Question 1 (Answer: **C**)

- A normative statement contains a value judgement and cannot be tested against data.
- "Indirect taxes are unfair" is an opinion about what *ought* to be.
- The others are factual claims that evidence could confirm or refute.

Question 11 (Answer: **C**)

- Total welfare rises with spending but at a diminishing rate, so read the *gradient* of each curve.
- The extra welfare from the last dollar spent is the marginal benefit.
- Welfare is maximised where the marginal benefit of spending is equal in the two areas.

Question 13 (Answer: **D**)

- Wealth is a *stock* of assets held at a point in time.
- Income is a *flow* received over a period.
- So savings held in a bank account are wealth, while income, benefits and interest received are flows.

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Question 6 (Answer: **D**)

- Consumer surplus is the difference between what a consumer is *willing* to pay and what they actually pay.
- It is measured as the area under the demand curve and above the price.
- It has nothing to do with income or with tax – only with the price paid against the value placed on the good.

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Question 24 (Answer: **A**)

- Raising output without raising the price level needs the *supply* side to expand.
- If only aggregate demand rises, the price level rises with output.
- So the policy must shift aggregate supply right, by adding capacity.

Question 26 (Answer: **C**)

- A contractionary policy reduces aggregate demand.
- Higher taxes, lower government spending, higher interest rates or an appreciation all do that.
- Cutting income tax or interest rates would be expansionary instead.

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Question 21 (Answer: **C**)

- Expansionary fiscal policy means the government spending more or taxing less.
- Increased spending on public goods is exactly that.
- Private sector investment is not government policy, and raising income tax is contractionary.

Question 25 (Answer: **B**)

- Interest rates are the central bank's instrument, so this is monetary policy.
- Raising them reduces borrowing and spending, so it reduces aggregate demand.
- That makes it contractionary monetary policy.

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Question 25 (Answer: **C**)

- A proportional tax takes the same *percentage* of income at every income level.
- So divide the tax paid by the income in each row.
- The system is proportional where those ratios are all equal – progressive if they rise, regressive if they fall.

A-Level Economics: **Specimen 1**

Question 22 (Answer: **B**)

- Compare revenue with expenditure in each year.
- Expenditure above revenue is a budget deficit; revenue above expenditure is a surplus.
- A deficit in every year means the national debt is rising, even if the deficit itself is shrinking.