Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL MULTIPLE CHOICE QUESTIONS

POLICIES OF GOVERNMENT

PAST QUESTIONS

1 The table shows the relationship between inflation and unemployment in Germany from 2019 to 2022.

	2019	2020	2021	2022
inflation: annual variation (%)	–1.9	–1.6	2.7	2.6
unemployment rate (%)	6.4	6.1	5.7	5.2

Some theories argue that inflation rates are at their lowest when the rate of unemployment is low.

Which year contradicts this expectation to the greatest extent?

A 2019 B 2020 C 2021 D 2022

2 An economy has a sudden increase in inflation caused by a large rise in energy prices. It also enters a recession with rising unemployment.

A decrease in which policy variable is most likely to reduce the impact of the recession without increasing the price level further?

A direct taxation

B government spending

C indirect taxation

D interest rate

3 The table shows the annual percentage change in the output per worker employed for four nationalised industries before and after privatisation.

nationalised industry	before privatisation %	after privatisation %
railways	–4	2
electricity supply	7	9
shipbuilding	4	–1
telecommunications	6	6

What can be concluded about the effect of privatisation?

A Employment fell in the railway industry.

B Employment was unchanged in the telecommunications industry.

C Output was greatest in the electricity supply industry.

D Workers became less efficient in the shipbuilding industry.

4 Which combination of policies would be most likely to bring a country out of recession?

A expansionary fiscal and monetary policy as well as supply-side policies

B expansionary fiscal policy and tight monetary policy

C tight fiscal and monetary policy

D supply-side policies alone

5 A government uses monetary policy and fiscal policy to solve a problem of deflation.

Which policy combination is likely to be the most successful?

	monetary policy	fiscal policy
A	increasing interest rates	contractionary
B	increasing interest rates	expansionary
C	reducing interest rates	contractionary
D	reducing interest rates	expansionary

6 What is likely to be the most effective policy to reduce inflation caused by a rapid rise in import prices?

A a decrease in the domestic rate of interest

B a decrease in the rate of income tax

C an increase in trade tariffs on imports

D a revaluation of the exchange rate

7 Which macroeconomic policy objective will not apply to a government in a closed economy?

A achieving a low and steady rate of inflation

B achieving a more equal income distribution

C achieving a surplus on the balance of payments

D achieving a sustainable rate of economic growth

8 A government increases its budget deficit to spend money on infrastructure development. It finances this by printing money.

How is this policy likely to affect the government's main macroeconomic policy objectives?

	higher economic growth	lower unemployment	lower inflation
A	less likely	less likely	more likely
B	less likely	more likely	less likely
C	more likely	more likely	less likely
D	more likely	more likely	more likely

9 The government increases interest rates in order to reduce the rate of inflation.

What will also result from this action?

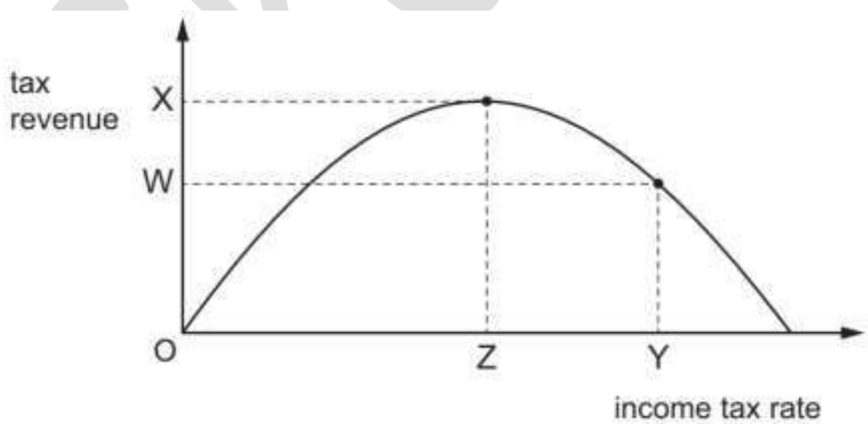
A a depreciation of the country's currency

B a fall in the level of savings

C a reduction in economic growth

D a reduction in unemployment

10 The diagram shows the relationship between the income tax rate and tax revenue.



Which statement is correct?

