Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

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

2.1

- $420 - 380 = \$40$ billion
- a budget **deficit**

2.2

- income tax: **direct**
- sales tax: **indirect**

2.3

- rich and poor pay the **same** tax when they buy the same food (K)
- poor households spend a larger share of their income on food (App)
- so the tax takes a **larger share** of a low income (An)

3.1

C

3.2

(a)

- before $32\,000 \times 0.25 = 8000$; after $32\,000 \times 0.20 = 6400$
- tax falls by $\$\mathbf{1600}$

(b) two reasons, each explained (K + App each):

- roads are partly a **public good**: private firms would not build enough
- better roads cut firms' transport **costs** and raise productivity
- building roads creates **jobs** during a recession

(c) a developed chain, for example:

- the tax cut raises **disposable income**, so households spend more (K)
- road building adds directly to **demand** and hires construction workers (App)
- firms that sell more goods need more workers (An)
- newly employed workers spend their wages, so demand rises again (the **multiplier** effect) (An)
- so cyclical unemployment falls (An)

(d) indirect taxes: (An)

- hard to avoid; can target **demerit goods** such as tobacco; do not reduce the reward for working

income tax: (An)

- **progressive**: it is fairer, since the rich pay a larger share
- indirect taxes are **regressive** and push up prices (inflation)

judgement: (Ev) for example, income tax is fairer for raising large sums, while indirect taxes are best used on demerit goods; a mix keeps the system fair without discouraging work.

Level 3 (6–8): both sides analysed and a justified judgement. Level 2 (3–5): one side analysed or both explained. Level 1 (1–2): simple points.