Revision Sheet

IGCSE Economics · Unit 4 Government and the macroeconomy

17 vocabulary items · 33 marks of exam questions (14 questions)

Part 1 · Vocabulary review (17 items). The terms this unit is examined on most. Mark it yourself from the answer key.

Section A · Chinese to English

Write the English word.

1. _____ [1]
2. _____ [1]
3. _____ [1]
4. _____ [1]
5. _____ [1]
6. _____ [1]
7. _____ [1]
8. _____ [1]
9. _____ [1]
10. _____ [1]
11. _____ [1]
12. _____ [1]
13. _____ [1]
14. _____ [1]
15. _____ [1]
16. _____ [1]
17. _____ [1]

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Part 2 · Exam questions (33 marks, 14 questions) begins on the next page. They are ordered easy to difficult and none of them has been set before.

18 What is the definition of a government budget?

A a forecast of government spending and revenue for the following financial year

B an account of government taxation revenues for the current financial year

C an estimate of government capital spending for the current financial year

D an explanation of government spending for the following financial year

19 Governments use monetary policy such as increasing the rate of interest.

What is a result of increasing the rate of interest?

A It creates disincentives for wage earners.

B It discourages investment by entrepreneurs.

C It reduces the disposable income of consumers.

D It reduces government transfer payments.

20 A government wishes to reduce the surplus on the current account of its balance of payments.

Which policy is likely to achieve this?

A cutting government spending

B devaluing its currency

C increasing existing import quotas

D increasing import duties

21 The table shows the rates of unemployment and real GDP growth for an economy in year 1 and year 2.

	year 1	year 2
rate of unemployment (%)	3	7
rate of real GDP growth (%)	3	–1

Which combination of policy measures would be most effective in returning the economy to the year 1 level of activity?

A a decrease in direct taxes and an increase in the rate of interest

B a decrease in government expenditure and an increase in the rate of interest

C an increase in direct taxes and a decrease in the rate of interest

D an increase in government expenditure and a decrease in the rate of interest

22 The number of people in relative poverty in a country is decreasing.

What is the most likely cause of this?

A a contractionary fiscal policy

B a decrease in the national minimum wage

C an expansion of investment in education

D an increase in barriers to entry for multinational companies

23 The table shows government expenditure and revenue in selected years.

year	government expenditure $bn	tax revenue $bn
1	500	500
2	600	400
3	700	300

What might explain the changes in the government's budget over the period?

A a fall in the dependency ratio

B a fall in the exchange rate

C an increase in cyclical unemployment

D an increase in real GDP

24 Workers in Switzerland earn more on average than workers in Mexico.

What is a likely cause of this?

A A greater percentage of workers in Switzerland work part-time than in Mexico.

B The average worker in Switzerland is more productive than the average worker in Mexico.

C The average worker in Switzerland pays more income tax than the average worker in Mexico.

D The unemployment rate is higher in Switzerland than in Mexico.

25 What is the consequence of economic growth for individuals and for the economy?

	individuals	the economy
A	increase in absolute poverty	increase in inflation
B	increase in average incomes	increase in government tax revenue
C	increase in the variety of goods and services	reduction in exports
D	increase in unemployment	reduction in the standard of living

26 The table shows the weights allocated to the three items in a Consumer Prices Index (CPI) for two years.

item	weights	
	year 1	year 2
food	30	35
clothing	20	15
housing	50	50
total	100	100

What can be concluded from this data?

A Clothing prices have fallen.

B Living standards remain unchanged.

C The average price level is unchanged.

D The proportion of income spent on food has risen.

27 What is most likely to increase when the rate of inflation gradually changes from 2% to 8% in one year?

A the cost of updating existing price lists

B the level of business confidence

C the real income of fixed-income earners

D the real value of consumer debt

28 A government wishes to prevent deflation.

Which combination of policies would be the most effective in achieving this aim?

	interest rate	government spending
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

29 Which statement about supply-side policy is correct?

A It aims to increase the productive potential of the economy.

B It aims to increase total demand in the economy.

C It involves changes in the equilibrium foreign exchange rate.

D It involves changes in the rate of interest.

30 Which item is **least** likely to be included in the Consumer Prices Index (CPI)?

A domestic cooking oil

B homemade clothes

C milk

D personal mobile phones

31 South America is a large geographical area with millions of microeconomic decision-makers. During a recent pandemic, schools stayed closed for longer than anywhere else in the world. As a result, students received less education. The World Bank estimated that the average student would earn $24,000 less over their lifetime. Some students may earn only the minimum wage. In 2020, South America had an inflation rate of 6.3% and an economic growth rate of only 1.8%.

(a) Identify the difference between microeconomics and macroeconomics. [2]

(b) Explain how less education can reduce a person's lifetime earnings. [4]

(c) Analyse how the introduction of a minimum wage could affect unemployment. [6]

(d) Discuss whether or not an economy with a high inflation rate will have a low economic growth rate. [8]