A A tax rate cut from Y to Z will cause tax revenue to decrease.

B At tax rates below Z a tax rate cut will cause tax revenue to increase.

C The greater the rate of tax beyond Z, the smaller will be the tax revenue generated.

D Tax revenue will always increase as the rate of income tax increases.

11 A country imports most of the raw materials used as factor inputs.

Which policy is most likely to control cost-push inflation?

A an appreciation of the exchange rate

B an increase in the rate of income tax

C an increase in the rate of interest

D an increase in the rate of sales tax

12 A government wishes to support growth in the economy's fishing industry.

Which policy is likely to achieve sustainable growth in the fishing industry?

A giving more modern fishing boats with larger nets to workers who fish for a living

B paying bonus payments for larger fish catches to workers who fish for a living

C setting up a fish cooperative so that workers who fish for a living receive a higher price for the fish that they catch

D subsidising the building of a fish farm in order to encourage workers who fish for a living to switch from sea fishing

13 Which combination of policies is most likely to increase output?

	fiscal policy	monetary policy
A	decrease budget deficit	decrease interest rates
B	decrease budget deficit	increase interest rates
C	increase budget deficit	decrease interest rates
D	increase budget deficit	increase interest rates

14 A country is a net importer of oil. World oil prices have risen over the year.

Assuming that all other factors remain the same, how is this likely to affect inflation, trade balance and unemployment in this country?

	inflation	trade balance	unemployment
A	decrease	no change	increase
B	increase	improve	decrease
C	increase	worsen	increase
D	decrease	no change	decrease

15 What would reduce the effectiveness of a supply-side stimulus to the economy?

A an imposition of maximum hours in a working week

B an increase in public sector spending

C the provision of new training schemes

D the relaxation of import controls on raw materials

16 Increased borrowing by the government results in higher interest charges and this leads to less private investment expenditure.

Of what is this an example?

A an automatic stabiliser

B crowding out

C the accelerator

D the substitution effect

17 Governments set economic policy aims.

What will be least likely to occur if all these aims are achieved?

A a decrease in the average standard of living

B a decrease in the currency's foreign exchange rate

C an increase in the level of frictional unemployment

D an increase in the rate of inflation

18 The government decides to raise the rate of value added tax (general sales tax).

What does this suggest is the government's main macroeconomic objective?

A to reduce the budget deficit

B to reduce the inequality of income distribution

C to reduce the level of unemployment

D to reduce the rate of inflation

19 Which combination of circumstances is most likely to lead to an increase in a country's budget deficit?

	total GDP	unemployment	government spending
A	decreases	rises	decreases
B	decreases	rises	no change
C	increases	falls	increases
D	increases	falls	no change

20 Which government aim is least likely to be achieved using macroeconomic monetary policy measures?

A low unemployment level

B more equal income distribution

C stable exchange rate

D steady price level

21 A government adopts an expansionary fiscal policy to increase the economic growth rate.

Which other main macroeconomic aims is this policy most likely to help?

	full employment	stable price level	current account surplus
A	✓	✓	✗
B	✗	✓	✓
C	✗	✗	✓
D	✓	✗	✗

22 When is a policy of income redistribution from rich people to poor people most appropriate?

A when control of demand-pull inflation is the priority

B when equality is valued more highly than efficiency

C when monetary reward is the best incentive to risk-taking

D when the rich have higher marginal utility curves than the poor

23 What does the Laffer curve show?

A the relationship between the rate of inflation and the rate of unemployment

B the relationship between the rate of interest and the speculative demand for money

C the relationship between tax rates and the amount of tax revenue collected by governments

D the relationship between how two goods can be produced in an economy with given resources

24 The table shows key macroeconomic indicators for four countries in 2018.

	economic growth (% change in GDP per annum)	unemployment rate (%)	inflation rate (% change in CPI per annum)	current account balance (% of GDP)
Argentina	–6.2	9.1	50.7	–4.8
China	6.4	3.8	1.5	0.4
Italy	0	10.7	0.9	2.6
United States	3.0	3.8	1.5	–2.4

What can be concluded from the table?

