

Revision Note

AS Economics

Evaluation Techniques

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6 ULTIMATE EVALUATION TECHNIQUES

1. CONTRADICTION

To evaluate, you have to disagree with your earlier explanation BUT with a convincing reason

When interest rate is slashed, borrowing will become cheaper. This may discourage saving and boost spending thus shifting the AD rightward allowing growth to be achieved. **However**, this is in theory. Interest rate is brought to historical low level in UK and yet it fails to kick start spending. This shows that expansionary monetary policy is futile if consumer confidence has collapsed. Such scenario is also known as liquidity trap

When the UK government increases public spending, there will be an injection into the circular flow of income. When AD shifts rightward, growth will be achieved. **However** this is unlikely to happen in the current state of UK economy. The government is already having a huge budget deficit and unsustainable national debt. Therefore most likely such spending will be axed to improve public finances

2. PRIORITISE

Only use if there is a more dominant point

An increase in both share prices and house prices will have positive wealth effect. Feeling richer, UK households will increase their spending into the economy thus raising the AD and hence growth. **However**, it is argued that an increase house prices will have a more dominant impact onto consumption. This is because most working class people store their wealth in the property market. Actually very few people who actually store their wealth in the form of paper asset and this group of people are usually very rich

3. MAGNITUDE

Only use if the subject of argument is quantifiable e.g. unemployment, interest rate, inflation rate, government spending, income tax rate etc

When the UK government increases public spending, there will be an injection into the circular flow of income. When AD shifts rightward, growth will be achieved. **However**, this depends on how large is the increase government expenditure. If the increase is insignificant, probably AD may not increase that much/ the shift in AD also depends on the size of multiplier

4. SHORT RUN VS. LONG RUN

How will be the impact in long run is different from short run

An increase in budget onto education and healthcare sector will allow the UK's AD to experience a larger rightward shift. More output can be produced and unemployment in the economy will be lower. **However**, the gain in the long run is much higher as the productive capacity of the economy may increase. A more educated and skilled workforce will lead to rise in productivity and efficiency in workplace. AS will shift rightward

5. CRITICISING THE DATA

Use if you realise inconsistent information is being provided/ insufficient data to allow for well-informed judgement

Given that UK has sound fundamentals such as recovery in housing market, weak pound and a cut in income tax, it is expected that growth is on the way and unemployment will most likely fall in the near future. **However**, it can be quite difficult to tell the direction of joblessness. Although the information provided is supporting economic growth, paragraph 2 line 14-15 mention that unemployment is likely to increase in the next quarter. As such, it may be best to say that this scenario is inconclusive

An increase in both share prices and house prices will have positive wealth effect. Feeling richer, UK households will increase their spending into the economy thus raising the AD and hence growth. **However**, it can be quite difficult to determine the impact of these two onto growth. Figure 1 shows the trend of house prices for the period of 2009 to 2010 while Figure 2 shows the performance of London Stock Exchange only for Q3 of 2010. It is therefore best to say that impact of these two onto growth is uncertain

6. EVALUATION OF PREVIOUS EVALUATION

Is basically a technique of contradiction except that you have to do it twice

MPC may consider a slash of interest rate in order to boost the economy. When borrowing is cheaper, consumers and firms will increase their spending into the economy thus pushing for economic recovery. **However** that is in theory. Interest rates have been kept low for nearly three years and it still fail to kick start the so much needed growth. That is the end of the traditional tool and alternative policy such as quantitative easing may be more effective. Having said so, the alternative monetary policy has not been successful either Although banks are flushed with liquidity, the refuse to pump out lending and the public cannot get access to funds