

# *Cambridge*

## *IGCSE*

### *Econ*

*CODE: (0455)*

## *Section 04*

# *Government and the macroeconomy*



## Chapter 24

### 4. 24 The role of government

#### Factors that influence the role of government

A government plays a larger role in an economy operating a mixed economic system than one operating a more market based economic system. How much the government intervenes in mixed economies differs according to both the perceived extent of market failure and how effective government policy measures are.

#### The government's influence on the local economy

Local areas heavily rely on state-owned and private sector industries, with government decisions affecting production and wages. Private sector industries may receive subsidies to prevent unemployment. Economic policies are made at the local level, with **local governments** providing goods and services like refuse collection, libraries, housing, and roads, financed by taxes and grants from the national government.

#### The functions of government at local and national levels

The government carries out a range of functions. It is an owner of industries and assets such as schools and hospitals, a producer, a regulator, a collector of taxes and a director of the level of economic activity.

#### The government as a producer

A government may produce products which it believes are of key importance, the products that are produced by a natural monopoly, those which it thinks are essential and hence should be available to all and those which the private sector may under-produce or not produce.

Most countries seek to ensure that their key industries survive and do well. Key industries may be **strategic industries** or **national champions**.

#### Public sector contracts and partnerships between the public and private sectors

Private sector firms offer various products and services to the public sector, such as road building and pharmaceutical services. Governments are increasingly forming partnerships with private sector firms, where the private sector initially finances state projects, and the government rents and operates them. In some cases, both sectors provide part of a service.

#### The government as an employer

The government employs workers and managers to operate state-owned enterprises, aiming to reduce unemployment, control price increases, and set an example by providing quality training, preventing discrimination, and ensuring good pensions for its employees.

### The role of the government at an international level

Some governments are also members of trade blocs such as the European Union (EU) and Mercosur (a Latin American trade bloc). **Trade blocs** promote trade between the member countries and may restrict trade with non-members

In addition, governments belong to international organisations. For instance, in 2016 there were 164 member countries of the World Trade Organisation (WTO). The WTO deals with global rules of trade between member countries. Its main aim is to promote **free international trade**.

#### KEY TERMS

**Local government:** a government organisation with the authority to administer a range of policies within an area of the country.

**Natural monopoly:** an industry where a single firm can produce at a lower average cost than two or more firms because of the existence of significant economies of scale.

**Strategic industries:** industries that are important for the economic development and safety of the country.

**National champions:** industries that are, or have the potential to be, world leaders.

#### KEY TERMS

**Trade bloc:** a regional group of countries that remove trade restrictions between themselves.

**Free international trade:** the exchange of goods and services between countries without any restrictions.

## Chapter 25

### 4.25 The macroeconomic aims of government

#### Governments' macroeconomic aims

Government aims for economic growth, low unemployment, price stability, balance of payments, and income redistribution. Policy measures are evaluated, but macroeconomic performance is influenced by global market dynamics and the success of other economies.

#### Economic growth

When an economy experiences **economic growth**, there is an increase in its output in the short run. This is sometimes referred to as **actual economic growth**. In the long run, for an economy to sustain its growth, the productive potential of the economy has to be increased.

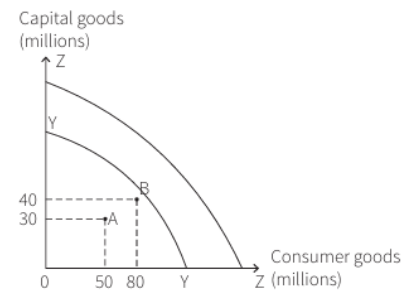


Fig. 25.1: Actual and potential economic growth

The difference between actual and **potential economic growth** can be shown on a production possibility curve.

In analysing economic growth and other macroeconomic issues, economists also make use of aggregate demand and aggregate supply diagrams. **Aggregate demand (AD)** is the total demand for a country's products at a given price level.

**Aggregate supply (AS)** is the amount of goods and services that domestic firms are willing and able to sell at a given price level.

Aggregate supply increases and the AS curve shifts to the right when production costs fall and resource quantity or quality increases. Changes in aggregate supply and AS affect macroeconomic growth. Actual growth results in increased output and price level, while potential growth occurs when an economy is near full employment, causing output rise and price level fall.

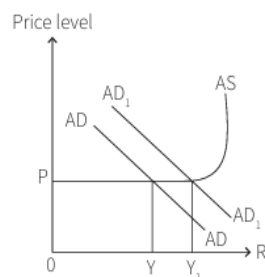


Fig. 25.2: Actual economic growth

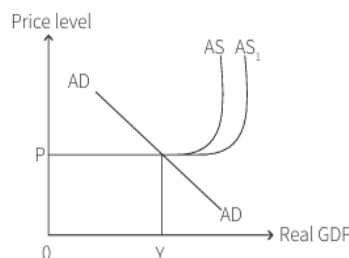


Fig. 25.3: Potential economic growth

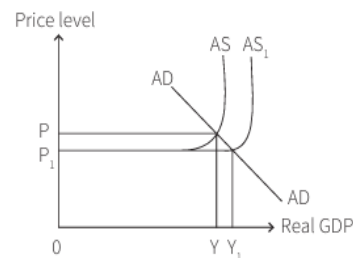


Fig. 25.4: Potential economic growth causing a rise in national output

#### KEY TERMS

**Economic growth:** an increase in the output of an economy and in the long run, an increase in the economy's productive potential.

**Actual economic growth:** an increase in the output of an economy.

**Potential economic growth:** an increase in an economy's productive capacity.

**Aggregate demand:** the total demand for a country's product at a given price level. It consists of consumer expenditure, investment, government spending and net exports (exports – imports).

**Aggregate supply:** the total amount of goods and services that domestic firms are willing to supply at a given price level.

#### The reasons why governments aim for economic growth

Governments aim for economic growth to improve living standards, improve nutrition, housing, and healthcare. Increased output can lead to employment, avoid price pressure, improve trade, and benefit the poor by creating jobs and tax revenue. This can also help achieve other economic aims.

### Criteria that governments set for economic growth

A country's economic growth rate is determined by its output level and growth in productive capacity. Governments aim for economies to be working at full capacity, setting targets based on their assessment of the potential economic growth rate.

#### Low unemployment

Most governments try to achieve as low a level and rate of unemployment as possible. This is sometimes expressed as **full employment**.

Those who are in work or are unemployed, but actively seeking work, form the labour force and are said to be **economically active**.

The **unemployment rate** is calculated as a percentage of the labour force

$$\frac{\text{Unemployment}}{\text{Labour force}} \times 100$$

So, if 5 million people are unemployed out of a labour force of 40 million, the unemployment rate is:

$$\frac{5 \text{ m}}{40 \text{ m}} \times 100 = 12.5\%$$

#### KEY TERMS

**Economically active:**  
being a member of the labour force.

**Unemployment rate:**  
the percentage of the labour force who are willing and able to work but are without jobs.

#### KEY TERMS

**Full employment:**  
the lowest level of unemployment possible.

### The reasons why governments aim for low unemployment

Unemployment is a waste of resources. Those unemployed can suffer a number of disadvantages including low income and government tax revenue may have to be spent supporting the unemployed.

### Criteria that governments set for unemployment

Governments and economists believe 0% unemployment is impossible due to the possibility of temporary job changes. They aim for low unemployment rates, which can vary across countries and over time. In most cases, it is difficult to achieve a 3% unemployment rate.

#### Price stability

**Price stability** means that the price level in the economy is not changing significantly over time. The price of some products may be falling while the price of others may be rising, but generally the amount households are paying for the products they are buying is relatively stable

#### KEY TERM

**Price stability:**  
the price level in the economy not changing significantly over time.

### The reasons why governments aim for price stability

Governments aim for price stability to ensure economic certainty and prevent product loss. This allows firms, households, and workers to plan confidently and avoid future price increases. Firms, households, and workers avoid raising prices due to higher costs.

### Criteria that governments set for inflation

Inflation is a key factor in governments' efforts to achieve price stability. They aim for a target inflation rate of 2% or higher, as measures of inflation can overstate price increases. Price rises can also hide product improvements, as people may pay lower prices in sales and second-hand purchases. A slight price rise can also encourage producers to increase output and enable firms to cut wage costs. Governments also aim to avoid a fall in price levels caused by a fall in aggregate demand, as it could lead to output decline and unemployment.

#### KEY TERMS

**Inflation rate:** the percentage rise in the price level of goods and services over time.

**Balance of payments:** the record of a country's economic transactions with other countries.

### Balance of payments stability

A key part of a country's **balance of payments** is its record of revenue received from selling exports and its expenditure on imports.

#### The reasons why governments aim for balance of payments stability

If expenditure on imports exceeds revenue from exports for a long period of time, the country will be living beyond its means and will get into debt

#### Criteria that governments set for balance of payments stability

Governments may not be concerned about a surplus or deficit in export revenue, as long as it's small or short-term. Increased imports of raw materials and capital goods may cause deficits, but these may increase the economy's production capacity. Short-term deficits may also result from income fluctuations.

### Redistribution of income

Governments redistribute income from the rich to the poor through taxation and spending. The rich are taxed more than the poor, and some of the raised money is spent on housing, unemployment, education, and health. Without these services, the poor may not find them accessible.

#### The reasons why governments may seek to redistribute income

Inequality of income and wealth may mean that some people are experiencing poverty. Governments try to reduce poverty because of the hardships it causes. Inequality can grow without government intervention

#### Criteria that governments set for income redistribution

Governments are unlikely to aim for a perfectly equal distribution of income. This is because people have different needs. It is also because taxing the rich too heavily and providing too generous benefits may act as a disincentive to effort and enterprise.

## Possible conflicts between macroeconomic aims

Full employment may conflict with stable prices, as low unemployment makes it difficult to increase output, leading to higher aggregate demand and inflation. Full employment and economic growth may also conflict with balance of payments stability, as higher output may result from higher exports but also increase incomes and spending on imports.

### Priority

If the aims appear to conflict, a government may have to decide between, for instance, reducing inflation and reducing unemployment. Its choice will be influenced by the relative scale of the problem, the consequences of the problem and which problem the country's citizens are most concerned about.

## Chapter 26

### 4.26 Fiscal policy

#### The budget

A government sets out the amount it plans to spend and raise in revenue in a **budget** statement. It shows the relationship between government revenue and government spending. A **budget deficit** is when the government's spending, also sometimes called public expenditure, is higher than its revenue. In this case, the government will have to borrow to finance some of its spending. In contrast, a **budget surplus** occurs when government revenue is greater than government spending.

## The reasons for government spending

Governments spend for four essential reasons. These are

**To influence economic activity.** A government may, for example, increase its spending in order to increase aggregate demand in the hope that the higher aggregate demand will stimulate higher output and so result in economic growth.

