Solutions

Marking: **K** = knowledge, **App** = using the data or case, **An** = analysis (explaining each step: cause, then effect), **Ev** = evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer. Longer answers are marked in levels: the top level needs clear analysis **and** a judgement with a reason.

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

2.1

- 0.2/0.5
- **0.4**

2.2

- 10% and 20%
- progressive: the rate rises with income

3.1

- absolute poverty: income too low to buy basic needs such as food, shelter and clothing (K)
- relative poverty: income well below the average in a society, often below 60% of the median (K)
- relative poverty can rise even when absolute poverty falls, if incomes at the top grow faster (An)

3.2

- means-tested benefits go only to people with low incomes; universal benefits go to everyone in a group (K)
- means-tested: cheaper and aimed at those in need (An)
- universal: simple, low administration cost, and everyone who should get it does (An)

3.3

Any two, each explained (2 marks each):

- wealth builds up over time: people with high incomes save more and own more assets (K, An)
- inheritance passes wealth down families (K, An)
- assets such as houses and shares rise in value, adding to the wealth of owners (K, An)
- wealth earns income (rent, interest, dividends) which can be saved again (K, An)

3.4

(a) $50\,000 \times 0.10$; \$**5000**

(b) points to include:

- a progressive tax takes a larger share of income from people with higher incomes (K)
- after-tax incomes become closer together, so the Lorenz curve moves towards the diagonal and the Gini coefficient falls (An)
- the revenue can pay for benefits and public services used by low-income households (An)
- this raises their real incomes, reducing inequality further (An)

Levels: **top** (5–6) clear analysis, each step explained, with a correct diagram; **middle** (3–4) some analysis, or a diagram with little explanation; **bottom** (1–2) relevant points, little explanation.

(c) points to include:

- for: raises revenue from those most able to pay; narrows the gap after tax (An)
- against: high earners may work less, move abroad or avoid tax, so revenue may rise less than expected (An)
- it does not deal with wealth, which is more unequal than income (An)
- other policies: better education and training, a higher minimum wage, taxes on wealth or inheritance, benefits for low-income families (An)
- judgement: a useful part of a package; long-term inequality falls more through education and skills; the effect depends on how the revenue is spent (Ev)

Levels: **top** (9–12) clear analysis of both sides and a conclusion with reasons that answers the question; **middle** (5–8) analysis of both sides with limited evaluation, or one side well; **bottom** (1–4) relevant points, mostly descriptive.