Week 21

A-Level Economics

Homework bundle for this week

本周作业合集

exercises.lol

Contents 目录

A-Level Economics Name: ____________ Score: ______

1. Which is NOT one of the four main macroeconomic objectives?
   - ☐ maximising firms' profits
   - ☐ economic growth
   - ☐ low unemployment
   - ☐ price stability
2. If the marginal propensity to consume (MPC) is 0.8, what is the multiplier $= 1/(1 - \text{MPC})$?

   ____
3. Monetary policy is mainly conducted by changing:
   - ☐ interest rates and the money supply
   - ☐ government spending
   - ☐ income tax rates
   - ☐ the minimum wage
4. Supply-side policies aim to:
   - ☐ shift aggregate supply to the right (raise capacity)
   - ☐ shift aggregate demand left
   - ☐ raise interest rates
   - ☐ increase the budget deficit
5. Stimulating demand to reduce unemployment often causes:
   - ☐ higher inflation
   - ☐ lower growth
   - ☐ a trade surplus
   - ☐ deflation
6. A budget deficit occurs when:
   - ☐ government spending exceeds tax revenue
   - ☐ tax revenue exceeds spending
   - ☐ the economy is in surplus
   - ☐ inflation is zero

7. Price stability usually means keeping inflation low and stable (around 2%), not zero.

   ☐ True ☐ False

8. Monetary policy is set by the central bank, whereas fiscal policy is set by the government.

   ☐ True ☐ False

9. A successful rightward shift of AS can raise output AND lower the price level.

   ☐ True ☐ False

10. Because objectives conflict, macro policy involves making _________ between them.

    ____

A-Level Economics

1. **maximising firms' profits**

   The four are growth, low unemployment, price stability and a sound balance of payments.

2. **5**

   $1 / (1 - 0.8) = 1 / 0.2 = 5$.

3. **interest rates and the money supply**

   The central bank uses interest rates and the money supply; spending/taxes are fiscal policy.

4. **shift aggregate supply to the right (raise capacity)**

   They raise productivity and capacity, shifting AS right.

5. **higher inflation**

   The unemployment–inflation trade-off: more demand → fewer jobless but rising prices.

6. **government spending exceeds tax revenue**

   Spending > revenue → the government borrows → a deficit.

7. **True**

   A small positive target avoids the dangers of deflation.

8. **True**

   Central bank = monetary (rates); government = fiscal (spending/taxes).

9. **True**

   Unlike demand-side policy, supply-side success eases inflation while raising output.

10. **trade-offs**

    You often improve one objective at the cost of another.

A-LEVEL ECONOMICS • EXERCISE SHEET

5.1 Government macroeconomic policy objectives

Name: ______________ Class: __________ Date: ____________ **Total: 26 marks**

KEY WORDS inflation 通货膨胀 • economic growth 经济增长 • balance of payments 国际收支 • price stability 物价稳定 • full employment 充分就业

Objective

Build the skills to answer exam questions on **macroeconomic policy objectives** 宏观经济政策目标 — the five aims (**price stability, full employment, growth, balance of payments, redistribution** 物价稳定、充分就业、增长、国际收支、再分配) and the **conflicts** 冲突 between them.

You must be able to:

- state the main macroeconomic objectives
- explain the conflicts between objectives
- analyse a policy trade-off

