A-LEVEL ECONOMICS • EXERCISE SHEET

5.2 Fiscal policy

Name: ______________ Class: __________ Date: ____________ **Total: 24 marks**

Objective

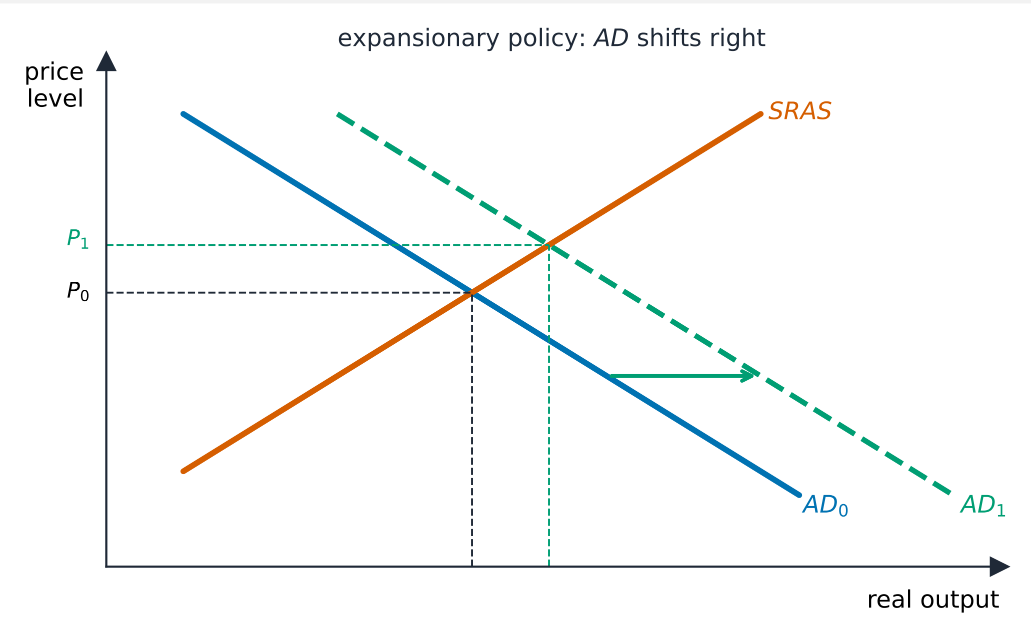
Build the skills to answer exam questions on **fiscal policy** 财政政策—the **budget** 预算 (deficit/surplus), types of tax (**direct/indirect, progressive/proportional/regressive** 直接/间接、累进/比例/累退), **expansionary and contractionary** 扩张性与紧缩性 policy, and **crowding out** 挤出效应.

You must be able to:

- define fiscal policy, budget deficit and surplus
- classify taxes and explain expansionary vs contractionary policy
- analyse the effectiveness of fiscal policy (including crowding out)

1 Worked examples

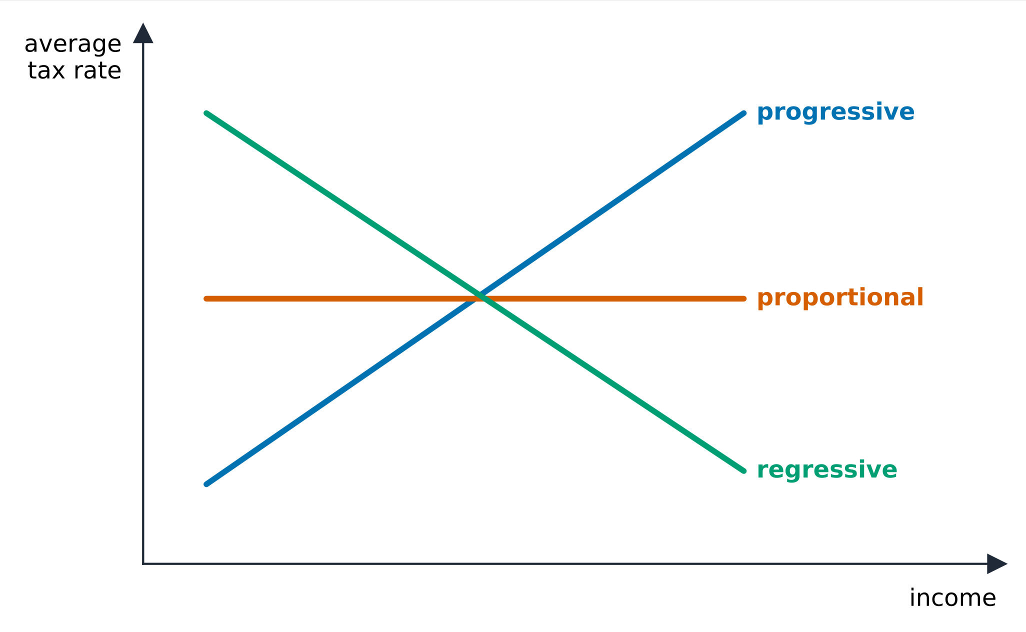
■ Using government spending and tax



Contractionary policy does the reverse

- **Budget deficit** 预算赤字: spending > tax (must borrow → **national debt** 国债). **Surplus:** tax > spending.

- **Progressive tax** 累进税: rate rises with income; **regressive** 累退税: rate falls with income.



The main tax types a government uses on the revenue side of fiscal policy

- **Expansionary** 扩张性 (more G / lower T) → AD right (fights recession); **contractionary** → AD left (fights inflation).
- **Crowding out** 挤出效应: heavy government borrowing raises interest rates → less private investment.

Answer shapes: an **Explain** [**up to 8**] answer may use an AD–AS diagram (AO3); **Discuss** [**12**] adds a judgement (AO4).

2 Practice

2.1 Define the term *budget deficit.* [2]

2.2 State the difference between a *progressive* and a *regressive* tax. [2]

2.3 State two tools of expansionary fiscal policy. [2]

3 Exam-style questions

3.1 Expansionary fiscal policy involves: [1]

- **A** higher taxes and lower government spending
- **B** lower taxes and higher government spending
- **C** a higher interest rate
- **D** selling state-owned firms

3.2 Using an AD–AS diagram, explain how expansionary fiscal policy could reduce unemployment. [8]

3.3 Discuss whether fiscal policy is an effective way to reduce unemployment. [12]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **5.2 Fiscal policy** past-paper sheet in the Library, or try these in **Practice mode**:

- 9708/11 N25 —Q1 (fiscal policy)
- 9708/11 N25 —Q11 (taxation)
- 9708/11 N25 —Q13 (budget / fiscal policy)

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 when government spending is greater than tax revenue, so the government must borrow (2 for a clear definition; 1 for a partial idea).

2.2 a progressive tax takes a rising percentage of income as income rises; a regressive tax takes a falling percentage as income rises (2 for a clear difference; 1 for a partial idea).

2.3 any two of: cut taxes; raise government spending (1 + 1).

3.1 B. Expansionary fiscal policy cuts taxes and raises spending.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (AD shifts right, output rises) + AO2/AO3 up to 3 —lower taxes raise disposable income and consumption, and higher G adds to spending → AD shifts right → firms produce more to meet demand → they hire more workers → cyclical unemployment falls.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** it directly raises AD and can target spending (e.g. infrastructure) to create jobs. **Against:** time lags, a rising deficit and debt, crowding out, and it cannot fix *structural* unemployment (a skills mismatch). Judgement: fiscal policy works well against cyclical unemployment in a recession, but is weaker against structural unemployment and is limited by the state of public finances.