Past-paper walk-through

Supply-side policy ▪ 5.4

eXercise

Questions in this set

- 9708/11 N25 Q18 ▪ 1 mark
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Question 18

9708/11 N25 ▪ Q18 ▪ 1 mark

18 A government spends money to provide an education for students.

Which type of spending is capital expenditure?

A computers for classrooms

B grants for university students

C rent for school buildings

D wages for teachers

Solution 18

Answer: **A**

Why

- Capital expenditure buys an asset that lasts and adds to productive capacity.
- Computers for classrooms are exactly that.
- Grants, salaries and running costs are current expenditure, consumed within the period.

Question 19

9708/11 N25 ▪ Q19 ▪ 1 mark

19 What is an example of fiscal policy aimed at increasing aggregate demand in an economy?

A increasing expenditure by firms on skills training programmes for unskilled workers

B increasing the commercial banks' lending ability

C reducing the rate of income tax for all income earners

D reducing the rate of interest on loans to manufacturing companies

Solution 19

Answer: **C**

Why

- Fiscal policy works through government spending and taxation.
- To raise aggregate demand it must spend more or tax less.
- Spending by *firms* is not government policy, and a supply-side scheme works on capacity instead.

Question 2

9708/12 N25 ▪ Q2 ▪ 1 mark

2 A public good must both be non-rivalrous in consumption and have the characteristic of non-excludability.

Which situation meets both of these conditions?

A a former nationalised rail network which has been privatised

B a good that has an opportunity cost

C the building of a new toll road which charges all users the same toll

D the provision of street lighting which improves a locality

Solution 2

Answer: **D**

Why

- Non-rivalrous means one person's use does not reduce what is left for others.
- Non-excludable means a non-payer cannot be kept out.
- Both must hold together – anything with a gate, a fare or a finite capacity fails one of them.

Question 23

9708/12 N25 ▪ Q23 ▪ 1 mark

23 A country has a target rate of inflation of 2.5% and has recently experienced the actual rate rising to 6%, with unemployment falling to very low levels.

Which policy option is most likely to be implemented?

A an increase in government expenditure on training

B an increase in indirect taxes on demerit goods

C an increase in import tariffs

D an increase in interest rates

Solution 23

Answer: **D**

Why

- Inflation well above target with very low unemployment points to an overheating economy.
- So aggregate demand needs restraining, which means a contractionary policy.
- Raising interest rates or taxes would do it; an expansionary measure would make it worse.

Question 14

9708/13 N25 ▪ Q14 ▪ 1 mark

14 Which area of government spending is a transfer payment?

A spending on new road building

B spending on pensions to the elderly

C spending on buying new police cars

D spending on wages of teachers

Solution 14

Answer: **B**

Why

- A transfer payment is money paid with no good or service given in return.
- A pension is exactly that – the recipient supplies nothing for it.
- Roads, police cars and salaries are all payments *for* something, so they count in GDP.

Question 24

9708/11 J25 ▪ Q24 ▪ 1 mark

24 What is **not** an example of an expansionary supply-side policy?

A a reduction in government spending on training

B an increase in support for technological improvement

C a reduction in payments to the unemployed

D an increase in privatisation of industry

Solution 24

Answer: **A**

Why

- Supply-side policy aims to raise productive capacity.
- Training, technological support and deregulation all do that.
- *Cutting* spending on training reduces capacity, so it is contractionary rather than expansionary.

Question 28

9708/1 23 ▪ Q28 ▪ 1 mark

28 Which government policy is most likely to focus on an increase in the quantity of skilled labour?

A exchange rate policy

B fiscal policy

C monetary policy

D supply-side policy

Solution 28

Answer: **D**