1. **Define unemployment rate and explain how it is measured.**
(3 marks)

**Sample Answer:**
The unemployment rate is the percentage of the labor force that is unemployed and actively seeking work. It is measured by dividing the number of unemployed individuals by the total labor force and multiplying the result by 100. The labor force includes those who are of working age and either employed or actively seeking employment.

1. **Explain the difference between cyclical unemployment and structural unemployment.**
(4 marks)

**Sample Answer:**
Cyclical unemployment is caused by a downturn in economic activity or a recession, leading to a decrease in demand for goods and services, which in turn reduces the demand for labor. Structural unemployment occurs when there is a mismatch between the skills of the workforce and the skills required by employers, often due to technological changes or shifts in the economy. While cyclical unemployment is usually temporary, structural unemployment can be long-term and requires retraining or education to address.

1. **Describe the Phillips Curve and its implications for the trade-off between inflation and unemployment.**
(4 marks)

**Sample Answer:**
The Phillips Curve illustrates an inverse relationship between inflation and unemployment, suggesting that as inflation decreases, unemployment rises, and vice versa. In the short run, this trade-off implies that reducing unemployment could lead to higher inflation and that lowering inflation might result in higher unemployment. However, in the long run, this trade-off may not exist as the economy adjusts to expectations, leading to a vertical Phillips Curve at the natural rate of unemployment.

1. **Explain two policies a government might use to reduce demand-pull inflation.**
(4 marks)

**Sample Answer:**
To reduce demand-pull inflation, a government can implement contractionary monetary policy by raising interest rates. Higher interest rates make borrowing more expensive, reducing consumer spending and investment, which in turn lowers aggregate demand and eases inflationary pressures. Another approach is to reduce government spending or increase taxes, which also reduces aggregate demand by decreasing disposable income and limiting public expenditure, thereby curbing inflation.

1. **Using a diagram, explain how cost-push inflation can lead to stagflation in an economy.**
(6 marks)

**Sample Answer:**
Cost-push inflation occurs when the overall price level rises due to increased costs of production, such as higher wages or raw material prices. This type of inflation shifts the aggregate supply curve to the left, from AS1 to AS2, leading to higher prices and lower output. The resulting scenario is stagflation, characterized by high inflation and stagnant economic growth. The economy experiences a fall in output, leading to higher unemployment, combined with rising prices, which worsens the economic conditions.

**Diagram:** (Include an AS-AD diagram showing a leftward shift in AS leading to higher price levels and lower output)

1. **With reference to a specific country, explain how income inequality can be measured.**
(8 marks)

**Sample Answer:**
Income inequality can be measured using the Gini coefficient, a statistical measure that represents the income distribution of a nation's residents. The Gini coefficient ranges from 0 to 1, where 0 indicates perfect equality (everyone has the same income) and 1 indicates perfect inequality (one person has all the income). For instance, in Brazil, the Gini coefficient is relatively high, reflecting significant income inequality. Another measure is the Lorenz curve, which plots the cumulative income of the population against the cumulative share of people, indicating the degree of inequality visually.

1. **Discuss the effectiveness of fiscal policy in reducing unemployment in an economy experiencing a recession.**
(10 marks)

**Sample Answer:**
Fiscal policy, which involves government spending and taxation, can be effective in reducing unemployment during a recession. By increasing government spending on infrastructure projects, the government directly creates jobs and stimulates demand in the economy. This increase in demand can lead to higher production and, consequently, more employment. Additionally, cutting taxes can increase disposable income for consumers, leading to higher consumption and demand for goods and services, further reducing unemployment.

However, the effectiveness of fiscal policy depends on several factors, including the size of the multiplier effect, the level of public debt, and the responsiveness of businesses and consumers to policy changes. If the multiplier effect is strong, the initial increase in spending will generate a more significant impact on aggregate demand and employment. Conversely, high levels of public debt might limit the government's ability to increase spending. Moreover, if consumer and business confidence is low, tax cuts may not translate into higher spending, reducing the policy's effectiveness. Therefore, while fiscal policy can be a powerful tool in reducing unemployment during a recession, its success depends on the broader economic context and how it is implemented.

1. **Evaluate the potential conflict between achieving low inflation and full employment in an economy.**
(15 marks)

**Sample Answer:**
The potential conflict between achieving low inflation and full employment is often illustrated by the Phillips Curve, which suggests an inverse relationship between these two objectives. When an economy is near full employment, increased demand for goods and services can push up wages and prices, leading to higher inflation. Conversely, policies aimed at reducing inflation, such as raising interest rates, can decrease aggregate demand, leading to higher unemployment.

However, this trade-off is more evident in the short run. In the long run, the economy may adjust to the natural rate of unemployment, where the Phillips Curve becomes vertical, indicating that there is no trade-off between inflation and unemployment. In this scenario, attempts to reduce unemployment below its natural rate would only result in accelerating inflation without reducing unemployment in the long term.

Additionally, the effectiveness of monetary and fiscal policies in managing this trade-off depends on various factors, including expectations, supply-side conditions, and the structure of the economy. For example, supply-side policies aimed at improving productivity and increasing the flexibility of labor markets can help reduce the natural rate of unemployment without leading to higher inflation.

In conclusion, while there is a potential short-term conflict between achieving low inflation and full employment, the relationship is more complex in the long run. Policymakers must carefully balance their strategies to achieve both objectives, considering the broader economic context and the specific challenges facing their economy.