**To reduce market failure.** Governments spend on public goods as this would not be financed by the private sector. They spend on merit goods as market forces would not allocate sufficient resources to their production.

**To promote equity.** Governments provide benefits and products to vulnerable groups and the unemployed.

**To pay interest on national debt.** If a government has borrowed in the past to finance a gap between its spending and its tax revenue, it will have to pay interest on the loans.

Government spending can be a powerful government measure. This is because of the **multiplier effect** whereby any initial increase in spending will eventually cause a greater increase in a aggregate demand.

### KEY TERMS

**Budget:** the relationship between government revenue and government spending.

**Budget deficit:** government spending is higher than government revenue.

**Budget surplus:** government revenue is higher than government spending.

**National debt:** the total amount the government has borrowed over time.

## The reasons for levying taxation

**To redistribute income** from the rich to the poor. Higher income groups usually pay more in tax than the poor and some of the revenue raised is used to pay benefits to the poor.

**To discourage the consumption of demerit goods.** These are products that the government considers more harmful to consumers than they realise, for example, cigarettes and alcohol.

**To raise the costs of firms** that impose costs on others by, for example, causing pollution.

**To discourage the consumption of imports and hence protect domestic industries.** By placing tariffs on rival imported products, the country's inhabitants may buy less foreign and more domestic products.

**To influence economic activity.** As with government spending, changes in taxation can be used to change aggregate demand. If an economy is experiencing rising unemployment, its government may cut taxes to stimulate an increase in consumption and investment.

### KEY TERM

**Multiplier effect:** the final impact on aggregate demand being greater than the initial change.

## The main categories of taxes

Taxes are either direct or indirect and progressive, proportional or regressive. **Direct taxes** are taxes levied on a person's or a firm's income or wealth.

**Indirect taxes**, which can also be called expenditure or outlay taxes, differ from direct taxes in two key ways. One is that they are levied on spending.

A **progressive tax** is one which takes a higher percentage of the income or wealth of the rich. As taxable income or wealth rises, so does the rate of taxation. In the case of a **proportional tax**, the percentage paid in tax stays the same as income or wealth change. With a **regressive tax**, the percentage paid in tax falls as income or wealth rises.

Taxes usually increase with income or wealth, but the percentage paid differs. For instance, a rich person pays more excise duty per petrol litre, but the tax forms a smaller percentage of their income, making it a regressive tax.

Progressive tax		
Income (\$)	Tax paid (\$)	Tax rate (%)
100	10	10
500	100	20
1000	400	40
Proportional tax		
Income (\$)	Tax paid (\$)	Tax rate (%)
100	25	25
500	125	25
1000	250	25
Regressive tax		
Income (\$)	Tax paid (\$)	Tax rate (%)
100	40	40
500	150	30
1000	200	20

Table 26.1: Progressive, proportional and regressive taxes

#### KEY TERMS

**Direct taxes:** taxes on income and wealth.

**Indirect taxes:** taxes on expenditure.

**Progressive tax:** one which takes a larger percentage of the income or wealth of the rich.

**Proportional tax:** one which takes the same percentage of the income or wealth of all taxpayers.

**Regressive tax:** one which takes a larger percentage of the income or wealth of the poor.

### The main types of taxes

There are some taxes, however, which are levied in most countries. Among the most common type of direct taxes are:

**Income tax.** This is a tax on income that people receive from their employment and investment income. People are given a tax allowance, which is an amount of income they earn free of tax. Income above this level is referred to as taxable income.

**Corporation tax.** This is also referred to as corporate tax and is a tax on the profits of firms.

**Capital gains tax.** This is a tax on the profit made on assets when they are sold for a higher price than what they were bought for. A capital gain may be made,

**Inheritance tax.** This is a tax on wealth above a certain amount which is passed on to other people, when a person dies.

Common types of indirect taxes are:

- A sales tax is a tax imposed when products are sold. The main examples of sales tax are GST (general sales tax) and VAT (value added tax).
- Excise duties are taxes charged on certain domestically produced goods, most commonly on alcoholic drinks, petrol and tobacco.
- They are charged in addition to VAT. Customs duties are taxes on imports and are also called tariffs.
- A licence may be needed to use a range of products including a television and a car.



## Local taxes

Taxes are primarily national, but some are local, covering services like education, fire, libraries, roads, and refuse collection. There are two main types: property-based and household-based. Business rates are levied on local firms, while council tax is based on housing value and expenditure. Some countries also use local sales tax.

## The principles of taxation

Economists have identified a number of qualities that a good tax should possess. These include:

**Equity.** This means fairness in the sense that the amount of tax people and firms have to pay, should be based on their ability to pay. A rich person has a greater ability to pay tax than a poor person.

**Certainty.** A tax should be easy to understand, and households and firms should be able to calculate the amount of tax required to be paid by them.

**Convenience.** A tax should be easy to pay.

**Economy.** The cost of collecting a tax should be considerably less than the revenue it generates.

**Flexibility.** It should be possible to change the tax if economic activity changes or government aims change. The revenue from some taxes changes automatically to off set economic booms and slumps.

**Efficiency.** A tax should improve the performance of markets or at least not significantly reduce the efficiency of markets.

## Impact of tax

### Tax base and tax burden

The tax base, which includes a wide range of items and people, is the source of tax revenue. A wide tax base can reduce tax rates, while high corporate tax rates can reduce the tax base and cause firms to leave the country.

### Impact of taxation

The incidence of taxation is the distribution of indirect tax burden between consumers and producers. In products with inelastic demand, consumers bear most of the tax, as producers can pass on a higher price. In products with elastic demand, producers bear most of the tax, as shown in Figure 26.1.

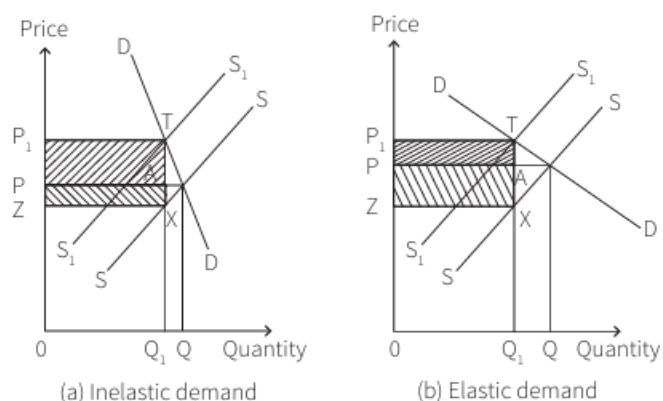


Fig. 26.1: The influence of the price elasticity of demand (PED) on the incidence of taxation



## The impact of direct taxes

High direct taxes can discourage effort, enterprise, and saving. They may prevent people from working overtime, taking promotions, and entering the labor force. They may also discourage entrepreneurs from expanding their firms or investing in new markets. High taxes can also impact saving income, reducing returns and encouraging target savers to save more. Direct taxes can redistribute income and wealth, acting as an automatic stabiliser and tax revenue source.

## The impact of indirect taxes

Direct taxes are progressive, while indirect taxes are regressive and heavily burden the poor. Increased indirect taxes can raise prices, potentially triggering inflation. However, indirect taxes offer benefits such as being easy and cheap to collect, less disincentive to effort and enterprise, and easier to adjust. They also provide more choice in tax payments, as the amount paid depends on what the consumer buys. Indirect taxes can be a useful source of income, especially in countries with low literacy rates or where income tax is difficult to raise due to the informal economy.

## Changes in taxes

In recent decades, in a number of countries governments have become more reliant on indirect taxes and less on direct taxes. This move has been designed to reduce disincentive effects and tax evasion. Even more recently, some countries have been adopting what are called **flat taxes**.

### KEY TERMS

#### Automatic stabilisers:

forms of government expenditure and taxation that reduce fluctuations in economic activity, without any change in government policy.

**Inflation:** the rise in the price level of goods and services over time.

#### Informal economy:

that part of the economy that is not regulated, protected or taxed by the government.

**Flat taxes:** taxes with a single rate.

## Fiscal policy and the budget

Fiscal policy involves government spending and taxation decisions to influence economic demand and budget balance. Government spending is deducted from revenue, and budget deficits or surpluses can be expressed as absolute amounts or percentages of GDP. Short-term budget deficits may result from increased spending on education or reduced taxes, while long-term effects may vary.

## The effects of fiscal policy on government macroeconomic aims

If a government wants to raise aggregate (total) demand in order to increase economic growth and employment, it will increase its expenditure and/or cut taxation by lowering tax rates, reducing the items taxed or raising tax thresholds.

Higher consumption is also likely to raise investment. Figure 26.2 shows the effect of an **expansionary fiscal policy**.

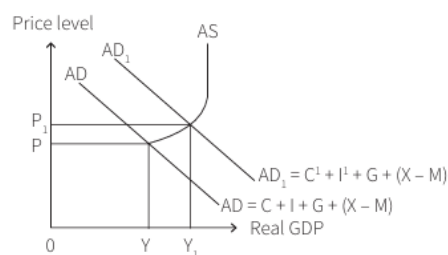


Fig. 26.2: The effect of an expansionary fiscal policy

The higher aggregate demand, in this case, causes economic growth. With more goods and services being produced, employment is likely to rise. A government may implement a **contractionary fiscal policy** to reduce inflationary pressure.

### KEY TERM

#### Fiscal policy:

decisions on government spending and taxation designed to influence aggregate demand.

### KEY TERMS

#### Expansionary fiscal policy:

raises in government expenditure and/or cuts in taxation designed to increase aggregate demand.

#### Contractionary fiscal policy:

cuts in government expenditure and/or rises in taxation designed to reduce aggregate demand.

## Chapter 27

### 4.27 Monetary policy

#### The money supply

The money supply encompasses all money in an economy at any given time, with measures including notes, coins, current accounts, and deposit accounts. The broad measure includes money used for various purposes, primarily as a medium of exchange and store of value.

#### Monetary policy

**Monetary policy** covers decisions on the money supply, the rate of interest and the exchange rate, although some economists treat changes in the exchange rate as a separate policy. Monetary policy influences the supply and/or price of money.

#### Changes in the money supply

Central banks can boost the money supply by printing more money, buying back government bonds, or encouraging commercial banks to lend more. This increases consumer spending and investment, leading to a rise in aggregate demand and output. Removing lending restrictions may also encourage lending.

#### Changes in the rate of interest

Monetary policy in most countries involves changes in interest rates, which can reduce aggregate demand by lowering consumer expenditure and investment by increasing the interest rates charged to commercial banks.

Such a rise in the rate of interest is likely to reduce aggregate demand by lowering consumer expenditure and investment. It will do this in three main ways.

