

Summary

3.7 Supply-side policies

Subject	Year	Start date	Duration
Economics	IB2	Week 4, October	1 week 1 hour

Course Part

Description

3.7 Supply-side policies, you should be able to:

- Be familiar with the following economics terminology: supply-side policies, productive capacity, competition, efficiency, labour costs, unemployment, labour market flexibility, inflation, innovation, research and development, deregulation, privatisation, trade liberalisation, regulation, labour unions, unemployment benefits, minimum wage, income taxes, capital gains tax, infrastructure, vested interests.
- Describe the goals of supply-side policies, including:
 - long-term economic growth
 - increasing competition and efficiency
 - reducing labour costs and unemployment
 - reducing inflation
 - increasing incentives for firms to invest in research and development.
- Explain market-based supply-side policies that encourage competition, such as:
 - deregulation
 - privatisation
 - trade liberalisation
 - anti-monopoly regulation.
- Explain market based supply-side policies that encourage the labour market to be more efficient, including:
 - reducing the power of trade unions
 - reducing unemployment benefits
 - abolishing minimum wages.
- Explain market-based supply-side policies that act as an incentive to individuals and firms to increase the supply side of the economy, such as:
 - personal income tax rates
 - cuts in business tax and capital gains tax.
- Explain interventionist supply-side policies, including
 - education and training
 - improving quality, quantity and access to health care
 - research and development
 - provision of infrastructure
 - industrial policies.
- Describe the demand-side effects of supply-side policies.
- Describe the supply-side effects of fiscal policies.
- Evaluate the effectiveness of supply-side policies by appraising their strengths and limitations:

Strengths of supply-side policies include that they:

- improve resource allocation
- place no burden on the government budget
- give direct support for sectors of the economy that are important for growth.

Constraints of supply-side policies include:

- equity issues

IB DP IB Economics Group 3 (IB2)

- time lags
- vested interests
- environmental impact
- cost.

Inquiry & Purpose

Inquiry / Higher Order Questions

Type

Inquiry Questions

Skills-based

There are often conflicts between important macroeconomic objectives. What kind of knowledge criteria should policy makers use to make decisions in favour of pursuing one objective over another?

Curriculum

Objectives

Synthesis and evaluation (AO3)

Use economic concepts and examples to construct and present an argument

Syllabus Content

Unit 3: Macroeconomics

Real-world issue 2 - How do governments manage their economy and how effective are their policies?

3.7 Supply-side policies

Goals of supply-side policies

Long-term growth by increasing the economy's productive capacity

Improving competition and efficiency

Reducing labour costs and unemployment through labour market flexibility

Reducing inflation to improve international competitiveness

Increasing firms' incentives to invest in innovation by reducing costs

Market-based policies, including:

policies to encourage competition, such as:

deregulation

privatization

trade liberalization

anti-monopoly regulation

labour market policies, such as:

reducing the power of labour unions

reducing unemployment benefits

abolishing minimum wages

incentive-related policies, such as:

personal income tax cuts

cuts in business tax and capital gains tax

Diagram: AD/AS model and LRAS curve to show the effect of supply-side policies

Diagram: showing minimum wage

Interventionist policies, including:

education, training

improving quality, quantity and access to health care

research and development

provision of infrastructure

industrial policies

Demand-side effects of supply-side policies

Supply-side effects of fiscal policies

Effectiveness of supply-side policies

Constraints on supply-side policies

Market based—equity issues, time lags, vested interests, environmental impact

Interventionist—costs, time lags

Strengths of supply-side policies

Market based—improved resource allocation, no burden on government budget

Interventionist—direct support of sectors important for growth

Strengths and limitations in promoting growth, low unemployment, and low and stable rate of inflation

Inquiry—possible areas to explore (not an exhaustive list)

The successes and constraints of fiscal policy in achieving low unemployment as a macroeconomic objective, for a chosen country.

The economic and social impacts on different stakeholders of monetary policy, for a chosen country.

Theory of knowledge questions

Can political beliefs and ideologies affect a person's preference for one particular policy over another?

When evaluating economic policies, how important are cultural differences?

How much statistical data should economists use in determining the reliability of any economic policy result?

Economists and those who use economic theory may disagree with each other about the outcome of economic policies. On what basis might we make judgments about their relative conclusions?

Concepts

Government intervention attempts to achieve macroeconomic objectives through a choice of policies.

ATL Skills

Approaches to Learning

Thinking


- In this unit, we will


ask open questions

set students a task which required higher-order thinking skills (such as analysis or evaluation)

Developing IB Learners

Learner Profile

 Knowledgeable

 Balanced

 Reflective