

- 1 Which form of government collects taxes to fund services such as refuse (rubbish) collection, street lighting, libraries and public parks?

A central government B international government	C local government D national government
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- 2 Which is **not** included in the uses of tax revenues?

A healthcare B infrastructure	C national security D tariffs and excise duties
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- 3 Which is used by international governments to promote free trade and mobility of factors of production between member countries?

A enterprise zone B market economy	C planned economy D trading bloc
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- 4 The Paris Agreement, a treaty to protect the natural and ecological environment, is an example of the role of which type of government?

A central government B international government	C local government D national government
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- 5 Which type of policy is used to achieve economic growth through increasing the productive capacity of the economy?

A demand-side policies B fiscal policy	C monetary policy D supply-side policies
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- 6 Explain the meaning of *fiscal policy*. [2 marks]

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- 7 State any **two** macroeconomic aims that national governments strive to achieve. [2 marks]

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24 THE ROLE OF gOVERNMENT

- 8 Andorra, Brunei Darussalam, Oman and Qatar have a zero rate of income tax. Explain **two** reasons behind such a government decision. [4 marks]

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- 9 Explain the role of the government on an international level. [4 marks]

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- 10 Some countries, such as Belgium and France, impose high rates of income tax and corporation tax.

- a Some economists argue that, if governments were to cut direct tax rates, they would actually receive more tax revenue. Explain the reasons behind this argument. [4 marks]

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- b Discuss whether imposing corporation taxes on the profits of multinational companies will discourage them from setting up in a country. [8 marks]

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The macroeconomic aims of government

1 Which refers to an increase in a country's real gross domestic product (GDP) over time?

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|--------------------------|-----------------------------------|
| A economic growth | C inflation |
| B full employment | D redistribution of income |

2 Which is calculated by using a weighted price index?

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|--------------------------|-----------------------------------|
| A economic growth | C inflation |
| B full employment | D redistribution of income |

3 Which is most likely to conflict with the government aim of high economic growth?

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|--------------------------------------|---------------------------------|
| A balance of payments deficit | C higher tax revenues |
| B employment opportunities | D inflationary pressures |

4 Which is least likely to be a government aim?

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|--|--|
| A balance of payments stability | C price stability |
| B full employment | D provision of welfare services |

5 Which is **not** used explicitly by a government to influence private sector producers?

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|----------------------|--------------------|
| A investment | C subsidies |
| B regulations | D taxes |

6 Most governments strive to achieve full employment. Describe what is meant by full employment.

[2 marks]

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7 All countries aim to achieve economic growth by increasing real gross domestic product (real GDP). Describe what is meant by real GDP.

[2 marks]

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8 Explain why a government aims to redistribute income in the economy. [4 marks]

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9 Explain why price stability is a key government aim. [4 marks]

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10 In some countries, governments use subsidies to reduce the impact of inflation.

a Define the term *subsidy*. [2 marks]

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b Define the term *inflation*. [2 marks]

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c Explain how the use of subsidies can help to reduce inflation. [4 marks]

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- 1 What is the term used to describe taxes paid from the income, wealth and profits of individuals and firms?
 - A corporation tax
 - B direct tax
 - C income tax
 - D indirect tax
- 2 If a government loosens fiscal policy in an attempt to expand the economy, what does this involve?
 - A raising taxes and raising government expenditure
 - B raising taxes and reducing government expenditure
 - C reducing taxes and raising government expenditure
 - D reducing taxes and reducing government expenditure
- 3 A government aims to expand aggregate demand in the economy to boost national output and employment. Which policy should it use?
 - A raise expenditure on education and healthcare
 - B raise taxes and raise interest rates
 - C reduce government spending and raise taxes
 - D reduce taxes and reduce interest rates
- 4 Which statement does **not** outline how fiscal policy can be used to reduce unemployment in the economy?
 - A A cut in taxes may increase consumer spending.
 - B Government spending can create jobs in both the private and public sectors.
 - C Greater government spending increases aggregate demand, causing the derived demand for labour to rise.
 - D Lower interest rates increase the spending ability of households and encourage firms to invest more.
- 5 When does a budget surplus occur?
 - A when a country exports more than it imports
 - B when a country imports more than it exports
 - C when government revenues exceed public expenditure
 - D when public expenditure exceeds government revenues