- One way is that any households or firms who have borrowed in the past will have to pay more interest on their loans. This will reduce the amount of money they have to spend.
- A second way is that it will make it more expensive for households and firms to borrow to finance their spending. Borrowers will now have to pay more for any new loans they take out.
- The third way is that a higher interest rate will increase the incentive to save. Households and firms will earn more than before from saving.

Those people who save are, however, less likely to spend any extra money than borrowers are, and so the net effect will probably be a reduction in consumer expenditure. A higher interest rate may also reduce aggregate demand by encouraging a rise in the **foreign exchange rate**.

#### Changes in the exchange rate

A government may instruct its central bank to change directly the country's foreign exchange rate or to try to influence it to move in a particular direction.

#### KEY TERM

##### **Monetary policy:**

decisions on the money supply, the rate of interest and the exchange rate taken to influence aggregate demand.

#### KEY TERMS

##### **Foreign exchange rate:**

the price of one currency in terms of another currency or currencies.

##### **Expansionary monetary policy:**

increases in the money supply and/or the rate of interest designed to increase aggregate demand.

#### KEY TERM

**Contractionary monetary policy:** cuts in the money supply or growth of the money supply and/or rises in the rate of interest designed to reduce aggregate demand.

## The effects of monetary policy on government macroeconomic aims

Monetary policy is used to increase aggregate demand. If a government wants to increase the economic growth rate and reduce unemployment, it may use **expansionary monetary policy**, reducing the rate of interest or increasing the money supply.

The intention behind this **contractionary monetary policy** would be to reduce aggregate demand and the upward pressure on prices.

## Chapter 28

### 4. 28 Supply-side policies

#### Supply-side policy

**Supply side policy** aims to enhance aggregate supply, increase productive potential, and improve resource quality through education, training, tax cuts, trade union reforms, and privatization.

#### Improving education and training

Improving education and training can increase worker skills, leading to higher productivity, reduced production costs, and improved product quality. This can encourage firms to expand and increase occupational mobility, allowing supply to adjust quickly to changes in demand. However, focusing on the right areas may be less effective, such as teaching mathematics or working in driverless cars.

#### Lowering direct taxes and increasing incentives

Cutting direct taxes aims to boost work and investment incentives. Reducing income tax rates and unemployment benefits may encourage more people to seek employment. However, some workers may work fewer hours due to higher pay. Additionally, cutting unemployment benefits could worsen unemployment, as the unemployed and disabled may have less income to spend, affecting aggregate demand and employment.

#### Deregulation

Deregulation is the elimination of rules and regulations enforced by laws, aiming to remove barriers to market entry, reduce compliance costs, and reduce government regulation costs. While deregulation may increase competition and efficiency, it does not guarantee monopolies will not develop, and restrictions on occupations may protect consumers.

#### KEY TERM

**Deregulation:** the removal of rules and regulations.

#### KEY TERM

**Supply-side policy:** measures designed to increase aggregate supply.

#### Privatisation

Privatisation aims to boost competition and efficiency by leveraging market forces. It may increase pressure on industries to respond to consumer demand and provide high-quality products at low prices. However, privatisation may not guarantee greater competition, as private sector firms may be less socially responsible and may make workers redundant over time.

#### Labour market reforms

Labour market reforms aim to enhance labour market efficiency by increasing the quality, quantity, and flexibility of labour. They may include better training, removing barriers to entry and exit, and making it easier for employers to hire

and fire workers. Governments may also aim to reduce trade union power, reducing industrial action and promoting flexibility in tasks and working hours. However, this may reduce benefits for both union members and employers. Additionally, trade union reforms may give too much power to employers, potentially lowering wages and increasing working hours, which could reduce worker motivation and productivity.

### Subsidies

Government subsidies can boost market performance by encouraging new small firms to compete and buy capital equipment. However, this may not be the best use of government spending and there's a risk of firms becoming dependent on subsidies.

## Effects of supply-side policy on government macroeconomic aims

Supply-side policy can benefit government macroeconomic aims by increasing aggregate supply, enabling non-inflationary growth, increasing output and employment without inflation, as shown in Figure 28.1.

Boosting productivity can enhance an economy's balance of payments, boost exports, and reduce imports. However, some supply-side policies may have time lag and be costly.

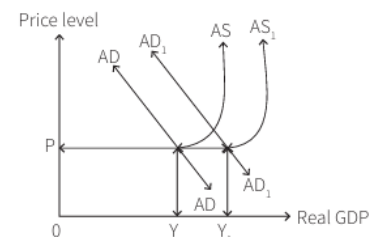


Fig. 28.1: Aggregate supply increasing with aggregate demand

### Increasing the effectiveness of macroeconomic policies

To achieve macroeconomic aims, governments can use supply-side policies and various policies, as suggested by Nobel Prize-winning economist Jan Tinbergen. For example, a government can stimulate economic growth by providing investment grants and reducing imports through a tax. Accurate information, such as the multiplier effect of aggregate demand, is crucial for achieving these aims.

## Chapter 29

### Economic growth

#### Definition and measurement of economic growth

##### Gross domestic product (GDP)

Gross means total, domestic refers to the home country and product means output. So **gross domestic product (GDP)** means the total output produced in a country.

There are three methods of measuring this output. These are – the output, income and expenditure methods. All three methods should give the same figure. This is because an output of \$20bn will give rise to an income of \$20bn which, in turn, will be spent on the output.

This relationship is referred to as the **circular flow of income** and is illustrated in two diagrams

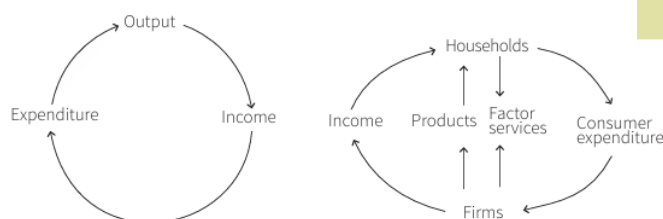


Fig. 29.1: The circular flow of income

#### KEY TERMS

##### **Gross domestic product (GDP):**

the total output of a country.

##### **Circular flow of income:**

the movement of expenditure, income and output around the economy.

**Value added:** the difference between the sales revenue received and the cost of raw materials used.

##### **Transfer payments:**

transfers of income from one group to another not in return for providing a good or service.

**Nominal GDP:** GDP at current market prices and so not adjusted for inflation.

## The methods of calculating GDP

The output method measures GDP by adding output from all industries, ensuring output isn't counted twice. Economists add **value added** by each firm at each stage of production to avoid double counting.

The income method includes all the incomes which have been earned in producing the country's output. **Transfer payments** such as pensions and unemployment benefit, are not included. This is because there is no corresponding output of goods and services.

## Nominal and real GDP

Governments typically measure GDP in **nominal GDP**, or money GDP, at current prices. This value is not adjusted for inflation, causing misleading output estimates. To accurately assess a country's output and economic growth, economists adjust nominal GDP by excluding inflation effects, ensuring a more accurate representation of a country's output.

## Real GDP per head

**Real GDP**, or GDP per capita, is a measure of a country's economic growth rate, indicating the production of goods and services. It is calculated by dividing real GDP by population, with a rise in real GDP causing a rise in living standards. However, changes in population size can significantly impact real GDP, leading some economists to suggest measuring a country's economic growth rate in terms of changes in real GDP per head.

### KEY TERM

**Real GDP:** GDP at constant prices and so adjusted for inflation.

## The difficulty of measuring real GDP

GDP figures often underestimate output due to unrecorded economic activity, both legal and illegal, and non-marketed goods and services. Unrecorded activities can be small scale, illegal, or unregistered, and may be undertaken by unpermitted workers or employers. Factors influencing undeclared economic activity include illegal activities, tax rates, penalties for tax evasion, and government regulations. This understates output and has other effects on an economy, such as lower tax revenue and overstated inflation rates. In the UK, some workers and employers may choose to operate in the informal economy to avoid government regulations.

### KEY TERM

**Subsistence agriculture:** the output of agricultural goods for farmers' personal use.

There are also non-marketed goods and services. These are products which are not bought or sold. Family members who produce food for their own use including in **subsistence agriculture**, people who clean their own houses and repair their own cars, are all providing products, but these are not counted in GDP.

## Recession

A **recession** occurs when real GDP declines over a period of six months or more. This time period is also sometimes referred to as two successive quarters. It is a period of negative output with less being produced than in the previous period.

## Causes of a recession

Economic growth is influenced by an increase in aggregate demand and/or supply, while a recession is caused by a decrease in aggregate demand or supply. Negative demand-side shocks can lead to declines in consumer spending, investment, government spending, and net exports. Conversely, a decrease in aggregate supply can result from increased fuel or raw material costs, increasing production costs.

Figure 29.2 shows a recession caused by a decrease in aggregate demand and a recession caused by a decrease in aggregate supply.

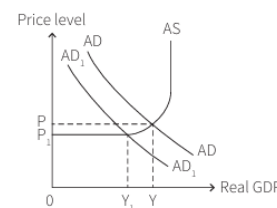
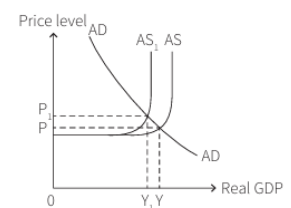


Fig. 29.2: (a) A recession caused by a decrease in aggregate demand



(b) A recession caused by a decrease in aggregate supply

## The consequences of a recession

Lower output and incomes are expected to increase unemployment, lower living standards, discourage investment, and endanger economic growth. Tax revenue may decline, while government spending on benefits may increase. The effect on the price level depends on whether the recession is caused by a decrease in aggregate demand or supply.

## Economic growth

### Causes of economic growth

In the short run, increased aggregate demand can stimulate output if the economy has unused resources. Consumer confidence or income tax cuts can encourage firms to increase output. In the long run, economic growth depends on increased resources, such as net investment or labor force size, and quality improvements in education and technology.

### Consequences of economic growth

The **International Monetary Fund (IMF)** emphasizes the importance of economic growth in reducing poverty and improving living standards. Higher output and incomes increase government tax revenue, allowing governments to finance measures to reduce poverty and improve education. However, economic growth can also involve costs, such as shifting resources from consumer goods to capital goods, which may reduce living standards. However, in the long term, the extra capital goods will enable the manufacture of more consumer goods, resulting in a more stable economic environment.

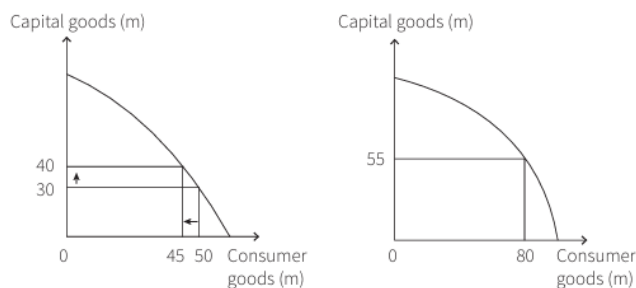


Fig. 29.3: The short-term and long-term effects of devoting more resources to capital goods

in deforestation and depletion of fish stocks respectively. Construction of more factories, offices, roads and other infrastructure can also destroy wildlife habitats. Due to these risks, economists are increasingly emphasising the need for **sustainable economic growth**. Economic growth may also lead to greater stress on workers.