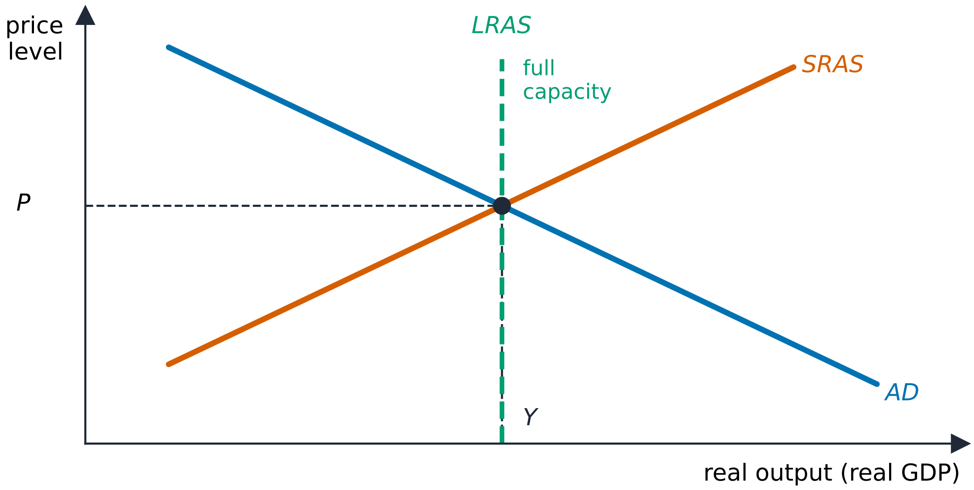
1 Worked examples

■ Objectives and conflicts

Five aims that often pull against each other

- **Aims:** price stability (~2% inflation), full employment, economic growth, balance-of-payments stability, redistribution.

- **Conflicts:** growth ↔ inflation; growth ↔ balance of payments (more imports); unemployment ↔ inflation; growth ↔ the environment.
- Fiscal and monetary policy are **demand-side** 需求侧; supply-side policy works on **aggregate supply** 总供给.



short-run equilibrium: $AD = SRAS$ · long-run capacity: vertical $LRAS$

AD–AS is the master diagram: the price level shows inflation, real output shows growth and jobs

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State three macroeconomic policy objectives. [3]

2.2 State one conflict between two macroeconomic objectives. [2]

2.3 State the difference between a demand-side and a supply-side policy. [2]

3 Exam-style questions

3.1 Faster economic growth is most likely to **conflict** with: [1]

- **A** lower unemployment
- **B** price stability
- **C** higher tax revenue
- **D** higher incomes

3.2 Explain why the objectives of low unemployment and low inflation may conflict. [6]

3.3 Discuss whether a government can achieve all of its macroeconomic objectives at the same time. [12]

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 any three of: price stability; full employment; economic growth; balance-of-payments stability; redistribution of income (1 + 1 + 1).

2.2 any one developed conflict, e.g. growth vs inflation; growth vs the balance of payments; low unemployment vs low inflation (2 for a developed conflict; 1 for naming two aims).

2.3 a demand-side policy works on aggregate demand (fiscal/monetary); a supply-side policy works on aggregate supply / productive capacity (2 for a clear difference; 1 for a partial idea).

3.1 B. Fast growth raises AD, which can pull up prices (inflation).

3.2 *[6]* AO1 1 + AO3 up to 5 — cutting unemployment usually means raising AD → as the economy nears full capacity, "too much money chases too few goods" → demand-pull inflation rises → so lower unemployment can come at the cost of higher inflation (the short-run trade-off).

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Difficulty:** objectives conflict (growth ↔ inflation, growth ↔ balance of payments), so pursuing one can harm another. **But:** supply-side policy can raise growth *and* cut inflation, easing the trade-off, and priorities shift with the economic situation. Judgement: a government can rarely meet *all* aims fully at once, so it sets priorities; supply-side measures help, but trade-offs usually remain.

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	

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

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	✗	✗	✓

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

A-Level Economics: **w25 13**

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	✗	✓	✓	

A-Level Economics: **s25 12**

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

A-LEVEL ECONOMICS • EXERCISE SHEET

5.2 Fiscal policy

Name: ____________ Class: ________ Date: __________ **Total: 27 marks**

KEY WORDS fiscal policy 财政政策 • budget 预算 • regressive 累退税 • budget deficit 预算赤字 • progressive tax 累进税