6 Explain **two** reasons why the government might choose to increase public expenditure in the economy. [4 marks]

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7 The Bahamas and Estonia have a zero rate of corporation tax. Explain **two** reasons behind such a government decision. [4 marks]

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8 Suppose in a country the progressive tax rates are 12% (for those earning between \$10 001 and \$50 000 per year) and 17% (for those earning over \$50 000 per year).

a Complete the table below and calculate the total amount of tax paid by an individual who earns \$80 000 a year. [2 marks]

Income level (\$)	Tax rate (%)	Amount of tax paid (\$)
\$10 000	0%	
\$10 001–\$50 000	12%	
\$50 000+	17%	
Total tax:		

b Calculate the average rate of income tax paid by the individual. [2 marks]

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9 a Define the term *supply-side policy*. [2 marks]

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b Analyse how fiscal policy can impact on the supply-side of an economy.

[6 marks]

10 a Define the term *contractionary fiscal policy*.

[2 marks]

b Discuss whether raising income taxes is in the best interest of the economy.

[8 marks]

- 1 The amount of money in the economy at a particular point in time is known as
 - A credit creation.
 - B monetary policy.
 - C notes and coins.
 - D the money supply.
- 2 If a government loosens monetary policy in an attempt to expand the economy, what does this involve?
 - A raising interest rates by reducing the money supply
 - B raising taxes and raising government expenditure
 - C reducing interest rates by increasing the money supply
 - D reducing taxes and reducing government expenditure
- 3 Which is **not** a monetary policy measure?
 - A changes in foreign exchange rates
 - B changes in interest rates
 - C changes in money supply
 - D changes in tax rates
- 4 Which is a monetary measure that helps to reduce unemployment in the economy?
 - A a cut in taxes
 - B higher amount of government spending
 - C investment in training and development
 - D lower interest rates
- 5 An increase in interest rates, used to reduce overspending in the economy, is an example of
 - A fiscal policy.
 - B loose monetary policy.
 - C supply-side policy.
 - D tight monetary policy.
- 6 Define the term *monetary policy*. [2 marks]

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- 7 Explain **one** reason why the government might choose to reduce interest rates in the economy. [2 marks]

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- 8 Explain why a government might choose to use monetary policy. [4 marks]

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- 9 Explain how monetary policy can impact on the supply-side of an economy. [4 marks]

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- 10 Discuss the effectiveness of monetary policy in achieving economic growth. [8 marks]

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- 1 The sale or transfer of public sector assets and industries to the private sector is known as
- A monetary policy. C public expenditure.
B privatisation. D supply-side policy.
- 2 Which is **not** a supply-side policy?
- A education and training C labour market reforms
B improving incentives to work D reducing taxes and raising government expenditure
- 3 Which type of supply-side policy involves reducing or removing barriers to entry, in order to make markets more competitive?
- A deregulation C lower direct taxes
B enterprise zones D privatisation
- 4 Which type of supply-side policy involves changes to labour union legislation, welfare benefits and minimum wage laws in order to create better incentives to work?
- A deregulation C labour market reforms
B education and training D lower direct taxes
- 5 Government policies designed to improve the quantity and quality (productivity) of resources in the economy by removing barriers to economic growth are known as
- A demand-side policies. C monetary policy.
B fiscal policy. D supply-side policies.
- 6 Explain why the government might choose to use supply-side policies. [4 marks]
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- 7 Explain **two** supply-side policies the government could use if it wanted to improve the competitiveness of the economy. [4 marks]
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- 8 Explain how a government can use supply-side policies to create incentives for firms to invest in the economy.

[4 marks]

- 9 With the use of appropriate examples, explain why labour market reforms are a type of supply-side policy.

[4 marks]

- 10 Discuss the effectiveness of supply-side policies in achieving an economy's macroeconomic objectives.

