Solutions

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

Each answer shows the steps, then the **result**.

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