Objective

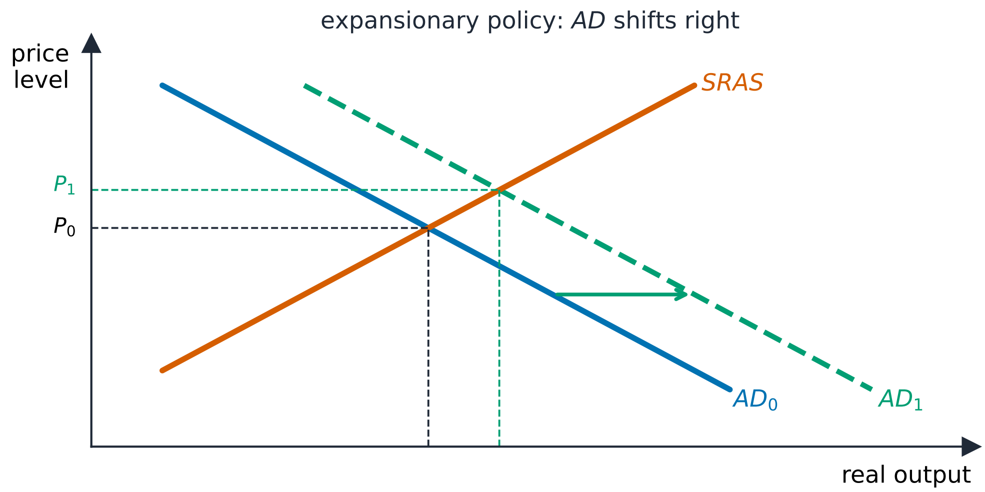
Build the skills to answer exam questions on **fiscal policy** 财政政策 — the **budget** 预算 (deficit/surplus), types of tax (**direct/indirect, progressive/proportional/regressive** 直接/间接、累进/比例/累退), **expansionary and contractionary** 扩张性与紧缩性 policy, and **crowding out** 挤出效应.

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



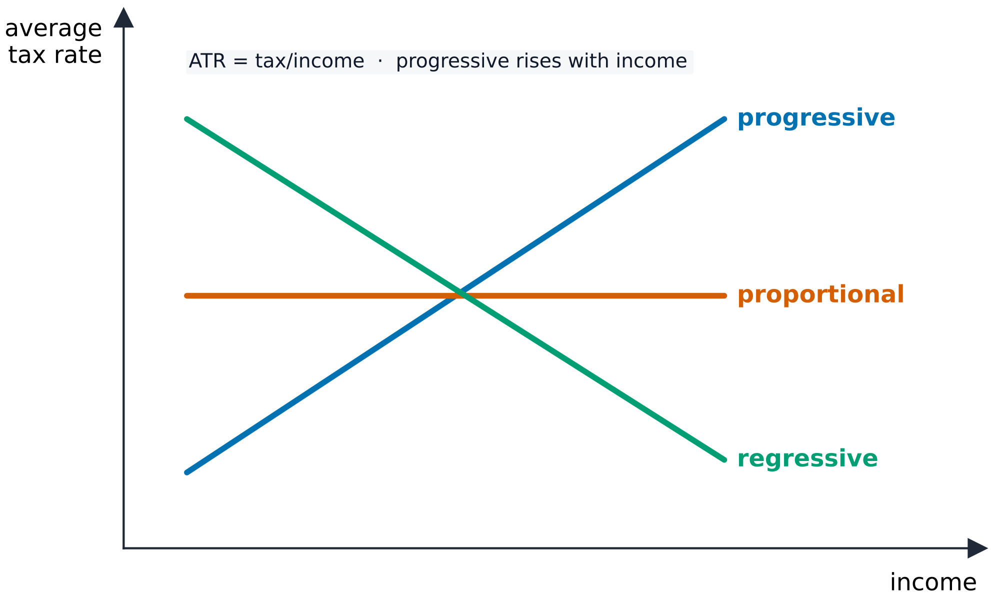
expansionary: $AD \rightarrow$ · $Y\uparrow$, $P\uparrow$

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]

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.

1 What is an example of a normative statement?

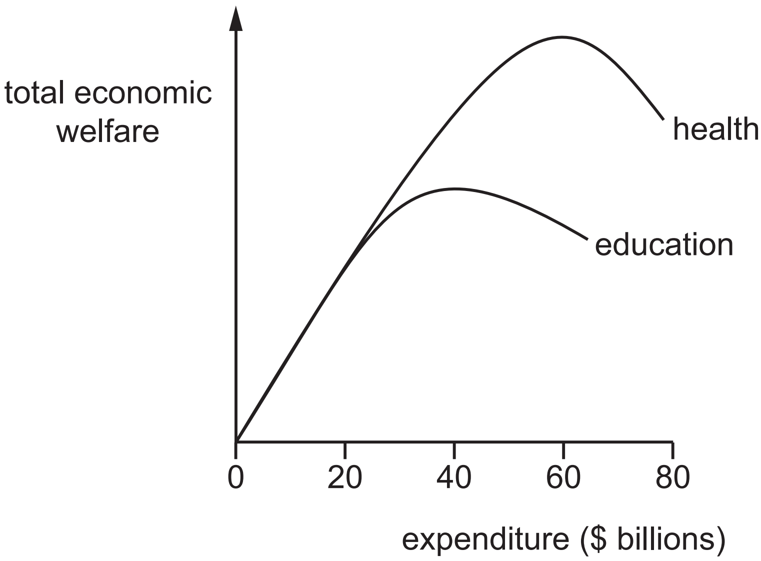
A Indirect taxes are cheap to collect.