### Economic growth rate

A fall in economic growth rate does not necessarily mean a decrease in national output; it can indicate a slower increase in output, while a negative growth rate indicates a decrease in production.

#### KEY TERM

**International Monetary Fund (IMF):** an international organisation which promotes international cooperation and helps countries with balance of payments problems.

#### KEY TERM

**Sustainable economic growth:** economic growth that does not endanger the country's ability to grow in the future.

Year	Economic growth rate (percentage change in GDP on a year earlier)
2012	3.8
2013	3.7
2014	4.0
2015	4.2
2016	5.7

Table 29.1: Pakistan's economic growth rate, 2012–16

## The policies to promote economic growth

In an economy with spare capacity, a government can use expansionary fiscal and monetary policies to promote economic growth. Reducing income tax rates or interest rates can increase consumer expenditure and investment, leading to increased aggregate demand and encouraging firms to increase output. However, the effectiveness of these policies depends on factors like confidence and the availability of resources. To achieve long-term economic growth, a government must use both demand-side and supply-side policy measures, such as improving education and training to increase productive capacity.

### Chapter 30

#### 4.30 Employment and unemployment

##### Employment, unemployment and full employment

The labour force consists of both the employed and the unemployed – these two groups make up the country's available workers. Full **employment** occurs when **unemployment** is at its lowest possible rate.

##### KEY TERMS

###### **Employment:**

being involved in a productive activity for which a payment is received.

###### **Unemployment:**

being without a job while willing and able to work.

##### Changes in the patterns of employment

Over time, the pattern of employment in a country is likely to change. There can be alterations in the sectors in which people work, the hours they work for, who they work for and the type of work they do.

##### Industrial structure

Employment shifts from primary to secondary and tertiary sectors as economies develop. In 2017, 82% of workers were in the tertiary sector in the Netherlands, while 48% were in the primary sector. Industries like textiles and ICT/software change.

##### Proportion of women in employment

The number and proportion of women in employment and in the labour force is increasing in most countries. This trend is occurring because social attitudes to women working is changing. Gender discrimination is declining, opening up job opportunities for women and raising their wages.

##### Proportion of workers in the private and public sectors

Countries are shifting towards market economies, leading to a decline in public sector employment and an increase in private sector employment, as seen in Australia's public sector employment ratio from 21% in 2000 to 85% in 2016.

##### Full-time and part-time work

Most workers work full-time. Some, however, work part-time. Some opt to work part-time, as it may fit in with their children's school hours, enable them to look after elderly relatives or pursue other interests.

##### Employed and self-employed

In some countries, including the UK, USA and most of Europe, most people work for someone else, that is they are employees. The number of self-employed workers is, however, rising. In other countries, including India and Pakistan, a high proportion of people are already self-employed and many of them work in the informal economy.

##### Informal and formal economies

The informal economy lacks access to social security benefits, employment protection, and rights, with workers often paid below minimum wage and unlikely to receive pensions. They lack unions and collective bargaining, and are often self-employed, migratory, or casual. Growth in the formal economy improves employment quality and labor productivity.



## High- and low-quality employment

High quality employment is skilled work which is interesting, and which provides workers with the opportunity to progress, access to training, good working conditions and a relatively high degree of job security. In contrast, low quality employment is unskilled work, which often does not require or provide training, and does not provide good working conditions.

## Flexible employment

Global competition is putting pressure on firms to ensure that their labour force is flexible. A flexible labour force is one which adjusts quickly and smoothly to changes in market conditions. This flexibility can take a number of different forms.

## Changes in the levels of employment

Employment increases unemployment if unemployed individuals fill extra jobs. However, both employment and unemployment may increase if labor force growth exceeds available jobs. Unemployment may fall without increased employment, as factors like retirement, education, emigration, or job search may contribute.

### The labour force participation rate

The labour force participation rate is the proportion of people who are of working age and belong to the labour force. In other words, it is those who are **economically active** and form the labour force. Some of those of working age are not in the labour force, they are **economically inactive**.

Among the factors that influence the **labour market participation rate** are:

- **The wages on offer.** High wages will encourage more people to seek work and will persuade some to stay in the labour force, past the usual retirement age.
- **Social attitudes to working women.** In countries where it is acceptable for women to work, there will be a larger labour force and a greater participation rate.
- **Provision for the care of children and the elderly.** The greater the availability of nursery places and retirement homes, the higher is the labour participation rate.
- **Social attitudes and provision for the disabled to work.** The greater the number of people willing to accept disabled people working and the easier it is made for the disabled to work, for instance having ramps installed for wheelchair access, the more potential workers there will be.
- **The proportion of school leavers who go into higher education.** The more people there are in full-time education, the lower the participation rate

#### KEY TERMS

**Economically active:** those in the labour force, both the employed and the unemployed.

**Economically inactive:** those not in the labour force.

**Labour market participation rate:** the proportion of the working-age population who are in the labour force.

#### KEY TERM

**Claimant count:** a measure of unemployment which counts as unemployed those in receipt of unemployment benefits.

#### KEY TERM

**Flexible labour force:** a labour force is one which adjusts quickly and smoothly to changes in market conditions.

## The measures of unemployment

Unemployment has costs both for the unemployed, for firms and for the economy. These costs are influenced by the extent of the unemployment, the duration of the unemployment and the cause of the unemployment.

The two major ways of measuring unemployment are to:

- Count those in receipt of unemployment-related benefits and
- Carry out labour force surveys.

The claimant count is a quick and cost-effective method used by the government to gather information on benefits and recipients. However, it can understate unemployment, as fraudulent claimants are less likely to receive benefits than those actively seeking employment without receiving them.

The second method is the **Labour Force Survey Measure** which is also sometimes called the ILO measure as it makes use of the International Labour Organisation's definition of unemployment.

#### KEY TERM

##### **Labour Force Survey (ILO) Measure:**

a measure of unemployment which counts as unemployed people who identify as such in a survey.

## The causes and types of unemployment

The causes of unemployment can be put into three broad categories. These are **frictional unemployment**, **structural unemployment** and **cyclical unemployment**.

### Frictional unemployment

One form of frictional unemployment is what is called **search unemployment**. This arises when workers do not accept the first job offered but spend time looking around for what they regard as an 'acceptable job'. Two other forms of frictional unemployment are **casual** and **seasonal**.

### Structural unemployment

Structural unemployment occurs when industries and occupations decline due to long-term changes in demand and supply, often resulting in **regional unemployment**, where a single area experiences specific problems due to substitutes or labor shortages.

Another form of structural unemployment is **technological unemployment**. This occurs when workers are made redundant as a result of advances in ICT.

### Cyclical unemployment

Cyclical unemployment, also known as demand-deficient unemployment, is a severe economic issue resulting from a lack of aggregate demand. It can affect more workers and be widespread. In a recession, governments may raise aggregate demand through tax reductions or increased expenditure.

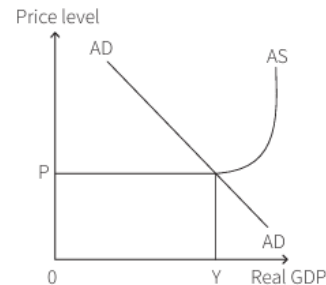


Fig. 30.1: An economy producing below full capacity

### Stocks and flows of unemployment

The number of people unemployed at any one time is a stock. It is influenced by two factors – the rate of flow of people into unemployment and the time period for which they are unemployed.

So, the number of people unemployed may be higher than in a previous period in three circumstances:

- More workers have been dismissed from their jobs
- More people have entered the labour force without finding a job
- People have been unemployed for a longer period of time.

## The consequences of unemployment

Unemployment benefits firms by recruiting new workers and reducing inflation by lowering wage increases. However, the costs of unemployment outweigh the benefits, influenced by the number of unemployed and duration of unemployment. Unemployment burdens are primarily the unemployed, but also affect the wider economy.

#### KEY TERMS

##### **Frictional unemployment:**

temporary unemployment arising from workers being in between jobs.

##### **Structural unemployment:**

unemployment caused by long-term changes in the pattern of demand and methods of production.

##### **Cyclical unemployment:**

unemployment caused by a lack of aggregate demand.

##### **Search unemployment:**

unemployment arising from workers who have lost their jobs looking for a job they are willing to accept.

##### **Casual unemployment:**

unemployment arising from workers regularly being between periods of employment.

##### **Seasonal unemployment:**

unemployment caused by a fall in demand at particular times of the year.

### The effects on the unemployed

Unemployment often leads to a decrease in income, with some countries lacking financial assistance. Loss of employment can result in a loss of self-worth, mental and physical health decline, and potential marriage break-ups. Lower income can also impact children's education and employment chances, as unemployed individuals may struggle to afford education beyond school leaving age. Longer unemployment can also reduce training opportunities, work habits, and confidence.

### The effects on firms

Unemployment can benefit firms by allowing them to hire unemployed workers to expand production and potentially pressure wage increases. Workers may be more flexible, allowing firms to quickly adjust to market changes. However, high unemployment rates may result in low demand for products, leading to reduced production rather than expansion.

### The effects on the economy

Unemployment costs an economy by limiting resource utilization and limiting production. Unemployment leads to a production point A, where the economy forgoes opportunities to produce more capital and consumer goods, potentially resulting in higher living standards.

Unemployment leads to lower government tax revenue, as people's expenditure decreases, resulting in a decrease in income and firm profits. This also puts pressure on government expenditure, as unemployment benefits increase. The government may need to spend more on healthcare and crime prevention if unemployment increases. Additionally, higher government expenditure may result in an opportunity cost, as spending on benefits could be redirected towards higher education or cancer treatment.

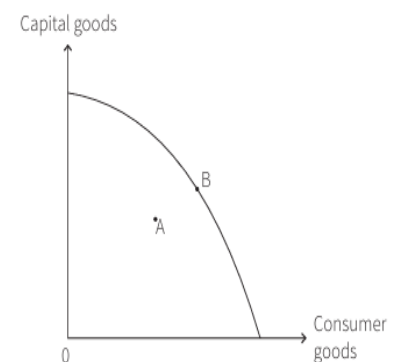


Fig. 30.2: The opportunity cost of unemployment

## The policies to reduce unemployment

A government's policies to reduce unemployment depend on its understanding of the causes. If frictional unemployment is the main issue, it may use supply-side measures like cutting income tax rates and reducing unemployment benefits to improve the labor market. To tackle structural unemployment, the government may focus on improving education and training quality, offering special courses in specific industries, and providing subsidies to new industries in high unemployment areas. To reduce cyclical unemployment, the government may use expansionary fiscal and monetary policies, such as increased government spending, reduced tax rates, and interest cuts. The effectiveness of these policies depends on the government's ability to identify the cause of unemployment, accurately predict future industry expansion, and accurately judge the gap between real GDP and full employment levels.

