

Section 3: Evaluation

Most students do some evaluation — but not enough to reach A*. It is important to explain evaluation and if possible link evaluation to application. Don't just say "However, it depends" compare two different possibilities to show examiner you understand why the answer is not simple but could have different outcomes.

What AQA Means by Evaluation

Evaluation is not just saying "it depends"

It means:

- **Judging how effective something is**
- **Explaining limitations**
- **Comparing different outcomes**
- **Reaching a supported conclusion**
- **The Golden Rule of Evaluation** - Always explain **WHY**

Weak: "This depends on many factors"

Strong:

"This depends on the cause of unemployment. If unemployment is primarily structural, then boosting AD, though lower interest rates won't address the fundamental problem and may end up increasing inflation.

Types of Evaluation You can use

1. Depends on the TYPE

- demand-pull vs cost-push inflation
- short-run vs long-run unemployment
- different types of tax – e.g. direct vs indirect

Example

The impact of increasing tax may **depend on the type of tax** they raise. If the government increase income tax, it may have a bigger negative impact on labour productivity as some workers chose to work less hours.

However, increasing tax on demerit goods won't reduce incentives to work. However, this kind of tax increase may have a bigger impact on equality, because indirect taxes like alcohol tax are more regressive – taking proportionately more from low earners.

2. Depends on the TIME PERIOD

- **In the short-term**, demand for oil is price inelastic because people need to keep filling up their petrol cars and they have no alternative, **but over time**, it is likely to become more price elastic as consumers decide to respond to high prices by switching to electric cars. So a tax rise will have a bigger effect in reducing demand in the long-term.
- Interest rates reduce demand quickly because of the impact on AD. But **supply-side effects take longer** to have an effect, for example, education may take several years to actually boost labour productivity.

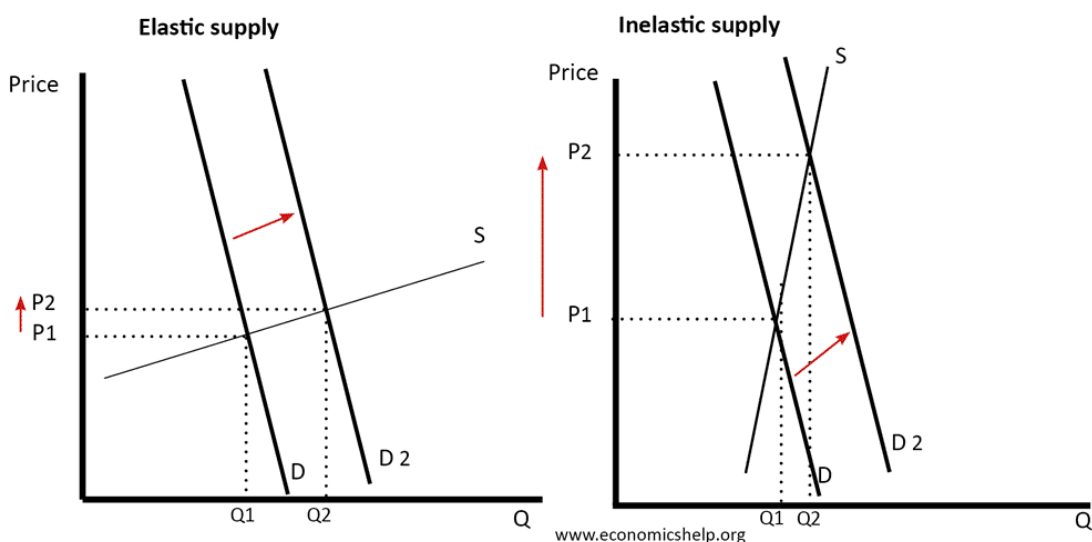
3. Depends on the MAGNITUDE

“The extent of the impact depends on...”

Example:

A fall in exports to the US will reduce exports and AD. **However**, exports to the US is **only a small percentage of UK GDP**. Trade to the US is approximately 15% all in trade. So a fall in exports to the US, could easily be offset by a rise in EU exports, which takes a much bigger share of UK exports (40-45%). Alternatively, if consumer spending (which is roughly 60% of AD) is rising, this would probably outweigh a drop in exports to the US.

4. Depends on ELASTICITY / RESPONSE



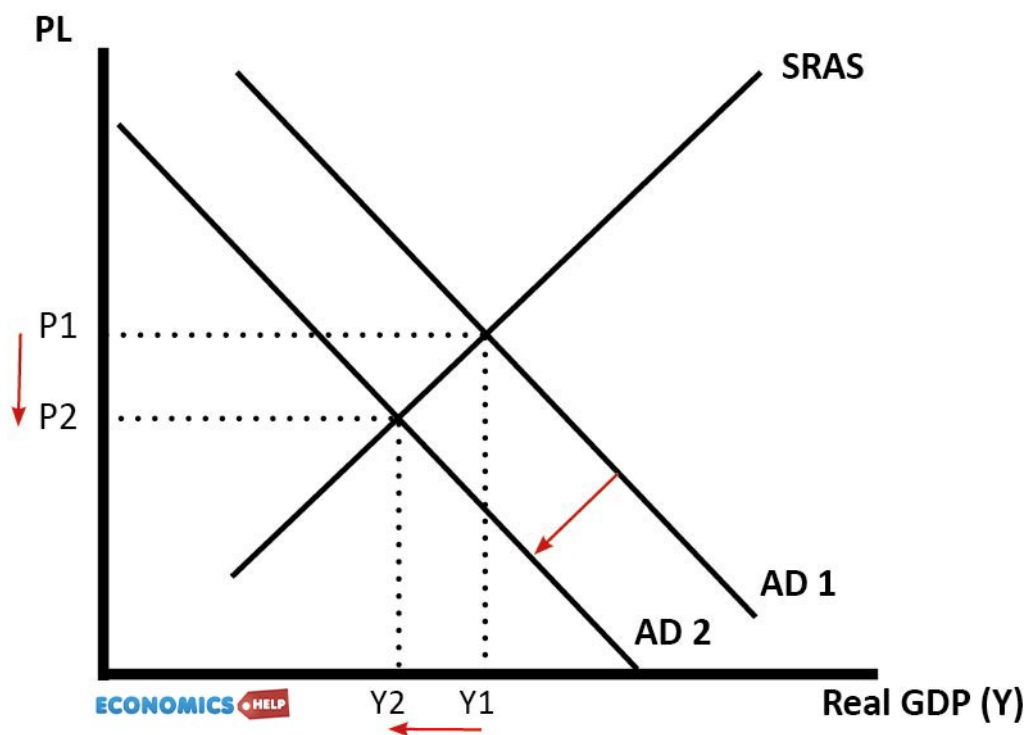
Examples:

“When supply is price elastic, (on left), a rise in demand only causes a smaller percentage rise in price. But, if supply is inelastic a rise in demand causes a bigger percentage rise in demand. Many commodities like oil and wheat are quite inelastic in supply, at least in the short-term. Though in the long-term, supply will tend to become more elastic and responsive to demand.

4. Using the data evaluate the view that monetary policy is the most effective way to control inflation. (25)

Monetary policy is a key tool used by the Bank of England to control inflation, primarily through changes in interest rates. As Extract C suggests, policymakers face a difficult trade-off because inflation remains above the 2% target, but raising interest rates risks slowing the economy. Whilst monetary policy can be effective in controlling demand-pull inflation, its overall effectiveness depends on the cause of inflation and may be limited if there are cost-push pressures.

A key argument for monetary policy being the most effective tool is that higher interest rates reduce aggregate demand. When the Bank of England increases interest rates, borrowing becomes more expensive and saving becomes more attractive. This discourages consumer spending and business investment. For example, higher mortgage rates reduce disposable income for households, leading to lower consumption.

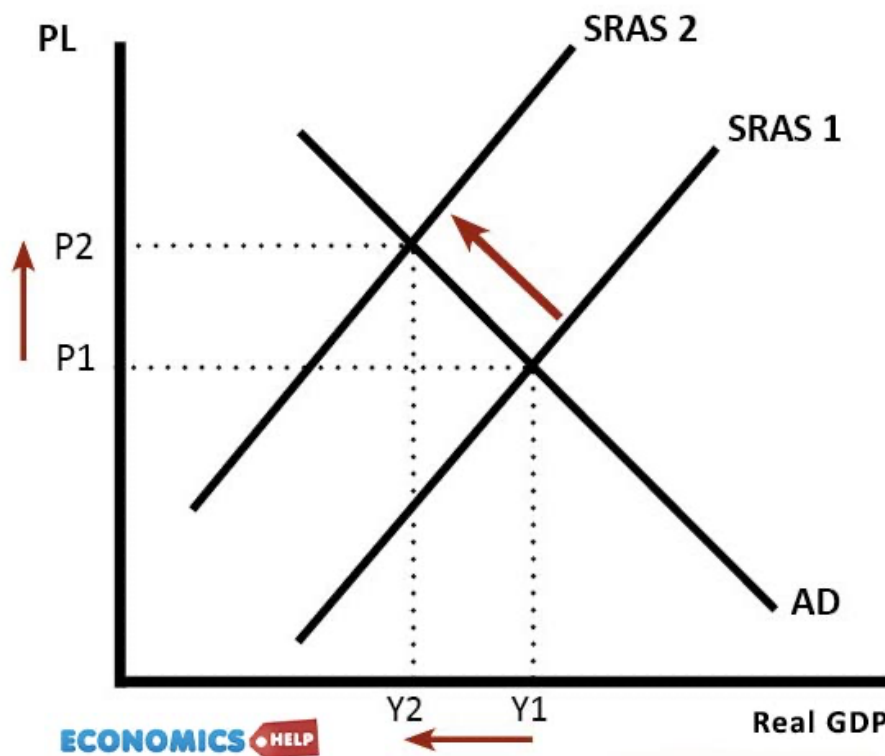


This fall in aggregate demand reduces inflationary pressure, particularly demand-pull inflation. The data suggests inflation remains above target, implying there could be excess demand in the economy, so tightening monetary policy could help bring inflation back towards 2%.

In addition, monetary policy can influence expectations, which is crucial in controlling inflation. If households and firms expect inflation to remain high, this can lead to wage demands and price increases, creating a wage-price spiral. By raising interest rates and signalling a commitment to the inflation target, the

Bank of England can anchor inflation expectations. This helps reduce inflation without needing excessively large increases in interest rates.

However, a significant limitation is that monetary policy may be ineffective against cost-push inflation. In extract C line 4 it suggests “higher energy prices linked to geopolitical tensions have pushed up firms’ costs” This kind of cost-push inflation is much harder to solve because higher interest rates do little to address the root cause.



For example, if inflation is driven by global oil price increases and SRAS shifts to the left, reducing aggregate demand will not lower production costs. The data may indicate that inflation has been influenced by external factors, suggesting monetary policy alone may not be sufficient. In this case, tightening policy could reduce output and increase unemployment without significantly lowering inflation, worsening the trade-off highlighted in Extract C.