B Indirect taxes are taxes on income.

C Indirect taxes are unfair.

D Indirect taxes increase inequality.

11 The graph shows the total economic welfare derived by citizens from a government's expenditure on health and education services.



If the government has $60 billion of its budget to allocate between health and education services, which allocation will give its citizens the highest level of welfare?

	health spending ($ billions)	education spending ($ billions)
A	0	60
B	20	40
C	40	20
D	60	0

13 What would be included in a measure of wealth?

A annual income

B benefits and pensions

C interest earned on savings

D savings held in bank accounts

6 What is consumer surplus?

A the amount of a consumer’s income less the amount paid in income tax

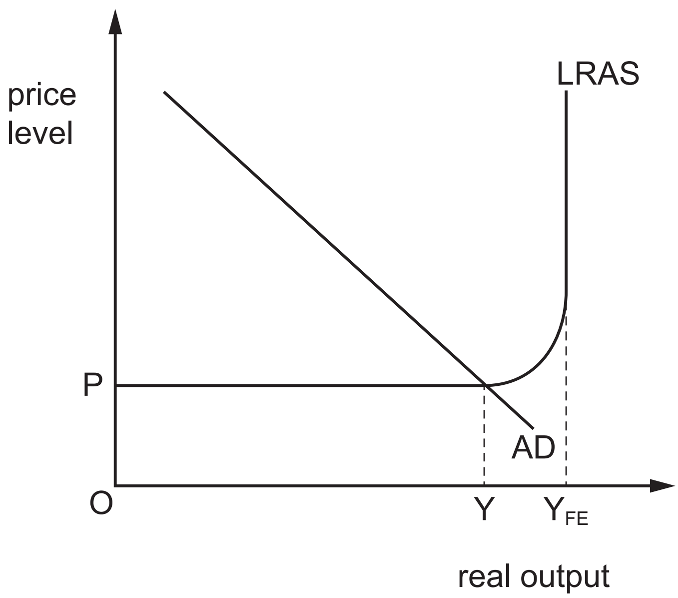
B the amount of a consumer’s income less the amount paid for goods and services

C the amount of a consumer’s income received in bonuses and overtime pay

D the amount a consumer is willing to pay for a product less the amount actually paid

A-Level Economics: **w25 13**

24 The diagram shows an economy in equilibrium with a real output of Y and a price level of P. The government aims to raise real output from Y to full employment (Y_{FE}) without increasing the price level in the long run.



Which fiscal policy change is most likely to achieve this aim?

A decreasing the rate of income tax

B decreasing spending on education

C increasing the level of sales tax

D increasing welfare benefit payments

26 Which policy is most likely to have a contractionary effect on national income?

A a reduction in income tax rates

B a reduction in interest rates

C an appreciation in the exchange rate

D an increase in government spending on transport infrastructure

21 What is an example of expansionary fiscal policy?

A an increase in income tax

B an increase in private sector investment

C an increase in spending on public goods

D an increase in the money supply

25 An increase in interest rates is an example of which type of policy?

A contractionary fiscal policy

B contractionary monetary policy

C expansionary monetary policy

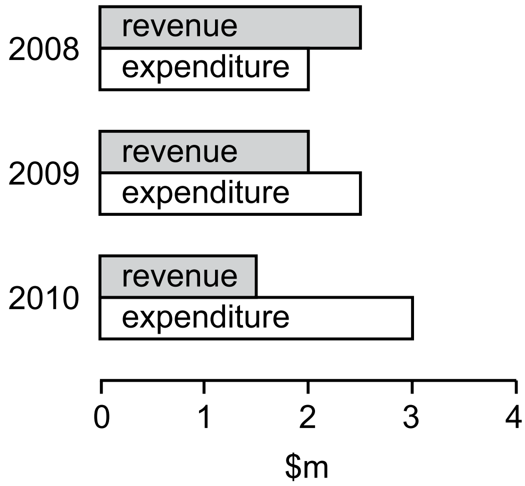
D restrictive supply-side policy

25 The table shows the amount of tax paid on three different levels of income.

Which combination shows a proportional income tax system?

