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

- **monetary policy** is the central bank changing **interest rates** (and the money supply) to manage the economy (K)

2.2

- cheaper loans and less reward for saving
- consumer spending **rises** (K)

2.3

- the **central bank** (K)

3.1 B

- to reduce inflation, **raise interest rates** (K)
- A, C and D all **raise** demand, so they would raise inflation

3.2

- a higher interest rate makes borrowing **dearer** and saving more rewarding (K)
- people and firms spend and invest **less** → total demand falls (An)
- firms raise prices less → **inflation falls** (An)

3.3

- a large cut in interest rates makes borrowing cheaper and saving less rewarding (K)
- households and firms borrow and spend more → **output and jobs rise** (An)
- if demand grows faster than supply, **prices may rise** → higher inflation (An)