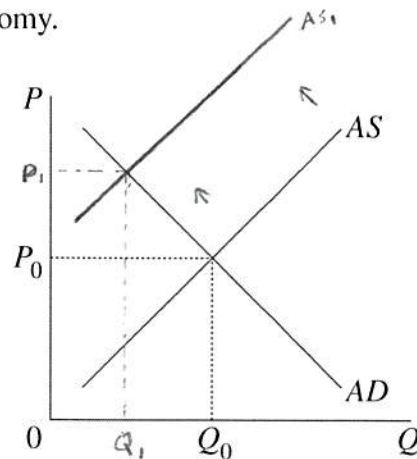


**Question 24** (10 marks)

- (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 would increase the efficiency of the market leading to a shift in the supply curve to the right. This would result in a decrease in prices having the effect of reducing inflation.

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

2

A centralised labour market policy involves the use of an awards system where the working conditions for an employee are standardised across an industry.

**Question 24 continues on page 17**

Question 24 (continued)

- (d) Outline an advantage and a disadvantage of moving from a fixed exchange rate to a floating exchange rate system. 4

Moving from a fixed exchange rate to a floating exchange rate increases the integration of an economy with the global business cycle. This opens up an economy to more trade possibilities which can increase economic growth. A disadvantage of this is that makes an economy more susceptible to fluctuations in the international business cycle which can have negative effects as seen in the Global Financial Crisis in 2008 which had a domino-like effect on economies and their neighbouring economies.

**End of Question 24**