens trade unions' power to demand higher wages, reducing cost and inflationary pressures
- Technological unemployment may result in more capital-intensive industries and greater cost efficiency



**9** Discuss whether or not specialisation benefits an economy.

Why specialisation may benefit an economy	Why specialisation may not benefit an economy
<ul style="list-style-type: none"><li>• Specialisation in the country leads to greater efficiency and lower unit cost, so the economy's exports may become more competitive</li><li>• Increased output would lead to economic growth and higher average incomes and better living standards</li><li>• The country may become known for its cost-efficient and good-quality output, increasing demand for exports</li><li>• Specialisation in other countries may enable the economy to buy imports at a lower price, lowering import expenditure, if demand is price inelastic</li></ul>	<ul style="list-style-type: none"><li>• The demand for the product the country specialises in may fall</li><li>• Increased risks of over-specialisation/benefits of diversification are foregone</li><li>• The country may not be self-sufficient in key industries/food supply, etc.</li><li>• A lower price of exports may reduce export revenue if export demand is price inelastic</li><li>• An increase in unemployment caused by a fall in export demand leaves workers with no transferable skills to other industries</li><li>• Specialisation in the primary sector output may be too low-paid/exports may be with low added value</li><li>• Specialisation may lead to faster depletion of key natural resources</li></ul>

**10** Discuss whether or not globalisation is a disadvantage to an economy.

Why globalisation may be a disadvantage to an economy	Why globalisation may be a benefit to an economy
<ul style="list-style-type: none"><li>• Globalisation increases the competition from imports for local firms</li><li>• Risk of a current account deficit if import expenditure exceeds export revenue</li><li>• The country may experience brain drain and domestic labour shortages in some occupations</li><li>• Specialisation encouraged by globalisation may increase over-reliance on other economies/reduce self-sufficiency</li><li>• The economy is in greater risk of global supply shocks/recessions/decline in economic activity in trading partners</li><li>• Over-dependence on imported raw materials may cause bottlenecks in supply</li></ul>	<ul style="list-style-type: none"><li>• Trade barriers are reduced in international trade/benefits of free trade</li><li>• Greater variety of choice for consumers</li><li>• Competition from imports may encourage local producers to become more efficient</li><li>• Enables the country to specialise in what it is best at, so more efficient use of resources</li><li>• Economies of scale to firms from lower shipping/transport costs</li><li>• Access to a larger global supply of labour may reduce recruitment/training costs</li></ul>