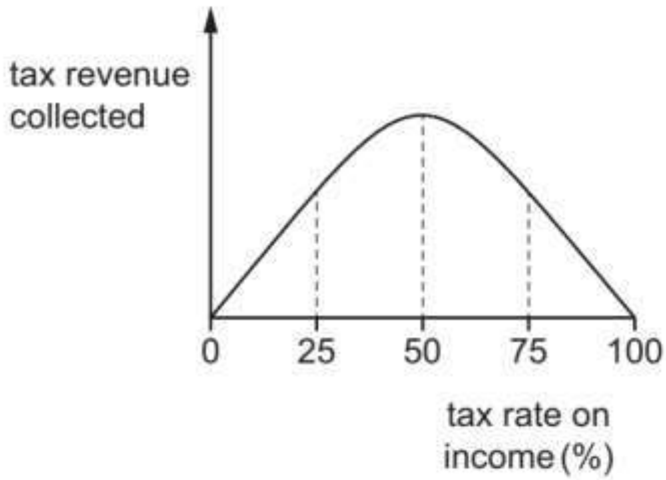
A Countries with current account surpluses had low unemployment rates.

B Countries with high economic growth rates had high inflation rates.

C Countries with low economic growth rates had high unemployment rates.

D Countries with positive economic growth rates had current account deficits.

25 The diagram shows the relationship between tax revenue and the tax rate.



What is the curve on the diagram called?

A income elasticity curve

B J curve

C Lorenz curve

D Laffer curve

26 The table shows the rate of inflation (consumer prices index) and the monthly percentage rate of unemployment for the USA over a six month period in 2017.

month	April	May	June	July	Aug	Sept
rate of inflation (%)	2.2	1.9	1.6	1.7	1.9	2.2
rate of unemployment (%)	3.9	3.8	3.9	3.9	3.8	3.7

What can be concluded from this table?

A Falling inflation leads to lower unemployment.

B Increasing inflation leads to rising unemployment.

C The rate of inflation correlates exactly with the rate of unemployment.

D The rate of inflation has a marginal effect on the rate of unemployment.

27 A government wishes to redistribute income from richer citizens to poorer citizens.

Which policy is it least likely to use?

A increase direct taxes

B increase indirect taxes

C increase subsidies

D increase transfer payments

28 Which approach is consistent with the Keynesian school of economic thought?

A Balanced budgets should be a key policy aim.

B Inflation is caused by excessive money supply growth.

C Unemployment can still persist in the long run.

D Wages are flexible downwards in the short run.

29 Which combination of policies is most likely to reduce the rate of inflation?

	government spending	interest rates	direct taxation on households
A	decrease	decrease	increase
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

30 Which policy combination will reduce the level of national income by the greatest amount?

A decrease direct taxation and increase interest rates

B decrease direct taxation and increase quantitative easing

C increase direct taxation and increase interest rates

D increase direct taxation and increase quantitative easing

31 What is assumed by Keynesians?

A An increase in supply always creates an equal increase in demand.

B Government intervention is required to manage the economy.

C Prices always adjust so that markets clear.

D The economy always has full employment.

32 What is a reflationary fiscal measure?

A increasing government spending

B increasing taxes

C increasing the money supply

D reducing interest rates

33 A government implements three economic policies.

1 lower income tax

2 higher indirect taxation on alcohol to reduce consumption

3 higher spending on infrastructure

Which policies represent forms of government macro economic policy?

A 1 and 3 B 2 and 3 C 2 only D 3 only

34 The Gini coefficient of a country is 0.40. The poorest income earners in this country pay no income tax. The government increases the tax rate on the highest income earners, which results in a more even distribution of income.

