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Question 24 (Answer: **A**)

- Take each measure separately and ask whether it raises or lowers capacity and demand.
- Cutting training spending reduces capacity; raising indirect taxes reduces real incomes.
- So the combined effect is contractionary – the measures reinforce rather than offset each other.

Question 25 (Answer: **B**)

- Cutting government spending is contractionary fiscal policy; raising interest rates is contractionary monetary policy.
- Used together, they reduce aggregate demand strongly.
- So the combination suits an economy with high inflation, but risks recession if demand is already weak.

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Question 18 (Answer: **C**)

- Cutting unemployment benefit is intended to make working more attractive relative to not working.
- Improving the incentive to work raises the effective labour supply, which is a supply-side aim.
- Because it also changes government spending, it is fiscal policy at the same time.

Question 20 (Answer: **C**)

- Growth is wanted because it raises incomes, living standards and employment.
- It also improves business confidence and government tax revenue.
- Higher *inflation* is a risk of rapid growth, not a reason for wanting it.

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Question 23 (Answer: **C**)

- Raising income tax to fund spending is fiscal policy – both sides of the budget.
- Spending it on apprenticeships and training raises skills and so productive capacity.
- That makes it supply-side policy as well, so two types are being used together.

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Question 22 (Answer: **C**)

- Higher direct taxation reduces disposable income, so consumption and aggregate demand fall.
- Lower aggregate demand helps with inflation and with the current account.
- But it works against growth and low unemployment, so the objectives conflict.