[8 marks]

- 1 Economic growth can be defined as
 - A an increase in a country's exports earnings.
 - B an increase in a country's potential earnings.
 - C an increase in the productive capacity of an economy.
 - D a reduction in the cost of living.
- 2 Whether a country has experienced economic growth is best indicated by an increase in
 - A consumer price inflation.
 - B current account on the balance of payments.
 - C employment.
 - D real GDP per capita.
- 3 As a country experiences economic growth, what is likely to fall?
 - A average years of schooling
 - B employment opportunities
 - C infant mortality rates
 - D national income per capita
- 4 Which is most likely to be a concern about rapid economic growth in a country?
 - A higher costs of production
 - B higher tax revenues
 - C increased demand for imports
 - D resource depletion
- 5 Which is **not** a policy used to promote economic growth?
 - A increase spending on education
 - B lower government spending
 - C lower income tax rates
 - D lower interest rates

6 Define the term *recession*.

[2 marks]

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7 Explain how a country's net exports are calculated.

[2 marks]

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8 Explain **two** causes of economic growth.

[4 marks]

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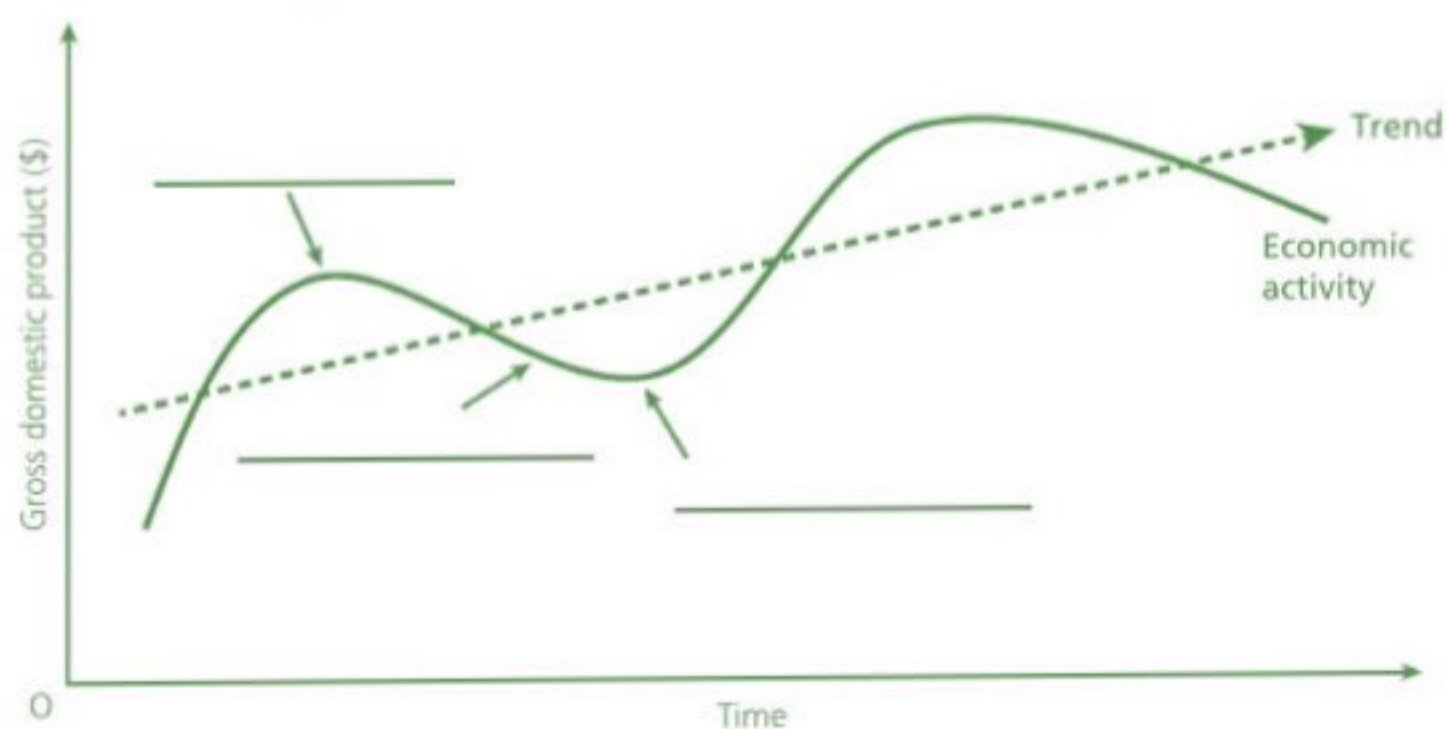
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9 The diagram below shows a typical business cycle. Identify appropriate labels to complete the diagram.