What could be concluded from this?

A The Gini coefficient falls and the income tax system becomes more progressive.

B The Gini coefficient falls and the income tax system becomes more regressive.

C The Gini coefficient rises and the income tax system becomes more progressive.

D The Gini coefficient rises and the income tax system becomes more regressive.

35 A government attempts to stimulate growth by cutting its main interest rate.

What might reduce the effectiveness of this?

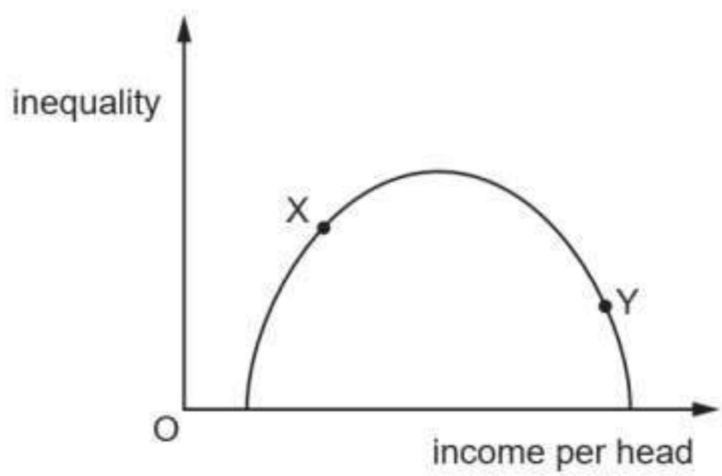
A if investors' expectations are rising

B if more borrowing is taking place

C if savings are falling

D if the marginal propensity to consume is falling

36 The diagram shows the relative position of two countries X and Y on a Kuznets curve.



What does the diagram indicate?

A Country X collects more income tax than country Y.

B Country X has a higher national income than country Y.

C Country Y has less income inequality than country X.

D Country Y is less economically developed than country X.

37 A government is committed to increasing real GDP using only fiscal and monetary policies.

Which combination of measures is likely to be the most effective in achieving this aim?

	fiscal policy	monetary policy
A	increase in the budget deficit	central bank buys back government bonds
B	increased government spending on roads	increased short term rate of interest
C	reduce income taxes	central bank sells more government bonds
D	reduce wealth taxes	increase commercial banks' cash deposit ratio

38 Which policy does a central bank undertake to pursue quantitative easing?

A purchase long-term government debt from the public

B purchase short-term government debt from the public

C sell long-term government debt to the public

D sell short-term government debt to the public

39 Which statement would both Keynesian and Monetarist schools of thought accept?

A High inflation and high unemployment are undesirable in a properly-functioning economy.

B Increased government spending on investment projects will always crowd out private investment.

C The best way for an economy to get out of a recession is for the government to increase its expenditure.

D The most effective way to reduce inflation is for the government to exercise tight control over the money supply.

40 In country X the marginal rate of income tax imposed on the highest earners was 83% which increased to 98% if income was received from interest or dividends. The highest marginal rate was then reduced to 40%. Despite this reduction, the tax revenue raised from the highest earners increased substantially.

Which theoretical concept illustrates this relationship between tax rates and tax revenue?

A the J curve

B the Laffer curve

C the Marshall-Lerner condition

D the Phillips curve

41 A government is increasing the role of market forces in its economy. However, it imposed temporary maximum price controls.

Why might a government, committed to reducing central planning, introduce price controls?

