Past-paper walk-through

Government macroeconomic policy objectives ▪ 10.1

eXercise

Questions in this set

- 9708/32 N25 Q15 ▪ 1 mark

Question 15

9708/32 N25 ▪ Q15 ▪ 1 mark

15 In which situation is expansionary fiscal policy **least** likely to be effective?

A inflation is below its target rate

B lack of confidence in the economy

C there is a negative output gap

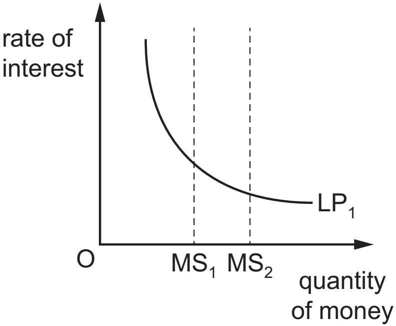
D unemployment is high

16 In these four diagrams, the money supply in an economy is initially at MS_1 and the demand for money is initially at LP_1.

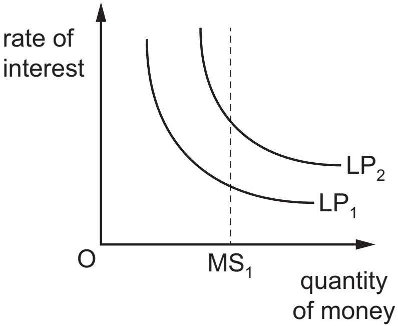
Which diagram shows the effect of a policy of quantitative easing on the rate of interest?

Question 15

A



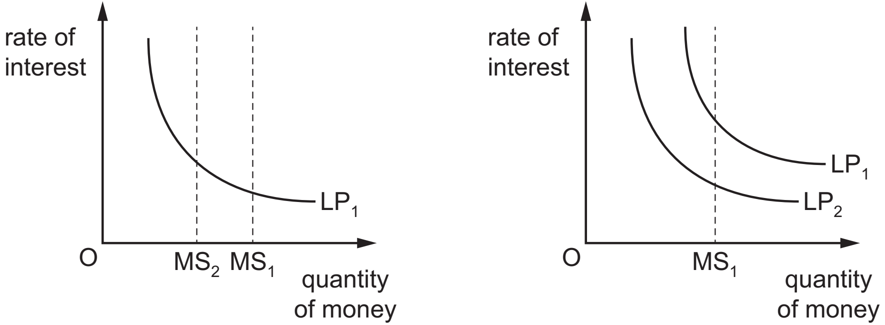
B



C

D

Question 15



rate of interest
O
MS2 MS1
LP1
quantity of money
rate of interest
O
MS1
LP1
LP2
quantity of money

Solution 15

Answer: **B**

Why

- Expansionary fiscal policy raises aggregate demand.
- It is least effective when the extra income is not spent, or when there is no spare capacity.
- So a lack of confidence, or an economy already at full employment, blunts it most.