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Fiscal policy

- 1 What is the term used to describe taxes paid from the income, wealth and profits of individuals and firms?
 - A corporation tax
 - B direct tax
 - C income tax
 - D indirect tax
- 2 If a government loosens fiscal policy in an attempt to expand the economy, what does this involve?
 - A raising taxes and raising government expenditure
 - B raising taxes and reducing government expenditure
 - C reducing taxes and raising government expenditure
 - D reducing taxes and reducing government expenditure
- 3 A government aims to expand aggregate demand in the economy to boost national output and employment. Which policy should it use?
 - A raise expenditure on education and healthcare
 - B raise taxes and raise interest rates
 - C reduce government spending and raise taxes
 - D reduce taxes and reduce interest rates
- 4 Which statement does **not** outline how fiscal policy can be used to reduce unemployment in the economy?
 - A A cut in taxes may increase consumer spending.
 - B Government spending can create jobs in both the private and public sectors.
 - C Greater government spending increases aggregate demand, causing the derived demand for labour to rise.
 - D Lower interest rates increase the spending ability of households and encourage firms to invest more.
- 5 When does a budget surplus occur?
 - A when a country exports more than it imports
 - B when a country imports more than it exports
 - C when government revenues exceed public expenditure
 - D when public expenditure exceeds government revenues

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- 6 Explain **two** reasons why the government might choose to increase public expenditure in the economy. [4 marks]

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- 7 The Bahamas and Estonia have a zero rate of corporation tax. Explain **two** reasons behind such a government decision. [4 marks]

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- 8 Suppose in a country the progressive tax rates are 12% (for those earning between \$10 001 and \$50 000 per year) and 17% (for those earning over \$50 000 per year).

- a Complete the table below and calculate the total amount of tax paid by an individual who earns \$80 000 a year. [2 marks]

Income level (\$)	Tax rate (%)	Amount of tax paid (\$)
\$10 000	0%	
\$10 001–\$50 000	12%	
\$50 000+	17%	
Total tax:		

- b Calculate the average rate of income tax paid by the individual. [2 marks]

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- 9 a Define the term *supply-side policy*. [2 marks]

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b Analyse how fiscal policy can impact on the supply-side of an economy.

[6 marks]

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10 a Define the term *contractionary fiscal policy*.

[2 marks]

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b Discuss whether raising income taxes is in the best interest of the economy.

[8 marks]

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