Past-paper walk-through

Government macroeconomic policy objectives ▪ 5.1

eXercise

Questions in this set

- 9708/11 N25 Q24 ▪ 1 mark
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Question 24

9708/11 N25 ▪ Q24 ▪ 1 mark

24 A government reduces its expenditure on workplace training, increases the level of indirect taxes and reduces the rate of interest it pays on government debt.

How would these government macroeconomic policies be categorised?

	supply-side	fiscal	monetary	
A	con	con	exp	key
B	exp	con	con	con = contractionary
C	con	exp	exp	exp = expansionary
D	exp	exp	con	

Solution 24

Answer: **A**

Why

- Take each measure separately and ask whether it raises or lowers capacity and demand.
- Cutting training spending reduces capacity; raising indirect taxes reduces real incomes.
- So the combined effect is contractionary – the measures reinforce rather than offset each other.

Question 25

9708/11 N25 ▪ Q25 ▪ 1 mark

25 The government of a country reduces its budget deficit by cutting government spending. At the same time, the central bank raises the interest rates.

When might this combination of policies be used?

	inflation rate	unemployment rate
A	high	high
B	high	low
C	low	high
D	low	low

Solution 25

Answer: **B**

Why

- Cutting government spending is contractionary fiscal policy; raising interest rates is contractionary monetary policy.
- Used together, they reduce aggregate demand strongly.
- So the combination suits an economy with high inflation, but risks recession if demand is already weak.

Question 18

9708/12 N25 ▪ Q18 ▪ 1 mark

18 A government reduces the benefits that it pays to unemployed workers to increase the incentive to work.

Which types of macroeconomic policies are being used?

	fiscal policy	monetary policy	supply-side policy
A	✓	✗	✗
B	✓	✓	✗
C	✓	✗	✓
D	✗	✗	✓

Solution 18

Answer: **C**

Why

- Cutting unemployment benefit is intended to make working more attractive relative to not working.
- Improving the incentive to work raises the effective labour supply, which is a supply-side aim.
- Because it also changes government spending, it is fiscal policy at the same time.

Question 20

9708/12 N25 ▪ Q20 ▪ 1 mark

20 What is **not** a likely reason for a government having the objective of economic growth?

A to improve living standards

B to improve business confidence

C to increase inflationary pressures

D to increase consumer choice

Solution 20

Answer: **C**

Why

- Growth is wanted because it raises incomes, living standards and employment.
- It also improves business confidence and government tax revenue.
- Higher *inflation* is a risk of rapid growth, not a reason for wanting it.

Question 23

9708/13 N25 ▪ Q23 ▪ 1 mark

23 A government increases the basic rate of income tax to finance additional spending on apprenticeships and training.

Which types of macroeconomic policy are being used?

	fiscal policy	monetary policy	supply side policy	
A	✓	✓	✓	key
B	✓	✓	✗	✓ = used
C	✓	✗	✓	✗ = not used
D	✗	✓	✓	

Solution 23

Answer: **C**

Why

- Raising income tax to fund spending is fiscal policy – both sides of the budget.
- Spending it on apprenticeships and training raises skills and so productive capacity.
- That makes it supply-side policy as well, so two types are being used together.

Question 22

9708/12 J25 ▪ Q22 ▪ 1 mark

22 A government increases direct taxation to reduce its budget deficit.

How is this likely to affect the government's ability to achieve its macroeconomic objectives?

	economic growth	low inflation	low unemployment
A	less likely	less likely	less likely
B	more likely	less likely	more likely
C	less likely	more likely	less likely
D	more likely	more likely	less likely

Solution 22

Answer: **C**

Why

- Higher direct taxation reduces disposable income, so consumption and aggregate demand fall.
- Lower aggregate demand helps with inflation and with the current account.
- But it works against growth and low unemployment, so the objectives conflict.