A to increase allocative efficiency

B to increase the incentive for producers to raise supply

C to reduce consumer demand

D to reduce expectations of inflation

42 What is not an aim of macroeconomic policy?

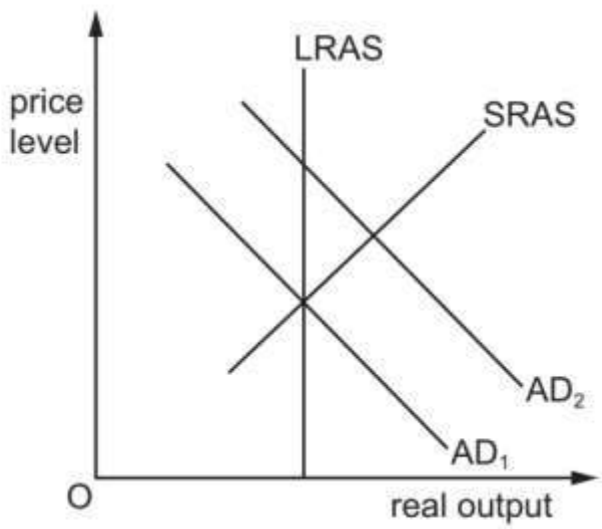
A economic development

B exchange rate stability

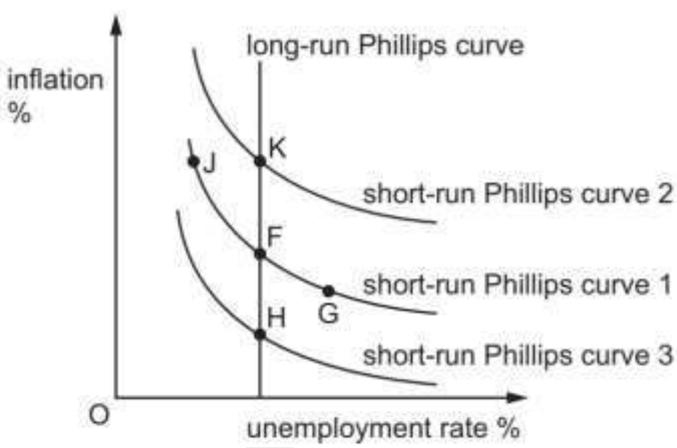
C Pareto optimality

D satisfactory balance of payments

43 The diagram shows an increase in aggregate demand (AD) from AD1 to AD2.



How can the subsequent impact on short-run and long-run macroeconomic equilibrium positions be shown using expectations-augmented Phillips curves?



A F to G to H

B F to G to K

C F to J to H

D F to J to K

44 How could high interest rates increase a country's rate of inflation?

A by increasing the current borrowing costs of business

B by increasing the current borrowing costs of government

C by increasing the foreign exchange rate of the currency

D by increasing the opportunity cost of spending

45 What is most likely to influence subsequent increases in national income as a result of a government policy of reduced interest rates?

A marginal cost

B marginal efficiency of capital

C marginal product

D marginal utility

46 A firm is faced with a shortage of labour. It decides to introduce its own training scheme for school leavers.

Which effect is this most likely to have on the firm?

A a decrease in the number of workers it employs

B a decrease in the productivity of its workforce

C an increase in the geographical mobility of its labour

D a shift of the supply curve for its labour to the right

47 What is likely to result if a government introduces a new regressive tax?

A Aggregate demand will increase.

B Employment opportunities will increase.

C Income equality will improve.

D Tax revenues will increase.

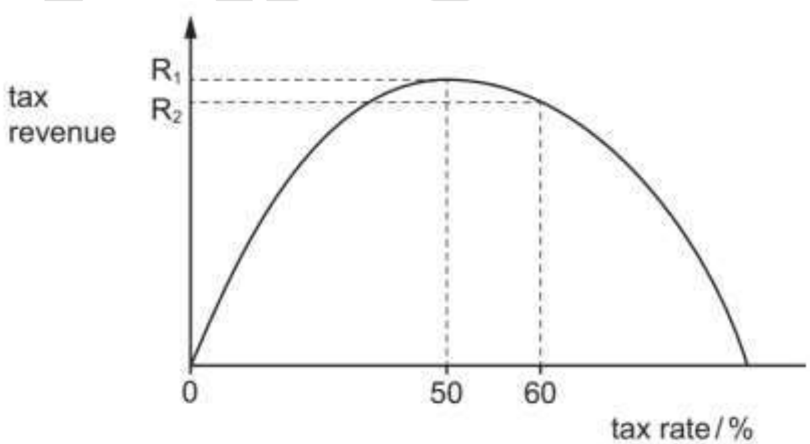
48 Which government policy to counter the effects of income inequality is correctly matched with one of its advantages and one of its disadvantages?