[3 marks]



10 Diaby, an entrepreneur, opened an internet café in a village in Ghana equipped with ten computers and wi-fi for customer use. The café is very popular with students, farmers and people in the village who run or would like to run their own businesses. Farmers use it to research information about new farming techniques and where to get the best market price for their produce. Other villagers use it to find out about installing solar power and how to access funds available for financing new and existing businesses. Diaby organises computing classes and displays useful information about energy saving and new planting techniques on the café notice board.

a Using a PPC curve, explain the impact of the internet café on the output of the village. *[4 marks]*

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b Explain **two** reasons why output in the village has increased as a result of the internet. *[4 marks]*

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- A** classical unemployment
B unemployment
C unemployment rate
D voluntary unemployment

- A** fiscal policies
- B** monetary policies
- C** protectionist policies
- D** supply-side policies

- A** cyclical unemployment
B real wage unemployment
C structural unemployment
D voluntary unemployment

- | | |
|--------------------|-------------------|
| Population: | 66 million |
| Aged 0-14: | 17 million |
| Aged 15-64: | 38 million |
| Aged over 65: | 11 million |

A 2.66 million **C** 10 million
B 4.62 million **D** 28 million

- A** changes in demand for certain goods and services
- B** people changing jobs
- C** people choosing not to work
- D** wages set higher than the market equilibrium

- [2 marks]

30 EMPLOYMENT AND UNEMPLOYMENT

7 Calculate the unemployment rate in a country that has a population of 46.6 million people, of which 30 million are employed and 2.7 million are unemployed. [2 marks]

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8 Explain which type of unemployment is most associated with a downturn in the business cycle. [2 marks]

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9 Explain how the International Labour Organization measures unemployment. [2 marks]

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10 Explain **two** economic advantages of a fall in unemployment. [4 marks]

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- 1 Which will cause an increase in a country's rate of inflation?
 - A discount food prices at the major supermarkets
 - B lower consumer and business confidence in the economy
 - C lower rates of interest
 - D subsidised energy prices
- 2 Which statement suggests why savers lose out during times of inflation?
 - A Money loses its ability to act as a store of value.
 - B Money loses its ability to act as a unit of account.
 - C Real interest rates become negative during inflationary periods.
 - D Real interest rates become positive during inflationary periods.
- 3 If the weighting for food in a country's consumer price index (CPI) exceeds that for shoes, what does this indicate?
 - A Food is considered to be more important to the average household than shoes.
 - B On average, the price of food has increased more than the price of shoes.
 - C The average household buys more food than shoes.
 - D The average household buys more shoes than food.
- 4 If the consumer price index in a country rises from 115.2 to 116.8 in the subsequent year, what is the inflation rate?
 - A 1.39%
 - B 1.6%
 - C 1.68%
 - D 16.8%
- 5 The tables below show the consumer price index (CPI) data.

Year	CPI
1	102.2
2	104.6

Year	CPI
3	103.9
4	105.4

It can be concluded that prices were at their lowest in

- A Year 1
- B Year 2
- C Year 3
- D Year 4

31 INFLATION AND DEFLATION

- 6 Calculate the rate of inflation if the consumer price index drops from 135.6 to 130.2. [2 marks]

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- 7 A basket of goods and services currently costs \$1500. Calculate how much it would cost if the consumer price index fell from 125.5 to 121.1. [2 marks]

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- 8 Explain **two** reasons why governments calculate a consumer price index. [4 marks]

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- 9 Explain why food and furniture have different weightings when calculating the consumer price index. [4 marks]

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10 The data below is for a hypothetical country, Satcolbe.

Item	Retail prices index	Weight
Clothing	120	15
Food	130	30
Housing	140	40
Other	125	15

a Define what is meant by a *retail prices index* (RPI).

[2 marks]

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b The typical household in Satcolbe spends more money on food than on clothing.
Explain this statement.

[2 marks]

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c Complete the table below and calculate the weighted retail prices index (RPI) in Satcolbe.

[2 marks]

Item	Retail prices index	Weight	Weighted index
Clothing	120	15	
Food	130	30	
Housing	140	40	
Other	125	15	
Weighted RPI			