## Chapter 31

### Inflation and deflation

#### The definition of inflation and deflation

While inflation is a rise in the prices of goods and services, **deflation** is a fall in the prices of goods and services. Deflation is, in effect, negative inflation. The rate at which the prices of goods and services rise or fall changes over time. An increase in the rate of inflation means that prices are increasing more rapidly. A fall in the inflation rate from, for example, 10% to 7%, can be described as **disinflation**.

## Measurement of inflation and deflation

To measure rises and falls in the price level, governments construct price indices (also referred to as price indexes). These show the change in general price level in percentage terms over time. One of the main price indices used is the **consumer prices index (CPI)**

### Constructing a price index

There are a number of stages in constructing a price index. These include selecting a base year, finding out how households spend their money, attaching weights to items of expenditure, finding out price changes from a range of trade outlets and then constructing a weighted price index.

### Selecting a base year

Government statisticians try to select a relatively standard year in which there were no dramatic changes, as a base year. The base year is then given a figure of 100 and the price levels in other years are compared to this figure. For example, if the base year is 2015, it would mean that if the price index in 2018 was 123, the general price level had risen by 23% between 2015 and 2018.

### Finding out how households spend their money

To calculate average price rises, it's crucial to understand people's spending patterns. Price changes on items with a large proportion of spending impact the cost of living more than those with a smaller proportion. Government officials use household expenditure surveys to determine main commodities and weights for price indexes. In New Zealand, 3000 households record their expenditures, and if a product stops or expenditure falls, it's removed from the index. Weights reflect the proportion spent on items, with food given a weightage of 20%.

### Finding out price changes

Each month government officials find out information about prices. In the UK, about 130 000 price quotations are found for 650 different items. These are obtained from shops, post offices, power companies, train companies and a range of other outlets. From this information, the government estimates the change in prices.

### Constructing a weighted price index

The final stage involves assigning weights to items in an index and measuring price changes over time. The weights are then multiplied by the new price index for each product category, calculating the change in general price level.

Category	Weight		Price index		Weighted price index
Food	4/10	×	110	=	44.0
Housing	1/10	×	95	=	9.5
Transport	1/4	×	100	=	25.0
Entertainment	1/4	×	108	=	27.0
					105.5

**Table 31.2: Weighted price index**

The price index has risen by 5.5%. The change in the price level could also have been calculated rather more directly, as shown in Table 31.3.

Category	Weight		Price change (%)		Weighted price change (%)
Food	4/10	×	10	=	4
Housing	1/10	×	-5	=	-0.5
Transport	1/4	×	0	=	0
Entertainment	1/4	×	8	=	2
					5.5

**Table 31.3: Weighted price change**

#### KEY TERMS

**Deflation:** a sustained fall in the prices of goods and services.

**Disinflation:** a fall in the rate of inflation.

#### KEY TERM

**Consumer prices index (CPI):** a measure of the weighted average of the prices of a representative basket of goods and services.

## Different impact of price changes

A consumer prices index measures the price of goods and services consumed by the average household. Of course, the expenditure of particular households is likely to differ from the average, in some way

## The causes of inflation

Inflation is not a one-off increase in the general price level. While examining the causes of inflation, therefore, it is necessary to consider the reasons for a rise in the price level over a period of time. Economists divide the causes into two main categories. These are **cost-push inflation** and **demand-pull inflation**.

### Cost-push inflation

Cost-push inflation occurs when production costs increase, pushing up prices to maintain profit margins. Increased wages, labour productivity, and raw material costs can lead to wage-price spirals. Increases in indirect taxes, capital goods costs, and profit margins by firms also contribute to this inflation. The wage-price spiral can be illustrated on aggregate demand and supply diagrams.

Higher costs of production shift the AS curve to the left and this movement forces up the price level, as shown in Figure 31.1.

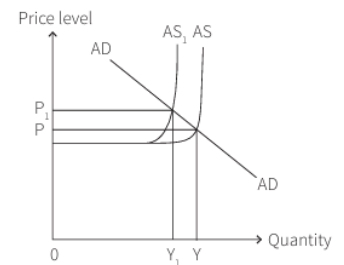


Fig. 31.1: Cost-push inflation

### Demand-pull inflation

Demand-pull inflation occurs when price levels are influenced by excess demand, such as higher consumption, investment, government expenditure, or net exports. However, this doesn't necessarily cause inflation if aggregate supply matches it. If resources are scarce, such as skilled workers, aggregate supply may not rise, leading to inflation. Full employment prevents output production, resulting in inflation.

**Monetary inflation** is a form of demand-pull inflation. In this case, excess demand is created by an excessive growth of the money supply. A group of economists, appropriately called **monetarists**, believe that the only cause of inflation is the money supply increasing faster than output.

## The consequences of inflation

### The harmful effects of inflation

- **Inflation causes a fall in the value of money.** If prices are rising, each unit of money (for example, each dollar) will buy fewer products. The higher the inflation rate, the greater will be the fall in the purchasing power of money. In a situation of **hyperinflation**, the value of money may be falling so rapidly that people may lose confidence in using the country's currency as money.
- **Inflation redistributes income in an unplanned way.** Some people gain from it, while others lose. Workers with strong bargaining power tend to gain, as their income usually rises more than the inflation rate. Normally borrowers also benefit.
- The government can seek to protect some vulnerable groups from inflation by **index-linking** state benefit payments and interest rates on government securities.
- **The existence of inflation imposes extra costs on firms.** Some additional staff time will be taken up, estimating future costs of raw material. There will also be **menu** and **shoe-leather costs**.

#### KEY TERMS

**Cost-push inflation:** rises in the price level caused by higher costs of production.

**Demand-pull inflation:** rises in the price level caused by excess demand.

**Wage-price spiral:** wage rises leading to higher prices which, in turn, lead to further wage claims and price rises.

#### KEY TERMS

**Monetary inflation:** rises in the price level caused by an excessive growth of the money supply.

**Monetarists:** a group of economists who think that inflation is caused by the money supply growing more rapidly than output.

- **Inflation creates uncertainty.** It can make it hard for households and firms to judge the right price to be paid for products now. It can also make it difficult to plan ahead, as households and firms will be uncertain about future prices.
- **Inflation can harm the country's balance of payments position.** If a country's inflation rate is above that of its rivals, its products will become less price competitive. This may result in a fall in export revenue and a rise in import expenditure.
- **Inflation can cause fiscal drag.** This occurs when governments do not adjust tax brackets in line with inflation. As a result, people's incomes are dragged into higher tax brackets and they are left with lower real disposable income.

### The beneficial effects of inflation

- Inflation may encourage firms to expand. A low and stable level of demand-pull inflation may make entrepreneurs optimistic about future sales.
- Inflation reduces the real burden of any debt that households and firms have built up. This may mean that some households and firms will avoid going bankrupt.
- Inflation can prevent some workers being made redundant in a declining industry or region. This is because whilst workers are likely to resist any cut in their money wages, they may accept their money wages rising by less than inflation

## Policies available to control inflation

Inflation is a global issue that governments are increasingly setting targets for their central banks to control. These targets aim to make the central bank accountable and influence consumer behavior. If the target is not met, the central bank must explain its actions to restore the inflation rate. If price stability is assured, households and firms may avoid significant price changes. If demand-pull inflation is experienced, contractionary fiscal and/or monetary policies can be implemented, such as increasing tax rates, lowering government spending, raising interest rates, or reducing the money supply. However, these measures can have adverse effects, such as reduced economic growth and unemployment. To reduce cost-push inflation, governments may use supply-side policies like improved education and privatization.

## The causes of deflation

Deflation can occur due to supply-side or demand-side factors. Advances in technology and labor productivity can reduce prices, benefiting consumers and increasing international competitiveness. Conversely, deflation from declining aggregate demand can lead to a downward spiral, causing consumers to postpone purchases and firms to reduce output and employment.

## The consequences of deflation

Deflation's impact depends on whether it's good or bad. Good deflation reduces current account deficits and increases current account surpluses, while bad deflation increases unemployment and lowers output. Both types increase purchasing power but raise debt burdens, causing borrowers to lose and lenders to gain. Both types can lead to increased output and employment.



## Policies available to control deflation

A government's focus is on preventing or correcting bad deflation, often through expansionary fiscal and monetary policies. However, bad deflation can be challenging to reverse due to low interest rates, high debt burden, and low confidence, making it difficult to encourage spending and investment.

## Policy conflicts

Policy measures to reduce unemployment may increase inflation, as increased government spending on pensions may stimulate firms to expand output. Conversely, reducing import expenditure may slow economic growth. Both unemployment and economic growth benefit from expansionary fiscal and monetary policies, while contractionary policies are more likely to reduce inflation and import expenditure.

## Revision questions

**0455/21/O/N/23**

One reason why the price of houses in cities such as Hong Kong, London, and New York is very high, is the low price elasticity of supply of houses. Trade unions in some of these cities are calling for more affordable housing for workers. Governments are also trying to implement various microeconomic policy measures to reduce the price of houses. In addition, the stability of the housing market can impact upon the effectiveness of monetary policy.

Explain two microeconomic policy measures that can be taken by a government to reduce the price of a product. [4]

**0455/21/M/J/23**

A third of the world's ski resorts are located in the Alps. Prices for holidays in the Alps are relatively higher than in other regions. The recent pandemic, however, reduced the revenues of many large and small firms in the tourism industry in the winter season of 2020/2021. Many blamed strict government regulations for this. However, government intervention also helped many firms to survive.

- Discuss whether or not government intervention is beneficial for firms. [8]

**0455/21/M/J/23**

Living standards, including education, have improved for most people in South Africa in recent years. Most households have more money and the government has more tax revenue. There is, however, considerable income inequality. In 2020, 36% of the population were living in poverty. An increase in unemployment benefit payments might reduce this poverty.

- Analyse the causes of an increase in a government's tax revenue. [6]

**0455/21/M/J/22**

Trade union membership is much higher in Sweden than in most countries. In 2019, 70% of Swedish workers were members of a trade union. More than 85% of Swedish workers are employed in the tertiary sector, compared with only 2% in the primary sector. Swedish workers spend their incomes on a variety of products some of which, e.g. sweets, are demerit goods. Sweden has the 7th highest per head consumption of sweets in the world.

- Explain two ways a government could decrease the consumption of demerit goods. [4]

**0455/22/F/M/22**

Botswana's net migration varies. In 2019, Botswana had net immigration. Since 2010, its unemployment rate has averaged 18%. Between 2010 and 2019, the number of women in the labour force increased from 380000 to 490000. Although Botswana is one of Africa's richer countries, its households do not save much of their income.

