

AQA A-LEVEL ECONOMICS • 7136

ECONOMICS



EXAM QUESTION PACK

3.2.1.1 THE OBJECTIVES OF GOVERNMENT ECONOMIC POLICY

SCORE

/51

PERCENTAGE

%

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1.

The table below contains index number data for an economy's GDP, population size and its price level for the years 2005 and 2014. All three indices have 2005 for their base year.

	GDP	Population	Price level
2005	100	100	100
2014	200	120	150

Using the data, the increase in real GDP per capita between 2005 and 2014 is approximately

A 10%.

☐

B 20%.

☐

C 50%.

☐

D 100%.

☐

[1 mark]

2.

The Global Context Extract C (lines 9–11) states: ‘However, the tax summaries have been heavily criticised in that they may make individuals more inclined to support political parties which favour lower taxes, without considering the wider picture of what state spending provides.’

Using the data and your knowledge of economics, to what extent do you agree that cuts to direct taxation would benefit growth **and** living standards in the UK?

Justify your answer.

[25 marks]

3.

THE GLOBAL CONTEXT

Extract C: Where does tax go in the UK?

In the UK, from November 2014, HM Revenue & Customs will begin sending 24 million working people the first Annual Tax Summary, showing how their money is being spent by the state, in order to make taxation more transparent. For example, someone on a salary of £30 000 will see that £1663 of their money is spent on welfare, with £1280 going to health, £892 going to education, £822 going to the state pension and £475 going on national debt interest. Ministers believed that showing exactly where taxpayers' money goes could make voters more receptive to controversial Government changes to the benefits system. 1

However, the tax summaries have been heavily criticised in that they may make individuals more inclined to support political parties which favour lower taxes, without considering the wider picture of what state spending provides. The breakdown does not make clear that most of the welfare budget goes to pensioners, the sick and disabled people. The Treasury originally planned to show just 3% went towards unemployment benefits while much larger amounts went to children and families, elderly people and those unable to work, but this has been left off the tax summaries. 5

A Labour Party spokesperson said: 'This government's record on tax is giving millionaires a huge tax cut while everyone else pays more.' She added: 'Families and pensioners are paying more in higher VAT, but that tax isn't included in these tax summaries and independent figures from the Institute of Fiscal Studies show that, by next year, families will be £974 a year worse off because of tax and benefit changes since 2010.' 10

Source: news reports, 2014

4.

The economies of Mexico, Indonesia, Nigeria and Turkey (MINT) have all been identified as the next main emerging market economies with high rates of growth. However, there are warnings that what goes up will eventually come down.

Evaluate the view that living standards must be rising in economies which are experiencing economic growth.

[25 marks]

Mark schemes

1.

A

[1]

Introduction	• The nature of EU single market • Origins of the EU • How 'beneficial' may be measured in terms of macroeconomic performance.
Developing the response to the question: Application	Drawing on the information in the extracts: • Electoral success (Extract B) • Lower taxes creating growth Extract B • Balancing budget helped by growth (Extract B) • Reduced size of the state (Extract B) • What goods and services the state provides (Extract C) • Health, education and welfare in terms of living standards (Extract C) • Benefiting certain income groups (Extract C) • The effect of shifting from direct to indirect taxation (Extract C)
Developing the response to the question: Analysis	Arguments why direct tax cuts may be beneficial for growth and living standards: • Increased consumption possibilities • Increased AD as a result of increased consumption and short-run economic growth • Possible increase in firms profits and its role in stimulating investment • Individuals are able to spend more on what they wish, improving welfare • Reduced tax rates leading to more tax revenue (Laffer curve arguments) • Links between economic growth and living standards • Reducing crowding out • Possible multiplier effects. Arguments why direct tax cuts may be damaging for growth and living standards: • Possibly leading to reduced state intervention • Reduction in provision of both public and merit goods • Possible increased inequality • Rich having a larger marginal propensity to save, therefore not spending as much, reducing the circular flow • Possible negative multiplier effects • Lack of crowding in • Costs of economic growth in terms of living standards (eg pollution).

Evaluation	• Short-run vs long run considerations • Are growth and living standards always necessarily directly linked? • How can living standards be judged and what factors need to be considered in their measurement? (This could include HDI or other suitable measurements). • The role of the state and the effects of merit and public goods on living standards • Differences between New Zealand's and UK's experiences, eg New Zealand linked to fast growing Asia-Pacific region. • The idea that living standards and growth encompass a wide range of factors beyond that which domestic governments have control. <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i>
Also give credit for	• Reference to the UK/other economies • Relevant diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not discussed above

[25]

Introduction	• Economic growth • Living standards/the quality of life • Measurements of living standards.
Developing the response to the question: Application / Analysis	• Measuring economic growth • Correlations between growing real GDP per capita and living standards • The change in real GDP per capita as a monetary indicator and the suitability of this for use in judging living standards • Long-run and short-run growth considerations • Inaccuracy and variability in growth rates • HDI/Legatum prosperity index/Misery index/Happy planet index or any other measurement of living standards • Regional differences within countries • Possibilities of increased consumption possibilities • Provision of merit goods/public goods • Pollution and the environment • Inequality issues within countries.
Evaluation	• The sustainability of the growth and consideration of how fast economies are growing • Discussion of the prioritisation of the various factors which make up living standards • Consideration of trade-offs involved in growth • The ability of individuals to move between countries in pursuit of better living standards • Consideration of different economies experiences • Differences between different economic perspectives on welfare provision between different countries and over time • Considering that the judgement of standards of living is highly subjective and different individuals have different opinions on living standards • Exogenous factors beyond the control of the country may impact on living standards for example global warming. <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i>
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]