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Question 16 (Answer: **D**)

- Cyclical unemployment comes from a deficiency of aggregate demand.
- The Keynesian remedy is therefore to raise aggregate demand directly.
- That means expansionary fiscal policy – government spending or tax cuts, not supply-side retraining.

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Question 20 (Answer: **C**)

- Transfer payments to the unemployed go to people with a high propensity to consume.
- Higher-rate taxpayers have a lower propensity to consume, so they cut spending by less.
- So aggregate demand rises overall, and the income distribution becomes more equal.

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Question 18 (Answer: **B**)

- Cutting direct taxes raises disposable income, so aggregate demand and employment rise – less cyclical unemployment.
- But raising unemployment benefits lengthens job search, so frictional unemployment rises.
- So the combination pulls the two kinds of unemployment in opposite directions.

Question 22 (Answer: **D**)

- Reducing the money supply raises interest rates, which reduces borrowing and spending.
- It works best when spending is *responsive* to interest rates.
- If households and firms borrow regardless of the rate, the policy has little effect.

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Question 22 (Answer: **A**)

- Increasing the role of market forces means reducing state control.
- Deregulation removes the rules that restrict competition.
- Nationalisation, price controls and quotas all *increase* government intervention.

Question 25 (Answer: **A**)

- The Laffer curve plots tax revenue against the tax rate.
- Revenue rises with the rate at first, peaks, then falls as incentives and compliance weaken.
- So it shows the revenue obtained at each possible tax rate.