	tax paid on annual income of $10 000	tax paid on annual income of $20 000	tax paid on annual income of $40 000
A	1000	1000	1000
B	1000	1500	2000
C	1000	2000	4000
D	1000	2500	8000

22 The diagram shows a government's revenue and expenditure for three years.



What can be concluded from the diagram?

A A budget deficit was replaced by a budget surplus.

B A budget deficit increased.

C The economy moved from a point within its production possibility curve (PPC) to a point on it.

D The yield from taxation continuously increased.

A-LEVEL ECONOMICS • EXERCISE SHEET

5.3 Monetary policy

Name: ______________ Class: __________ Date: ____________ **Total: 26 marks**

KEY WORDS interest rate 利率 • monetary policy 货币政策 • central bank 中央银行 • exchange rate 汇率 • money supply 货币供给

Objective

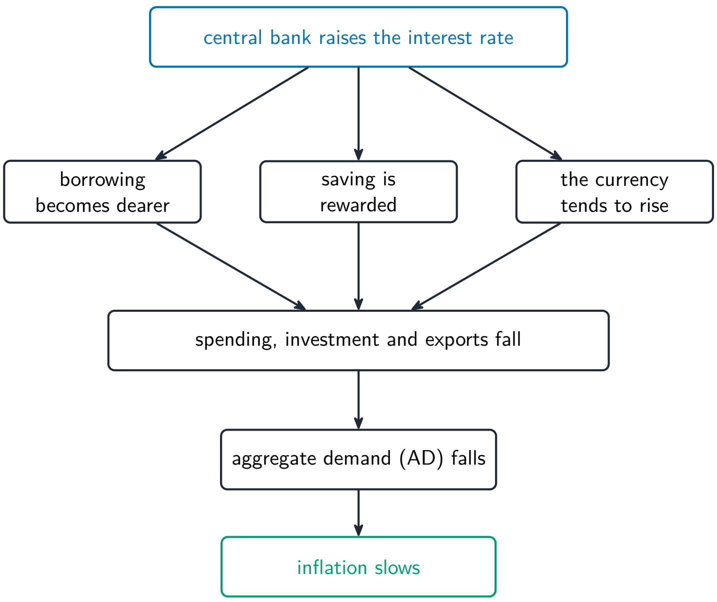
Build the skills to answer exam questions on **monetary policy 货币政策** — the **central bank 中央银行**, the **interest rate 利率**, the **transmission mechanism 传导机制**, and the effectiveness of monetary policy.

You must be able to:

- define monetary policy and name its main tool
- explain the transmission mechanism of an interest-rate change
- analyse the effectiveness of monetary policy