- Discuss whether or not a government should encourage an increase in saving. [8]

**0455/23/M/J/20**

In Nagicho, a small town in Japan, a woman on average has 2.8 children in her lifetime. In Japan as a whole, a woman on average only has 1.4 children in her lifetime. Nagicho's higher birth rate is partly the result of a lower cost of living for families, as the prices of basic items are lower in Nagicho than in the rest of Japan. The local government not only offers housing at subsidised rates, to get more labour into the area, but also tries to get more investment into the town. State two functions of local government. [2]



**0455/22/F/M/19**

The economic problem results in people having to make choices. In Bulgaria, in recent years, people have changed how much they spend. The Bulgarian government is encouraging people to spend more. It is trying to ensure that deflation does not return and that the country will continue to experience an increase in output.

- Identify two ways a government could encourage people to spend more. [2]

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**0455/22/F/M/23**

Vietnam has a high number of female entrepreneurs. Some of their firms have grown and now compete with foreign multinational companies (MNC) and public sector firms. The Vietnamese government encourages MNCs to locate in Vietnam as a host country. It also intervenes in the economy to encourage the consumption of merit goods.

- Analyse how a government could encourage the consumption of merit goods. [6]

**0455/22/F/M/23**

In 2019 India became the world's largest producer of sugar. Sugar cane is grown in the country by a large number of mainly low-income farmers. They sell sugar cane to mills which process the sugar cane into sugar. Processing the sugar cane is more capital intensive than growing it. The Indian government sets a minimum price for sugar cane and subsidises the export of sugar.

- Discuss whether or not government subsidy on the export of sugar will help it achieve its macroeconomic aims. [8]

**0455/21/O/N/22**

Jordan has a fixed foreign exchange rate with the US dollar. The monetary policy of Jordan, therefore, follows the monetary policy of the US very closely. Due to low confidence in the global economy in 2019, central banks around the world, including Jordan and the US, cut interest rates to stimulate growth. However, this may have conflicted with the macroeconomic aim of low inflation.

- Analyse how a cut in interest rates might create conflicts between macroeconomic aims. [6]

**0455/23/M/J/21**

Latvia is one of the fastest growing economies in Europe. Although its GDP per head is below the European average, it is quickly catching up. Living standards are improving. At the same time, a decrease in borrowing has reduced the chance of high inflation. The job market is also improving as the unemployment rate is falling. However, there are concerns that there might be less balance of payments stability.

- Analyse how economic growth conflicts with balance of payments stability. [6]

#### 0455/22/F/M/21

India has experienced a relatively high economic growth rate in recent years. This growth has been driven by increases in government spending and exports, including exports of textiles. India's unemployment rate has, however, increased. The government is concerned that trying to reduce unemployment may increase India's inflation rate.

- Discuss whether or not a government can reduce unemployment without increasing inflation. [8]

#### 0455/21/O/N/23

Digital money, such as cryptocurrencies, is increasingly being used. Digital money transactions take place on electronic devices such as computers and smartphones. However, there can be market failure due to external costs arising from high energy usage of non-renewable sources. One way of reducing external costs is to tax the product.

- Identify two types of tax. [2]

#### 0455/23/O/N/22

Romania's indirect tax rate was 19% between 2017 and 2019. There is a high proportion of foreign multinational companies (MNCs), especially US MNCs, in Romania. MNCs have helped to increase productivity in Romania and lower its unemployment rate. There are also benefits of MNCs to their home countries.

Define, with an example, an indirect tax. [2]

#### 0455/22/O/N/22

In 2019, Russia had an unemployment rate of 4.6%. Russia experienced full employment in the past. Its government wants unemployment to be lower. In 2018, the Russian government cut its spending which may have increased poverty. In both 2018 and 2019, the government did not change its income tax rate. Russia operates a proportional tax rate system.

- Explain the difference between a proportional income tax system and a progressive income tax system. [4]

#### 0455/21/M/J/22

Australia's foreign exchange rate fluctuates. The value of Australia's exports is regularly greater than the value of its imports. Australia is Papua New Guinea's main trading partner. In 2019, the government of Papua New Guinea increased income tax to reduce its inflation rate. It used other policy measures to increase its economic growth rate.

- Analyse how an increase in income tax can affect a country's inflation rate. [6]

#### 0455/22/F/M/22

South Africa (SA) experienced a recession in the second half of 2019 and an unemployment rate of 29%. Only a small proportion of this unemployment was frictional. South Africa's foreign exchange rate fell from 1 SA rand = US\$0.08 in 2018 to 1 SA rand = US\$0.06 in 2019. South Africa had reduced import tariffs, but in 2019 some South African economists suggested tariffs should be used to protect its infant industries.

- Discuss whether or not a reduction in income tax will end a recession. [8]

#### 0455/22/F/M/21

It is estimated that half of Egyptian men smoke. This is one of the highest rates in the world. In recent years the Egyptian government has increased the tax on cigarettes. The government and central bank have also tried to reduce inflation and improve Egypt's international trade performance. The Egyptian government could use subsidies to reduce its deficit on the current account of its balance of payments.

- Identify two qualities of a good tax. [2]
- Explain two reasons why governments tax cigarettes. [4]

#### 0455/22/O/N/20

The population of Hungary is the most obese in Europe. Hungarians eat fewer vegetables than most Europeans and more food types that may be considered to be demerit goods. In 2017, the Hungarian government introduced a tax on unhealthy food, known as the chips tax. The tax has had some success in moving demand to healthier foods. Some economists suggest that governments should use price controls as well as taxes to influence the food market.

- Analyse the effects on income distribution and tax revenue of an increase in indirect taxes. [6]

#### 0455/22/O/N/20

Mexico has a history of trade deficits. The government is moving the economy closer to free trade, to try to improve its macroeconomic performance. It was predicted in 2017 that Mexico's economy would experience a small rise in its

unemployment rate. In 2017 the economy's inflation rate was 6.6%, the highest rate since 2001. A number of policy measures may be used to reduce inflation, including increasing the rate of income tax.

- Discuss whether or not an increase in the rate of income tax will reduce inflation. [8]

#### **0455/21/O/N/20**

The election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.

- Discuss whether or not lower taxes on firms will be beneficial for an economy. [8]

#### **0455/23/M/J/20**

Ireland has one of the lowest rates of corporation tax in Europe. This has encouraged many multinational companies (MNCs) to produce in Ireland. Other reasons why firms want to produce in Ireland include access to freer trade with other European countries, higher labour productivity and government grants.

- Explain two reasons why governments levy taxes. [4]

#### **0455/22/M/J/20**

In 2017, the Japanese government announced improvements to its tax system. The amount of tax raised is influenced by the size and age distribution of a country's population. Japan's birth and death rates are falling, its population is ageing, and it has low immigration. Overall, Japan's population is decreasing.

- State two qualities of a good tax. [2]

#### **0455/21/M/J/20**

Economists are uncertain about the future United States (US) macroeconomic performance. For instance, in recent years, US unemployment has fallen while the deficit on the current account of the balance of payments has fluctuated. Whether its current account deficit will rise or fall in the future may be affected by proposed tax cuts. Some economists suggest that the US government should not be concerned about the country's current account deficit.

- Analyse how tax cuts could increase exports. [6]

#### **0455/22/F/M/20**

The Chinese government reformed the Chinese tax system in 2016. It extended VAT (sales tax) from the sale of goods to the sale of services enabling it to cut the corporation tax rate. Taxes on goods and services are usually regressive. The Chinese government wanted to raise living standards and hoped that a cut in the tax rate firms pay would attract multinational companies (MNCs) to the country.

- State two reasons for levying taxes. [2]
- Explain the difference between a progressive tax and a regressive tax. [4]
- Analyse how a cut in the rates of corporation tax and income tax may influence the number of MNCs setting up in the country. [6]

#### **0455/22/**

Teachers in many countries oppose their governments' cuts in spending on education. They worry that this could reduce the standard of education and also the welfare of teachers employed in the state sector. Some teachers specialise in teaching one subject while others teach a number of subjects.

- Explain two reasons why a government may want to cut spending on education. [4]

#### **0455/23/M/J/18**

The state of California has the most progressive tax system in the USA. The tax system helps reduce high poverty rates. Policy makers are considering reforming sales tax in the state to include services, while reducing the use of direct taxes.

- Define progressive tax. [2]
- Discuss whether a government should increase indirect taxes and whether it should reduce direct taxes. [8]

#### **0455/22/M/J/18**

In February 2016, share prices on stock exchanges fell throughout the world. There were a number of reasons for this; including concerns about the slowdown in world growth, the possibility of deflation and unemployment, and fears that some commercial banks could go out of business.

- Discuss whether or not government policy measures to reduce unemployment will cause inflation. [8]

#### **0455/21/M/J/18**

More governments are imposing taxes on unhealthy food and drinks. Such taxes are usually regressive. Some of these governments are also increasing their spending on healthcare. In other countries healthcare is provided by the private sector. The number of state-owned enterprises is declining in a number of countries due to privatisation.

- Define regressive tax. [2]
- Analyse why a government imposes taxes. [6]

#### **0455/21/M/J/18**

In 2014, the government of Kazakhstan devalued its currency, the tenge. A year later the country still had a current account deficit. Therefore, in 2016 it considered adopting a floating exchange rate which might help to remove the deficit. However, it had concerns that this might affect the country's inflation rate which was already high at 17%.

- Analyse how fiscal policy measures could reduce inflation. [6]

#### **0455/22/F/M/18**

In March 2016, the Canadian government announced increases in government spending including an increased subsidy to environmentally friendly technology. It also announced that high income earners would face an increase from 29% to 33% in the highest rate of income tax. Changes in government spending and taxation can influence a country's inflation rate.

- Discuss whether or not an increase in the highest rate of income tax will benefit an economy. [8]

#### **0455/21/O/N/23**

One reason why the price of houses in cities such as Hong Kong, London, and New York is very high, is the low price elasticity of supply of houses. Trade unions in some of these cities are calling for more affordable housing for workers. Governments are also trying to implement various microeconomic policy measures to reduce the price of houses. In addition, the stability of the housing market can impact upon the effectiveness of monetary policy.

- Identify two monetary policy measures. [2]

#### **0455/22/O/N/22**

While 15% of US exports go to Mexico, 80% of Mexico's exports go to the US. In 2019, the US government imposed some methods of protection to reduce imports from Mexico. This US action caused a fall in Mexico's foreign exchange rate. Despite a rise in its inflation rate, Mexico's central bank reduced the rate of interest from 7.75% at the end of 2019 to 6.5% in March 2020.

