IGCSE ECONOMICS • EXERCISE SHEET

4.2 Fiscal policy

Name: ____________ Class: ________ Date: __________ **Total: 17 marks**

Objective

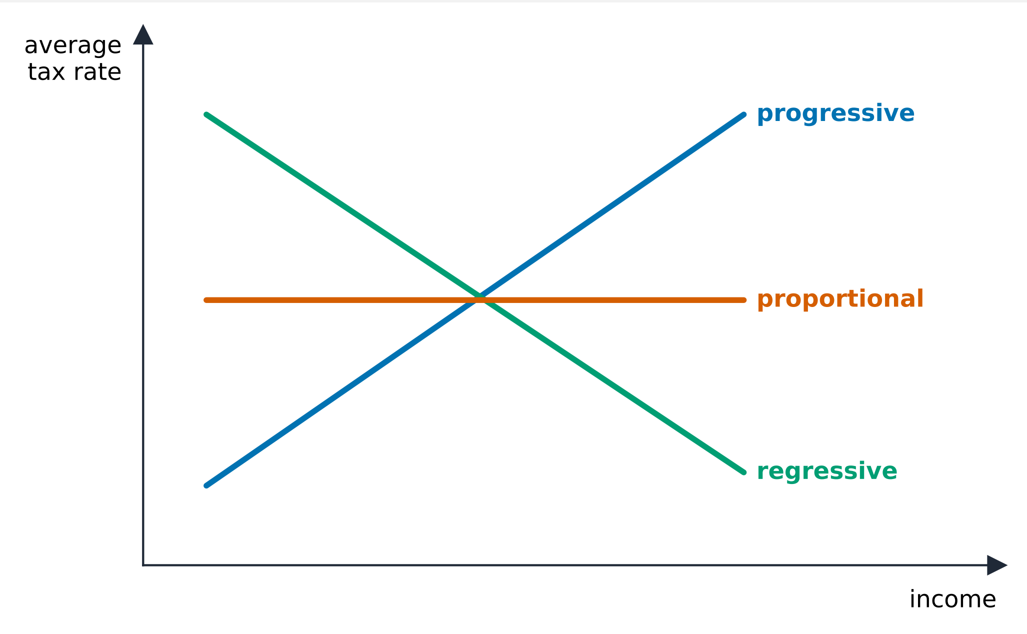
Build the skills to answer exam questions on **fiscal policy** 财政政策—**government spending and taxation** 政府支出与税收, the **budget** 预算 (deficit/surplus), **types of tax** 税收类型, and how fiscal policy manages the economy.

You must be able to:

- explain fiscal policy, budget deficit and surplus
- classify taxes (direct/indirect, progressive/regressive)
- analyse how fiscal policy affects the economy

1 Worked examples

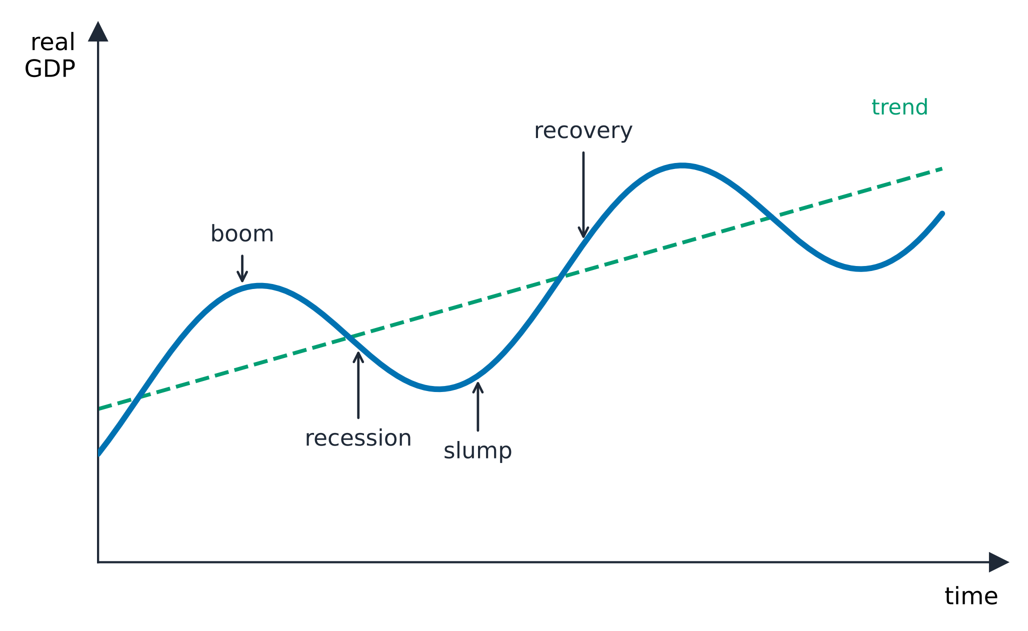
■ Spending, tax and the budget



Fiscal policy = government spending and taxation

- **Budget deficit** 预算赤字: spending > tax (must borrow). **Surplus** 盈余: tax > spending.
- **Direct tax** 直接税: on income/profit. **Indirect tax** 间接税: on spending.

- **Progressive tax 累进税:** rate rises with income (redistributes). **Regressive tax 累退税:** rate falls with income.
- **Boost the economy:** more spending or lower taxes (raises demand) —but may cause inflation.



Fiscal policy is used across the cycle —expansionary in a recession, tighter in a boom

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

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

2.2 State the difference between a *direct* and an *indirect* tax. [2]

2.3 Define the term *budget deficit.* [2]

3 Exam-style questions

3.1 A **progressive** tax takes: [1]

- **A** a bigger percentage from higher incomes
- **B** a smaller percentage from higher incomes
- **C** the same percentage from everyone
- **D** no tax from the rich

3.2 Explain how a government could use fiscal policy to increase economic growth. [4]

3.3 Discuss whether raising taxes is a good way for a government to reduce inflation. [8]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **4.2 Fiscal policy** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/11 N25 —Q18 (fiscal policy)
- 0455/11 N25 —Q19 (taxation)

- 0455/12 N25 —Q18 (budget / fiscal policy)

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 the government changing its spending and taxation to manage the economy (2 for a clear definition; 1 for a partial idea).

2.2 a direct tax is paid straight to the government from income or profit; an indirect tax is added to the price of goods and paid when spending (2 for a clear difference; 1 for a partial idea).

2.3 when government spending is greater than the tax raised, so the government must borrow (2 for a clear definition; 1 for a partial idea).

3.1 **A**. A progressive tax takes a bigger percentage from higher incomes.

3.2 *[4]* K 1 + An up to 3 —the government can raise its own spending (e.g. on roads, schools) or cut taxes → this leaves people and firms with more to spend → total demand rises → firms produce more and hire more workers → economic growth rises.

3.3 *[8]* K/App/An up to 5 + Ev up to 3. **For raising taxes:** higher taxes leave people with less to spend → total demand falls → demand-pull inflation eases. **Against:** it lowers demand, which can raise unemployment and slow growth; it is unpopular; and it does not help *cost-push* inflation. **Judgement (Ev):** raising taxes can curb demand-pull inflation, but it risks higher unemployment and does not fix cost-push inflation —so it depends on the cause of inflation and the state of the economy.