1 Worked examples

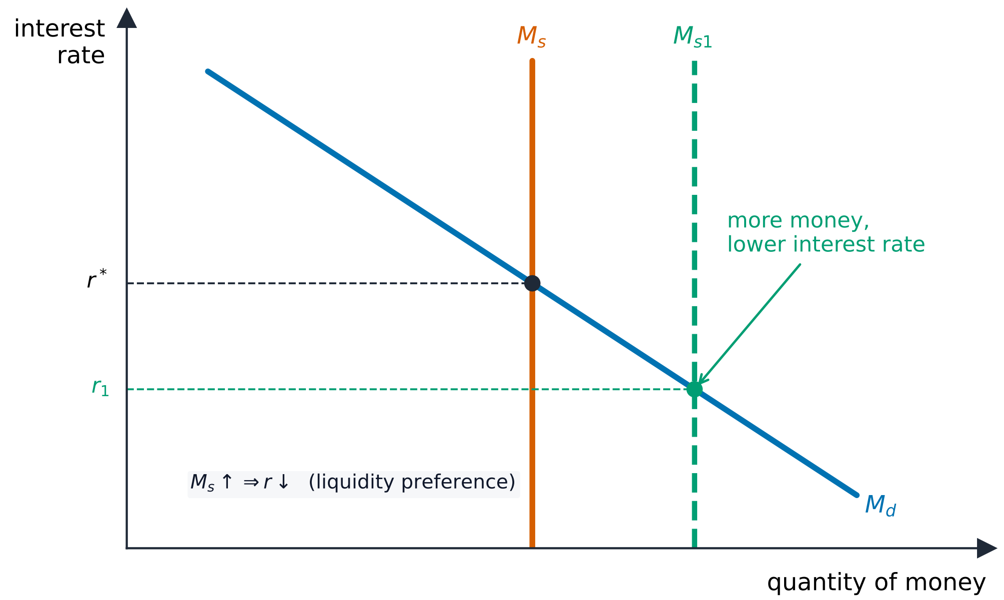
The transmission mechanism



A rate rise cuts spending, investment and exports — slowing inflation

- **Monetary policy 货币政策** is run by the **central bank 中央银行**; its main tool is the **interest rate 利率**.

- A **higher** rate: borrowing dearer → less spending/investment; saving rewarded → less spending; currency rises → fewer exports → **AD falls**, slowing inflation.
- A **cut** does the opposite, raising AD.



The money market: the central bank changes the interest rate that drives the transmission mechanism

Answer shapes: an **Explain [up to 8]** answer should trace the transmission mechanism (AO3); **Discuss [12]** adds a judgement (AO4).

2 Practice

2.1 Define the term *monetary policy.* [2]

2.2 State the main tool of monetary policy. [1]

2.3 State two ways a higher interest rate reduces aggregate demand. [2]

3 Exam-style questions

3.1 To reduce demand-pull inflation, a central bank should: [1]

- **A** lower the interest rate
- **B** raise the interest rate
- **C** raise government spending
- **D** cut income tax

3.2 Explain how a rise in the interest rate works through the economy to reduce inflation. [8]

3.3 Discuss whether monetary policy is always effective in controlling inflation. [12]

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 the use by the central bank of the interest rate (and the money supply or exchange rate) to influence aggregate demand (2 for a clear definition; 1 for a partial idea).

2.2 the interest rate (1).

2.3 any two of: borrowing is dearer so spending/investment falls; saving is rewarded so consumption falls; the currency rises so exports fall (1 + 1).

3.1 B. A higher interest rate lowers AD and slows demand-pull inflation.

3.2 *[8]* AO1 1 + AO3 up to 7 (the transmission mechanism) — a higher rate makes borrowing dearer (less consumption and investment) and saving more attractive, and tends to raise the currency (fewer exports, more imports) → all three lower aggregate demand → with lower demand, firms raise prices less → inflation slows.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** the rate is flexible and can be changed quickly, directly affecting borrowing and demand. **Against:** long time lags (a year or more), and in a deep slump even very low rates may not encourage worried firms and households to borrow (a liquidity trap); it cannot fix cost-push inflation easily. Judgement: monetary policy is effective against demand-pull inflation in normal times, but weaker in a slump or against cost-push inflation — it depends on confidence and the cause of inflation.

23 A central bank increases interest rates to reduce inflation.

When will this policy be most likely to succeed?

A When household spending is inelastic in response to interest rate changes.

B When the country has a floating exchange rate that appreciates.

C When the government has an increasing budget deficit.

D When trade unions demand higher wages to protect the living standards of their members.

A-Level Economics: **w25 12**

19 A central bank is asked by the government to help achieve price stability.

If inflation rises steeply, which policy will **not** be directly within the control of the central bank?