	policy	advantage of policy	disadvantage of policy
A	food subsidies for the poor	targets those in need	high administrative costs
B	higher national minimum wage	encourages skill training	higher budget deficit
C	provision of free child care	increases employability	disincentive to work
D	universal monetary benefits	saves on bureaucracy	reduced labour mobility

49 What shows the correct outcome for the policy option?

	policy option	outcome
A	depreciation of the exchange rate	encourages more exports, which also means greater employment
B	higher interest rates	attracts hot money inflows, and is an incentive for more consumer spending
C	decreased government spending	more workers will be employed, and more imports will be bought
D	reduction in income taxes	increases consumer spending, with increased demand for exports

50 The Laffer curve shows expected tax revenues at different tax rates.



An increase in the tax rate above 50% is expected to decrease tax revenue.

What is the reason for this?

A decreased incentive for emigration

B decreased incentive for tax evasion

C increased incentive for people to work

D increased incentive for people to work fewer hours

51 A government wishes to improve the income distribution between the richest and poorest in society. It introduces means tested benefits for workers on low incomes. To pay for this, income tax rates for the highest paid will increase.

What is the most significant strength and weakness of this policy approach?

	strength	weakness
A	benefits are only given to those in need	poor non-workers will be no better off
B	intergenerational equity is improved	tax avoidance is more likely
C	workers will be encouraged to work more hours	taxation has become more regressive
D	the policy approach will be efficient to operate	wealth distribution will be affected more than income distribution

52 The table shows data on the unemployment and inflation rates for four countries in 2010 and 2014.

country	unemployment rate (% of workforce)		inflation rate (% per annum)	
	2010	2014	2010	2014
Australia	5.2	6.1	2.7	1.6
Canada	8.0	6.9	2.2	1.9
Japan	5.1	3.6	–0.3	2.5
United States	9.6	6.2	1.7	0.6

Which countries had a typical Phillips curve?

A Australia and Japan

B Australia only

C Japan only

D Canada and the United States

53 What indicates that nationalisation has taken place?

A a firm buys supplies locally rather than from international sources

B a firm moves from private ownership to state ownership

C a firm restricts ownership of its shares to citizens of its own country

D a firm switches sales to the domestic market from the international market

54 An economy adopts an expansionary monetary policy to boost employment. A result of this policy is that the consumer price index rises at an accelerating rate.

Which curve could represent this?

A Kuznets curve

B Laffer curve

C Lorenz curve

D Phillips curve

55 An economy is operating at full employment.

Which policy is most likely to lead to an increase in real national output without an increase in the rate of inflation in the short term?

A additional spending on subsidies to increase export earnings

B the central bank introduces quantitative easing

C labour market reforms result in increased output per hour worked

D the government reduces income tax rates

56 Which combination of policies is most likely to reduce the inequality of the income distribution?

	direct tax	indirect tax	availability of benefit
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

57 Which policy would be most likely to increase employment?

A decreasing duties on imports

B decreasing unemployment benefits

C increasing income tax

D increasing interest rates

MARK SCHEME

1 A

2 C

3 D

4 A

5 D

6 D

7 C

8 C

9 C

10 C

11 A

12 D

13 C

14 C

15 A

16 B

17 A

18 A

19 B

20 B

21 D

22 B

23 C

24 C

25 D

26 D

27 B

28 C

29 B

30 C

31 B

32 A

33 A

34 A

35 D

36 C

37 A

38 A

39 A

40 B

41 D

42 C

43 D

44 A

45 B

46 D

47 D

48 A

49 A

50 D

51 A

52 A

53 B

54 D

55 C

56 C

57 B