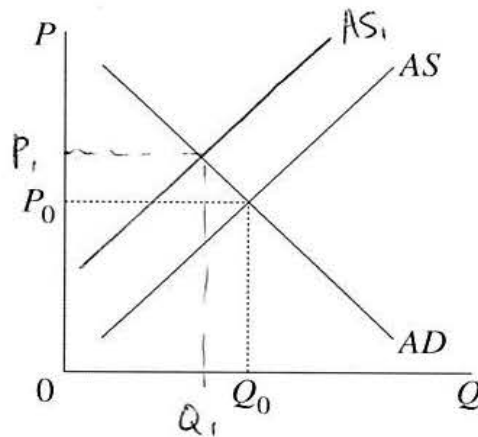


Question 24 (10 marks)

- (a) The following diagram shows aggregate demand and aggregate supply curves for a hypothetical economy. 2



On the diagram, draw the new curve that results if there is a fall in labour productivity. Label the new equilibrium price P_1 and the new equilibrium quantity Q_1 .

- (b) Outline an effect of product market deregulation on inflation. 2

Product market deregulation can cause increased competition and thus be more productive. This results in more attractive goods, cheaper goods which increases consumption, leading to possible demand-pull inflation.

- (c) Outline a feature of a centralised labour market policy. 2

Labour market policy that is centralised can mean lower productivity as employees are paid the same amount regardless of performance, proving inefficient and slowing AS.

Question 24 continues on page 17