25 A government reduced the tax on company profits from 28% to 20%.

Which statement best describes this policy?

A It is both a contractionary fiscal policy and a supply-side policy.

B It is both an expansionary fiscal policy and a supply-side policy.

C It is both an expansionary fiscal policy and an expansionary monetary policy.

D It is both an expansionary monetary policy and a supply-side policy.

A-Level Economics: **w25 14**

19 Which increase makes cost-push inflation **less** likely to happen?

A indirect tax rates

B raw material shortages

C the foreign exchange rate

D trade union power

24 A worker earns $10 000 and pays $1000 in income tax.

Another worker earns $30 000 and pays $4500 in income tax.

A third worker earns $150 000 and pays $50 000 in income tax.

Which type of tax is this?

A indirect

B progressive

C proportional

D regressive

A-Level Economics: **w25 23**

4 **(a)** For your economy or for one that is known to you, explain **three** causes of inflation **and** consider which of these causes is likely to be most important in 2025. [8]

(b) Assess whether supply-side policy or demand-side policy is the better way of reducing this inflation. [12]

OR

1 Will stronger economic growth in the United States (US) lead to high inflation?

The US has experienced stronger economic growth than countries in Europe and elsewhere since the COVID-19 pandemic. In terms of Gross Domestic Product (GDP), it had particularly strong growth over the fourth quarter of 2023 of 3.3%. This far exceeded economists' expectations of 2%. This means that annual growth for 2023 was 2.5% which was better than other high-income economies. It is on target to do the same in 2024 as shown in Fig 1.1.

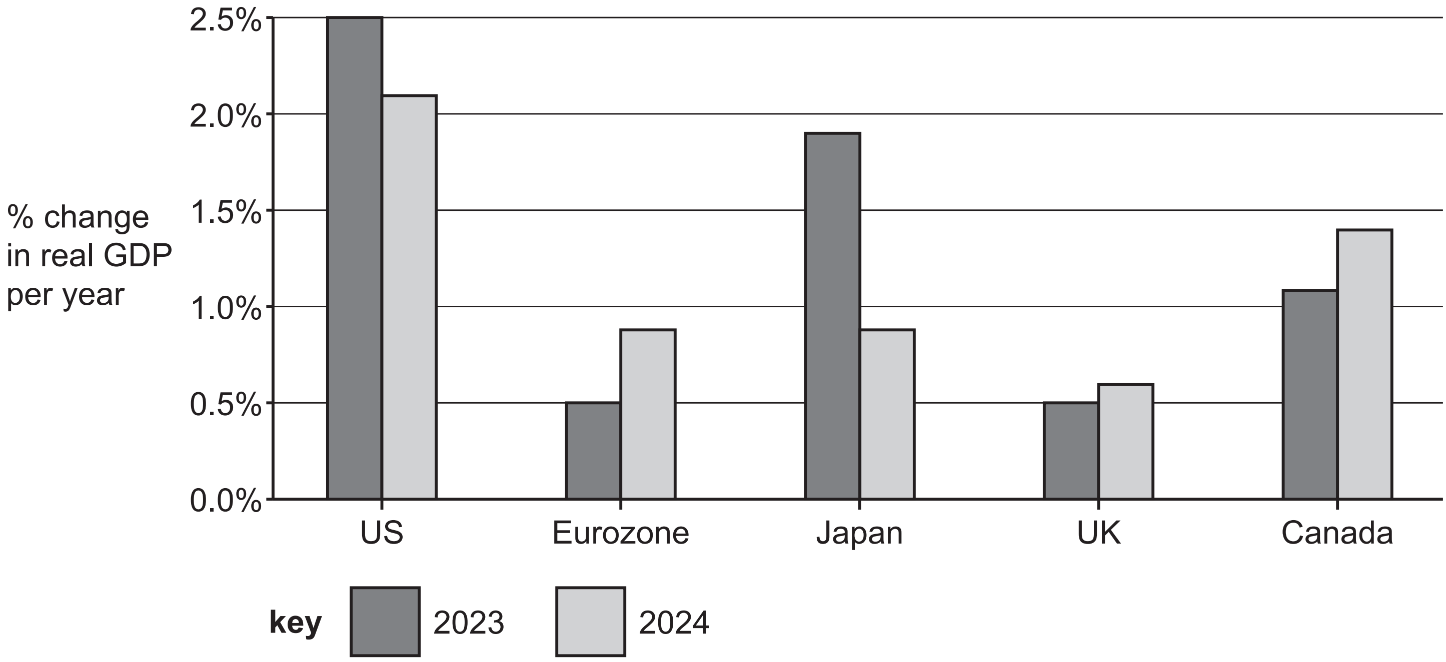

Fig. 1 International Monetary Fund (IMF) economic growth forecasts for 2023 and 2024

Economists have suggested that the strong economic growth in the US was caused by both demand and supply factors. In 2020, the US government responded to the COVID-19 pandemic by injecting US$5 trillion into the economy. Spending in many areas included more generous unemployment benefits and grants to small firms. This huge financial stimulus, much bigger than other countries, has been credited with maintaining consumer spending which represents 70% of aggregate demand.

On the supply side of the economy, existing flexible labour markets enabled firms to make workers redundant. This encouraged firms to invest in new technologies, leading to increased productivity and continued expansion in the long run. As firms expanded, they employed more workers causing disposable incomes to rise. Finally, the US is a net exporter of energy and therefore firms did not suffer the huge increase in energy costs faced by firms in Europe caused by the conflict in Ukraine. This has allowed the US to keep inflationary pressure under control.

In March 2024, however, the rate of inflation in the US rose much faster than expected as its level of unemployment fell, leading to an increase in consumer spending. Although this may lead to further economic growth and the benefits this brings, there are costs associated with inflation that may need to be dealt with. One policy that could be used is to increase interest rates, but US interest rates were already at their highest level for more than two decades because of earlier inflationary pressures. The hope had been that interest rates might start to fall, but now there are fears that any cuts in interest rates will be delayed or even worse, it might even be necessary to increase them further.

Sources: Adapted from BBC News articles: US economy sees surprisingly strong growth, 13 February 2024, US inflation jumps, 11 April 2024 and US jobs boom raises doubts about rate cuts, 5 April 2024

(a) Compare the forecast rates of economic growth for the US and Eurozone between 2023 and 2024. [2]

(b) Explain **one** reason why the IMF uses percentage change in real GDP and not percentage change in nominal GDP when measuring economic growth. [2]

(c) Explain, with the help of a diagram, why an increase in productivity in US firms may reduce the price of their products and consider whether this will always be the outcome. [4]

(d) Assess whether the costs of inflation are always likely to be greater than the benefits of inflation for the US. [6]

(e) Assess the extent to which maintaining interest rates at a high level will be the best policy for the US to control inflation. [6]

Section B

Answer **one** question.

EITHER

A-Level Economics: **s25 12**

24 Which supply-side policy will encourage new entrepreneurs?

A an increase in government subsidy to small firms

B an increase in the national minimum wage

C an increase in the power of trade unions

D an increase in the tax on business profits

29 A country is experiencing a deficit on the current account of its balance of payments.

Which policy decision could reduce the deficit?

A decrease in income tax rates

B increase in exchange rates

C increase in government spending

D increase in import tariffs