A increasing the rate of interest to reduce consumer spending

B managing a reduction of the money supply

C using credit restrictions to regulate lending by commercial banks to households

D restricting wage increases in the private and public sectors

21 What is an example of expansionary monetary policy?

A the central bank increasing the money supply

B the central bank causing an appreciation of the country's foreign exchange rate

C the central bank increasing controls on credit lending

D the central bank increasing the minimum lending rate of interest

A-Level Economics: **w25 14**

22 An economy has both increasing imported raw material prices and demand-pull inflation.

Which combination of policies is most likely to help its government achieve its macroeconomic objective of price stability?

	budget deficit	exchange rate	rate of interest
A	decreases	depreciates	decreases
B	decreases	appreciates	increases
C	increases	depreciates	decreases
D	increases	appreciates	increases

21 What is likely to be an expansionary monetary policy?

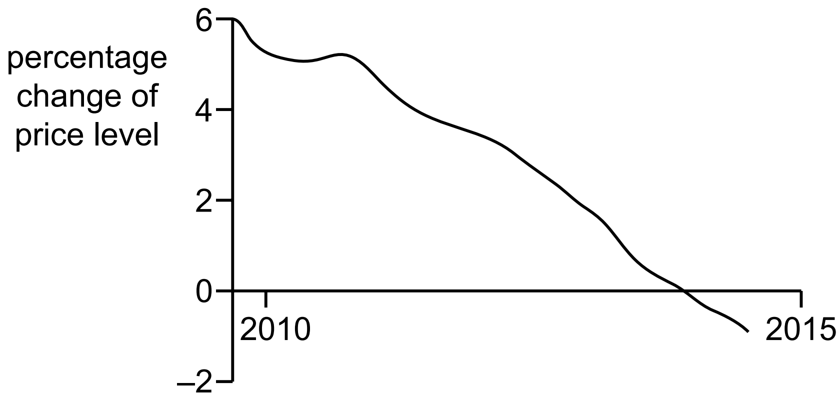
A a decrease in the availability of credit

B a decrease in the exchange rate

C an increase in government spending

D an increase in subsidies for training

23 In recent years an economy has experienced changes in its price level as shown.



Which government policy is most effective in reversing the trend shown in the price level?

A encourage firms to expand production through tax incentives

B introduce an incomes policy to directly control wage increases

C promote household savings by advertising saving schemes

D reduce interest rates and increase money supply

A-LEVEL ECONOMICS • EXERCISE SHEET

5.4 Supply-side policy

Name: ____________ Class: ________ Date: __________ **Total: 26 marks**

KEY WORDS supply-side policy 供给侧政策 • privatisation 私有化 • market-based and interventionist 市场化与干预型 • deregulation 放松管制 • training 培训

Objective

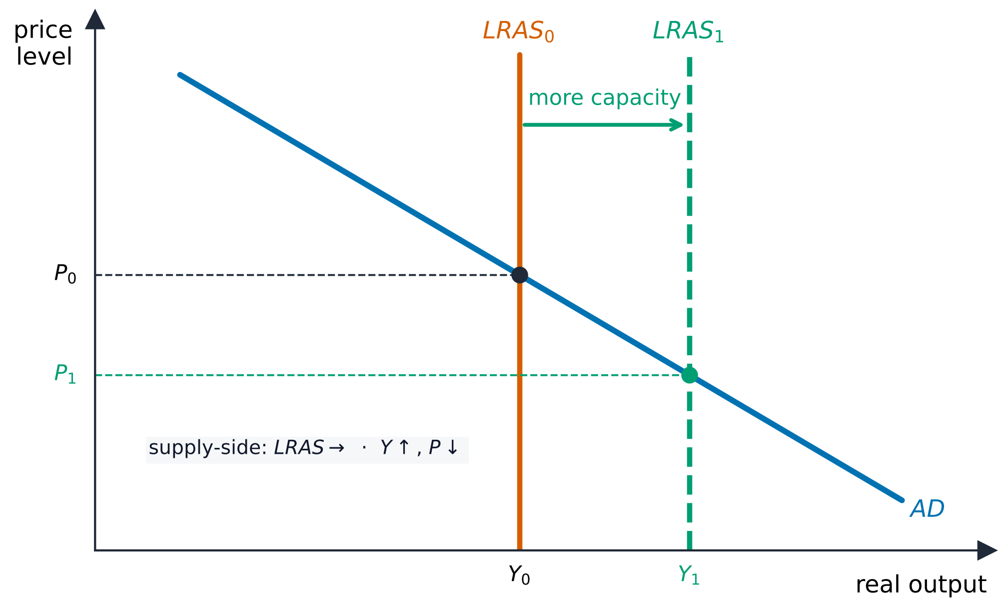
Build the skills to answer exam questions on **supply-side policy 供给侧政策** — **market-based and interventionist** 市场化与干预型 measures, their effect on **LRAS** 长期总供给, and their effectiveness.

