Solutions

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

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

2.1

- **fiscal policy** is the government changing its **spending and taxation** to manage the economy (K)

2.2

- a **direct tax** is paid from income or profit; an **indirect tax** is added to the price of goods (K)

2.3

- a **budget deficit** is when government **spending is greater than tax raised**, so the government must borrow (K)

3.1 A

- a **progressive** tax takes a **bigger percentage** from higher incomes (K)
- B is regressive; C is proportional; D is false

3.2

- the government can **raise spending** or **cut taxes** (K)
- people and firms have more to spend → **total demand rises** (An)
- firms produce more and hire more → **economic growth** rises (An)

3.3

- **for**: higher taxes leave people with less to spend → total demand falls → **demand-pull inflation** eases (K + An)
- **against**: it can raise unemployment and slow growth; it is unpopular; it does not help **cost-push** inflation (An)
- **judgement (Ev)**: raising taxes can curb demand-pull inflation, but it depends on the **cause** of inflation