- Discuss whether or not a decrease in the rate of interest will increase a country's GDP. [8]

#### **0455/22/F/M/21**

It is estimated that half of Egyptian men smoke. This is one of the highest rates in the world. In recent years the Egyptian government has increased the tax on cigarettes. The government and central bank have also tried to reduce inflation and improve Egypt's international trade performance. The Egyptian government could use subsidies to reduce its deficit on the current account of its balance of payments.

- Analyse how a central bank could reduce inflation. [6]

#### **0455/22/M/J/20**

A number of countries are withdrawing high value banknotes. For instance, Singapore plans to stop issuing its \$10000 note. High value notes were originally intended to act as a convenient store of value. Central banks are concerned some notes are now being used illegally. The Singapore Police Force and the Monetary Authority of Singapore (its central bank) were trying to recruit more workers in 2017. It was expected that the central bank would raise the rate of interest in 2018.

- Discuss whether or not a central bank should raise the rate of interest. [8]

#### **0455/22/F/M/20**

African countries are expected to experience growth in their output. It is also predicted that Africa's population will increase from 1.1bn in 2017 to 4.2bn by 2100, when Nigeria will account for one in twelve of the world's births. Nigeria and South Africa are expected to experience the greatest rise in investment (spending on capital goods) over this period, and a change in their gender distribution.

- Discuss whether or not a cut in the rate of interest will increase investment. [8]

#### **0455/23/M/J/18**

In early 2016, the central bank of the Republic of Turkey cut interest rates five times. This was despite an inflation rate of 7.6%. The economy had a combination of a low saving rate and weak investment. To stimulate economic growth the Turkish government announced a package of reforms including subsidies for research and investment.

- Analyse the impact of a cut in interest rates on saving and investment. [6]

#### **0455/21/M/J/22**

Uganda specialises in agricultural products and has a relatively small secondary sector. In the 1990s, the Ugandan government privatised most of its firms, including banks and railways. Some economists thought this privatisation was unsuccessful because poverty increased and unemployment remained high. In recent years, the Ugandan government has used supply-side policy measures to reduce unemployment.

- Discuss whether or not the use of supply-side policy measures will reduce unemployment. [8]

#### **0455/23/O/N/20**

The use of supply-side policy measures, including deregulation, is moving China closer to a market economic system. Some supply-side policy measures, such as education and subsidies, can also increase a country's economic growth rate. China joined the World Trade Organisation in 2001 and has since removed some quotas on imports and reduced some import tariffs. These measures may influence the size of its current account surplus.

- Define deregulation. [2]
- Analyse how education and subsidies can increase a country's economic growth rate. [6]

#### **0455/21/O/N/20**

Free trade has allowed the Mexican economy to specialise in low-cost manufacturing. Unemployment nationally is relatively low, but approximately 50 million people were still considered to be in poverty in 2016. In addition, there are worries that technological advances will soon replace labour with capital.

- Discuss whether or not supply-side policy measures can reduce unemployment. [8]

#### **0455/23/M/J/18**

In early 2016, the central bank of the Republic of Turkey cut interest rates five times. This was despite an inflation rate of 7.6%. The economy had a combination of a low saving rate and weak investment. To stimulate economic growth the Turkish government announced a package of reforms including subsidies for research and investment.

- Discuss the impact of supply-side policy measures on government expenditure and on government revenue. [8]

#### **0455/21/O/N/23**

Malaysia once specialised in the production and export of natural rubber. The production of natural rubber was very labour-intensive. However, despite still being in the top 5 of natural rubber exporters in the world, Malaysia has moved towards producing manufactured goods that use natural rubber instead of just producing and exporting this primary product.

Discuss whether or not labour-intensive production will harm an economy. [8]

#### **0455/23/O/N/22**

Palau is a small island country in the Pacific Ocean. It has received considerable financial support from the US. Living standards are thought to be lower in Palau than in the US. Palau imposes some of the highest tariffs in the world. These trade tariffs affect Palau's current account of its balance of payments. In 2019, commercial bank lending to firms and households in Palau increased.

- Discuss whether or not an increase in commercial bank lending will increase economic growth. [8]

#### **0455/21/O/N/22**

Bulgaria is part of the European Union (EU), but it has much lower corporation tax rates than other EU members. However, regulation by the Bulgarian government has discouraged foreign investment into Bulgaria. In addition, Bulgaria's economic growth rate has decreased in recent years, due in part to a steady fall in its quantity of labour.

- Discuss whether or not a decrease in a country's economic growth rate will harm its economy. [8]

#### **0455/21/M/J/22**

Australia's foreign exchange rate fluctuates. The value of Australia's exports is regularly greater than the value of its imports. Australia is Papua New Guinea's main trading partner. In 2019, the government of Papua New Guinea increased income tax to reduce its inflation rate. It used other policy measures to increase its economic growth rate.

- Discuss whether or not governments should aim for a high rate of economic growth. [8]

**0455/23/M/J/21**

Global spending on the health sector, by both the private and public sectors, is the highest compared with all other sectors including education and defence. Investment in education and the health sector has resulted in new life-saving technology being introduced. However, demand for certain vaccinations has decreased over the years, shifting the demand curve of vaccinations to the left.

- Define investment. [2]

**0455/23/M/J/21**

Latvia is one of the fastest growing economies in Europe. Although its GDP per head is below the European average, it is quickly catching up. Living standards are improving. At the same time, a decrease in borrowing has reduced the chance of high inflation. The job market is also improving as the unemployment rate is falling. However, there are concerns that there might be less balance of payments stability.

- Discuss whether or not having a lower GDP will be a disadvantage to an economy. [8]

**0455/22/M/J/21**

Turkey's birth rate is falling which is likely to reduce its supply of labour. However, improvements in the quality of labour and the increase in foreign multinational companies (MNCs) operating in Turkey (the host country to the MNCs) may help the economy avoid a recession. One reason why economists are worried that a recession may occur is an expected rise in the interest rate.

- Analyse how a rise in the interest rate could cause a recession. [6]

**0455/21/M/J/21**

The Canadian government has introduced a number of policy measures designed to encourage more women to enter the labour force. Canada's labour force has reduced as its population has aged. The number of workers and their output are influenced by changes in the country's foreign exchange rate and consumer expenditure. In 2018, the Canadian dollar fell in value while Canadian consumer expenditure increased.

- Discuss whether or not an economy will benefit from an increase in consumer expenditure. [8]

**0455/22/F/M/21**

India has experienced a relatively high economic growth rate in recent years. This growth has been driven by increases in government spending and exports, including exports of textiles. India's unemployment rate has, however, increased. The government is concerned that trying to reduce unemployment may increase India's inflation rate.

- Define economic growth. [2]
- Analyse how higher government spending could increase economic growth. [6]

**0455/22/O/N/20**

Wage rate growth has increased recently in Kazakhstan, but its economic growth rate has slowed. This is, in part, due to a fall in exports. To try to increase the economic growth rate, the government has increased its spending on investment. In August 2015, it adopted a floating foreign exchange rate system in an attempt to improve the country's macroeconomic performance.

- Analyse how a rise in investment could increase a country's economic growth rate. [6]

**0455/23/M/J/20**

In Nagicho, a small town in Japan, a woman on average has 2.8 children in her lifetime. In Japan as a whole, a woman on average only has 1.4 children in her lifetime. Nagicho's higher birth rate is partly the result of a lower cost of living for families, as the prices of basic items are lower in Nagicho than in the rest of Japan. The local government not only offers housing at subsidised rates, to get more labour into the area, but also tries to get more investment into the town.

- Discuss whether or not increased investment is beneficial to an economy. [8]

**0455/22/F/M/20**

African countries are expected to experience growth in their output. It is also predicted that Africa's population will increase from 1.1bn in 2017 to 4.2bn by 2100, when Nigeria will account for one in twelve of the world's births. Nigeria and South Africa are expected to experience the greatest rise in investment (spending on capital goods) over this period, and a change in their gender distribution.

- Explain two benefits of a higher economic growth rate. [4]

**0455/23/M/J/18**



In 2016, there were fears that the Singaporean economy could enter a recession because of falling demand from China, its biggest export market. One of the results of a recession is likely to be a fall in consumer spending. A previous recession in 2008 had led to unemployment increasing from 1.6% to 3.4%. Singapore's central bank therefore decided to intervene in the foreign exchange market to influence the value of the currency.

- Define recession. [2]
- Explain why a recession is likely to reduce consumer spending. [4]
- Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession. [8]

#### **0455/22/M/J/18**

World output has grown in recent years, but a number of countries have experienced a recession. The removal of trade restrictions such as import tariffs has slowed down, reducing the growth of world trade.

- Explain two benefits of an increase in world output. [4]
- Analyse how a recession may reduce a country's imports. [6]

#### **0455/22/O/N/23**

In 2020, some firms in Suriname, a South American country, stopped production. This was because the firms could not cover their variable costs, as well as some of their fixed costs. The reduction in the country's output resulted in a rise in its unemployment rate. The government used supply-side policy measures to reduce unemployment. In 2021, the number of firms in some markets fell again, but this time it was when output was rising.

- Explain two types of unemployment. [4]
- Analyse how supply-side policy measures could reduce unemployment. [6]

#### **0455/22/M/J/23**

Canada's private sector firms have a number of different objectives. The quantity and quality of land used by these firms, including farms, has increased. There has also been increased investment with the firms buying more capital goods. In 2021, the Canadian government encouraged higher investment and aimed to prevent a rise in unemployment.

- Analyse how an increase in investment may affect unemployment. [6]
- Discuss whether or not a government should try to prevent a rise in unemployment. [8]

#### **0455/21/M/J/23**

In Greece, rich households spend more than the average household. The amount of spending in an economy influences whether its production point is on or inside its production possibility curve (PPC). In 2020, household spending in Greece fell. This affected some firms' plans to merge. It also increased unemployment. More than half of those unemployed in Greece had been unemployed for more than a year.

- Analyse why someone who has been unemployed for more than a year may not get another job. [6]

#### **0455/21/M/J/23**

Germany's death rate is higher than some other countries, including Sweden, Cuba and the Maldives. Germany's labour force increased in size between 2011 and 2021 and has become even more productive. The country has also experienced low inflation and a growing surplus on the current account of its balance of payments.

- Explain two causes of an increase in the size of a country's labour force. [4]

#### **0455/23/O/N/22**

Romania's indirect tax rate was 19% between 2017 and 2019. There is a high proportion of foreign multinational companies (MNCs), especially US MNCs, in Romania. MNCs have helped to increase productivity in Romania and lower its unemployment rate. There are also benefits of MNCs to their home countries.

- Analyse how an increase in productivity can affect unemployment. [6]

#### **0455/22/O/N/22**

In 2019, Russia had an unemployment rate of 4.6%. Russia experienced full employment in the past. Its government wants unemployment to be lower. In 2018, the Russian government cut its spending which may have increased poverty. In both 2018 and 2019, the government did not change its income tax rate. Russia operates a proportional tax rate system.