You must be able to:

- define supply-side policy and give market-based and interventionist examples
- show its effect on LRAS
- analyse its strengths and weaknesses

1 Worked examples

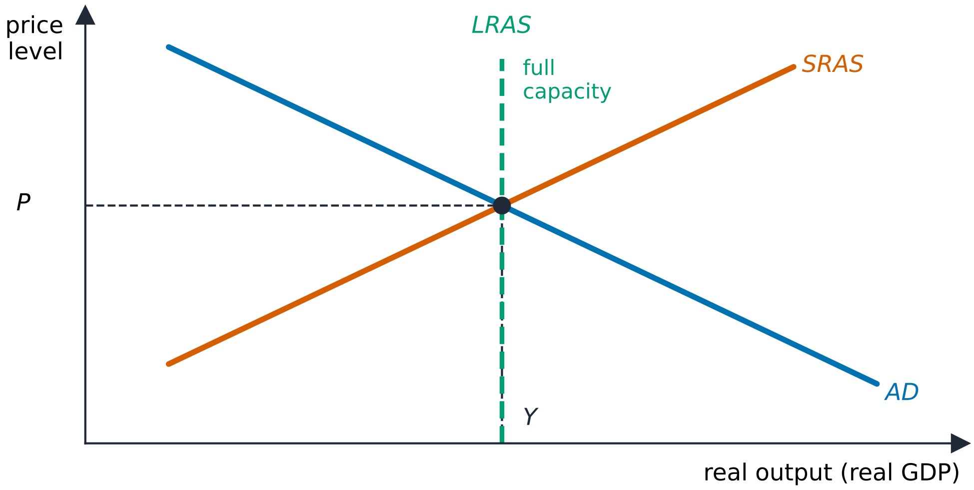
■ Raising productive capacity



*Growth **and** lower inflation — no trade-off*

- **Supply-side policy 供给侧政策** raises **productive capacity 生产能力** (shifts LRAS right).

- **Market-based:** cut income tax/benefits (work **incentive** 激励), **privatisation** 私有化, **deregulation** 放松管制.
- **Interventionist:** education/**training** 培训, **infrastructure** 基础设施, support for research.



short-run equilibrium: $AD = SRAS$ · long-run capacity: vertical $LRAS$

On AD–AS: supply-side success raises real output ***and*** *lowers the price level — no inflation trade-off*

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

2 Practice

2.1 Define the term *supply-side policy.* [2]

2.2 State one market-based and one interventionist supply-side policy. [2]

2.3 State the effect of a successful supply-side policy on LRAS. [1]

3 Exam-style questions

3.1 Which is a **market-based** supply-side policy? [1]

- **A** government spending on training
- **B** building new infrastructure
- **C** privatising a state-owned firm
- **D** raising unemployment benefits

3.2 Using a diagram, explain how investment in education and training can raise an economy's productive capacity. [8]

3.3 Discuss whether supply-side policy is the best way to achieve long-term economic growth. [12]

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 policy that aims to raise the economy's productive capacity by improving how markets work and raising productivity (shifting LRAS right) (2 for a clear definition; 1 for a partial idea).

2.2 market-based: cut income tax / privatisation / deregulation; interventionist: education and training / infrastructure / research support (1 + 1).

2.3 LRAS shifts to the right (1).

3.1 C. Privatisation is a market-based supply-side policy.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (LRAS shifts right; price level falls, output rises) + AO2/AO3 up to 3 — training raises workers' skills → higher productivity (output per worker) → the economy can produce more → LRAS shifts right, giving higher output and lower prices.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** supply-side policy can raise growth *and* lower inflation with no trade-off, and improves long-run capacity. **Against:** it is slow (education pays off over years), costly, uncertain, and some measures (cutting benefits) widen inequality; demand must also be strong enough to use the extra capacity. Judgement: supply-side policy is the most effective route to *sustained* growth, but works best combined with demand-side support — its success depends on time and how well it is targeted.

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

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

A-Level Economics: **w25 12**

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

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

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

A-Level Economics: **s25 11**

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

A-Level Economics: **Specimen 1**

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