- Define full employment. [2]
- Discuss whether or not a fall in a country's unemployment rate always benefits workers. [8]

#### **0455/21/O/N/22**



Bulgaria is part of the European Union (EU), but it has much lower corporation tax rates than other EU members. However, regulation by the Bulgarian government has discouraged foreign investment into Bulgaria. In addition, Bulgaria's economic growth rate has decreased in recent years, due in part to a steady fall in its quantity of labour.

- Explain two causes of a fall in the quantity of labour in a country. [4]

#### **0455/21/O/N/22**

Medan is the third largest city in Indonesia by population. It is sometimes known as the city of a million shop-houses as many people start small firms at the street level of their homes. This has led to an increase in the market supply of industries such as cafes and clothes shops. Also, due to the growth in demand for food delivery, the unemployment rate has fallen. However, mobility of labour is limited both within Medan and within Indonesia.

- Discuss whether or not a reduction in the unemployment rate benefits an economy. [8]

#### **0455/23/M/J/21**

Cyclical unemployment is below the national average in some big cities in Canada such as Toronto, Vancouver, and Montreal. This could be a result of higher government spending and tax cuts in big cities. However, productivity is low. There are also concerns that structural unemployment may increase as some industries cannot compete with more efficient foreign firms.

- Define structural unemployment. [2]
- Analyse how higher government spending and tax cuts can lead to a fall in cyclical unemployment. [6]

#### **0455/22/M/J/21**

Turkey's birth rate is falling which is likely to reduce its supply of labour. However, improvements in the quality of labour and the increase in foreign multinational companies (MNCs) operating in Turkey (the host country to the MNCs) may help the economy avoid a recession. One reason why economists are worried that a recession may occur is an expected rise in the interest rate.

- Explain two causes of an increase in the quality of labour in a country. [4]

#### **0455/22/M/J/21**

Nearly one million people in Cairo, the capital city of Egypt, live in crowded, unhealthy housing. One reason why people lack basic necessities, including adequate housing, is unemployment. In 2019, nearly 10% of Cairo's workers did not have a job. Other citizens of Cairo live in luxury, in houses costing more than \$1 million. Many of Cairo's rich adults grew up in rich families.

- Explain how frictional unemployment differs from cyclical unemployment. [4]

#### **0455/22/F/M/22**

Botswana's net migration varies. In 2019, Botswana had net immigration. Since 2010, its unemployment rate has averaged 18%. Between 2010 and 2019, the number of women in the labour force increased from 380000 to 490000. Although Botswana is one of Africa's richer countries, its households do not save much of their income.

- Explain two consequences of unemployment. [4]
- Analyse why more women may join a country's labour force. [6]

#### **0455/22/F/M/22**

South Africa (SA) experienced a recession in the second half of 2019 and an unemployment rate of 29%. Only a small proportion of this unemployment was frictional. South Africa's foreign exchange rate fell from 1 SA rand = US\$0.08 in 2018 to 1 SA rand = US\$0.06 in 2019. South Africa had reduced import tariffs, but in 2019 some South African economists suggested tariffs should be used to protect its infant industries.

- Define frictional unemployment. [2]

#### **0455/21/M/J/21**

In 2018, the US had its lowest unemployment rate for 18 years. Cyclical unemployment was very low and so was the rate of inflation. The US also experienced a rise in labour productivity. However, it did not do so well in reducing poverty. In 2018, approximately 12% of Americans were living in poverty.

- Define cyclical unemployment. [2]

#### **0455/21/M/J/20**

Economists are uncertain about the future United States (US) macroeconomic performance. For instance, in recent years, US unemployment has fallen while the deficit on the current account of the balance of payments has fluctuated.

Whether its current account deficit will rise or fall in the future may be affected by proposed tax cuts. Some economists suggest that the US government should not be concerned about the country's current account deficit.

- Explain two consequences to firms of unemployment. [4]

#### **0455/22/F/M/19**

Average life expectancy is as short for the poorest Americans as it is for the people of Sudan, a low-income African country. Low-income individuals tend to live longest in countries with more educated populations. Economic growth can increase education and reduce poverty. In 2017, the US President announced a cut in the tax on firms' profits. He said the measure would increase employment.

- Discuss whether or not a cut in the tax on firms' profits will increase employment. [8]

#### **0455/21/O/N/18**

During a recent recession in Europe, Spain had an unemployment rate of over 25%. This led to high levels of emigration from Spain into higher-wage European economies such as Germany and the UK. This has created both opportunities and problems in countries where immigration was higher than emigration.

- Define unemployment. [2]
- Analyse how a recession in one country could cause unemployment in another country. [6]

#### **0455/23/M/J/18**

In 2016, the trade union representing doctors in the UK was involved in collective bargaining with the government over proposed changes to doctors' contracts. The trade union considered that the aim of the changes was to reduce the cost to the government of providing healthcare. It may also result in fewer individuals training to become doctors in the future.

- Analyse the impact of a reduction in government expenditure on healthcare on a country's unemployment rate. [6]

#### **0455/22/F/M/18**

Taxi drivers usually have to buy a licence to carry passengers. The relatively high fixed cost of the licence discourages some people from becoming taxi drivers. Encouraging more people to be taxi drivers would be likely to reduce taxi fares and unemployment. It may, however, increase traffic congestion.

- Discuss whether or not a reduction in unemployment always increases living standards. [8]

#### **0455/22/O/N/23**

Botswana uses both capital goods and labour in its diamond mining industry. The country had an average economic growth rate of 3.8% between 2015 and 2019 compared to a global average of 2.8%. Over this period, the country experienced a low inflation rate and a move away from protectionism and towards free international trade.

- Explain two reasons why a low inflation rate may increase a country's economic growth rate. [4]

#### **0455/21/M/J/23**

Germany's death rate is higher than some other countries, including Sweden, Cuba and the Maldives. Germany's labour force increased in size between 2011 and 2021 and has become even more productive. The country has also experienced low inflation and a growing surplus on the current account of its balance of payments.

Discuss why some countries may experience lower inflation in the future and some may not. [8]

#### **0455/21/O/N/22**

Jordan has a fixed foreign exchange rate with the US dollar. The monetary policy of Jordan, therefore, follows the monetary policy of the US very closely. Due to low confidence in the global economy in 2019, central banks around the world, including Jordan and the US, cut interest rates to stimulate growth. However, this may have conflicted with the macroeconomic aim of low inflation.

- Define inflation. [2]

#### **0455/23/M/J/21**

Latvia is one of the fastest growing economies in Europe. Although its GDP per head is below the European average, it is quickly catching up. Living standards are improving. At the same time, a decrease in borrowing has reduced the chance of high inflation. The job market is also improving as the unemployment rate is falling. However, there are concerns that there might be less balance of payments stability.

- Explain how a decrease in borrowing could reduce the chance of high inflation. [4]

#### **0455/22/M/J/21**

Consumers in Uruguay are eating more processed foods. Factors of production, including enterprise, have responded to this change. Firms in the processed food industry have become more capital-intensive. All of Uruguay's industries were affected by the rise in its inflation rate, from 6.2% in 2017 to 7.7% in 2018.

- Discuss whether inflation harms a country's industries. [8]

#### **0455/21/M/J/21**

Australia experienced a drought in 2018 which caused its agricultural output to fall. Australia's secondary and tertiary sectors performed better in 2018 than its primary sector. All three sectors were affected by the measures taken by the central bank to avoid deflation. Some firms benefited from these measures and increased their output.

- Analyse how a central bank could avoid deflation. [6]

#### **0455/21/M/J/21**

In 2018, the US had its lowest unemployment rate for 18 years. Cyclical unemployment was very low and so was the rate of inflation. The US also experienced a rise in labour productivity. However, it did not do so well in reducing poverty. In 2018, approximately 12% of Americans were living in poverty.

- Analyse the advantages of a low rate of inflation. [6]

#### **0455/23/O/N/20**

It was announced in November 2016 that 500 and 1000 rupee banknotes could no longer be used in shops in India. These were replaced by the central bank, an institution that makes extensive use of division of labour. In India, cash is still an important form of money used in economic transactions. The replacement of banknotes put pressure on banking staff and other workers in the tertiary sector, and affected the general price level.

- Discuss whether or not deflation will benefit an economy. [8]

#### **0455/21/O/N/20**

The election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.

- Explain why inflation may fall even if there is an increase in total demand. [4]

#### **0455/21/M/J/20**

Japan has a low immigration rate and a declining population. In recent years, it has experienced deflation and a rise in child poverty. By 2017, one in six Japanese children lived in a household with less than half of the average household income. Japan operates a national minimum wage which increased every year between 2010 and 2017. This may have affected the level of poverty in the country.

- Explain two consequences of deflation. [4]

#### **0455/22/F/M/19**

The economic problem results in people having to make choices. In Bulgaria, in recent years, people have changed how much they spend. The Bulgarian government is encouraging people to spend more. It is trying to ensure that deflation does not return and that the country will continue to experience an increase in output.

- Analyse why deflation may cause a fall in output. [6]
- Discuss whether or not a country will suffer if its output falls. [8]

#### **0455/21/O/N/18**

The largest airline in Pakistan was originally formed as a result of a merger between a state-owned airline and a private airline. In April 2016, the Pakistan government made this merged firm a public limited company. This was hoped to improve the productivity of this loss-making airline and also improve the overall economy of Pakistan.

- Analyse how increased productivity could reduce inflation. [6]

#### **0455/23/M/J/18**

In early 2016, the central bank of the Republic of Turkey cut interest rates five times. This was despite an inflation rate of 7.6%. The economy had a combination of a low saving rate and weak investment. To stimulate economic growth the Turkish government announced a package of reforms including subsidies for research and investment.

- Explain how the Consumer Prices Index (CPI) is calculated. [4]

#### **0455/22/M/J/18**

In February 2016, share prices on stock exchanges fell throughout the world. There were a number of reasons for this; including concerns about the slowdown in world growth, the possibility of deflation and unemployment, and fears that some commercial banks could go out of business.

- Analyse what can cause deflation. [6]
- Discuss whether or not government policy measures to reduce unemployment will cause inflation. [8]

**0455/21/M/J/18**

The government of Slovenia has introduced a range of supply-side policy measures to influence the country's inflation rate. Among other factors affecting the economy is a change in trade union membership and strength.

- Identify two price indices. [2]
- Analyse why a government may want to reduce its country's inflation rate. [6]

**0455/22/F/M/18**

In March 2016, the Canadian government announced increases in government spending including an increased subsidy to environmentally friendly technology. It also announced that high income earners would face an increase from 29% to 33% in the highest rate of income tax. Changes in government spending and taxation can influence a country's inflation rate.

- Explain two disadvantages of inflation. [4]
- Analyse how an increase in government spending may cause inflation. [6]