Past-paper walk-through

Government macroeconomic intervention ▪ 4.1

eXercise

Questions in this set

- 0455/13 N25 Q18 ▪ 1 mark
- 0455/21 J25 Q4 ▪ 20 marks
- 0455/11 N24 Q17 ▪ 1 mark
- 0455/12 N24 Q23 ▪ 1 mark
- 0455/13 N24 Q11 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 18

0455/13 N25 ▪ Q18 ▪ 1 mark

18 A government has stated for the next year it has four main aims.

1 low and stable inflation
2 providing subsidies to farmers
3 raising productivity of workers in the public sector
4 stability in the balance of payments

What are the two macroeconomic aims for the government?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

Solution 18

Answer: **B**

Why

- Macroeconomic aims concern the whole economy: inflation, employment, growth, the balance of payments.
- Raising productivity and keeping inflation low and stable are both macroeconomic.
- Subsidising one industry is a microeconomic intervention in a single market.

Question 4

0455/21 J25 ▪ Q4 ▪ 20 marks

4 In 2023, India became the country with the largest population. This may affect the government's macroeconomic aims. In 2018, the Indian Government cut the country's corporation (corporate income) tax rate from 35% to 25%. Between 2019 and 2022, India's inflation rate averaged 6%. Some economists suggested that to achieve its central inflation rate target, the government should cut its spending.

(a) Identify two macroeconomic aims of government that may conflict. [2]

(b) Explain two reasons why a country may have a high population growth rate. [4]

(c) Analyse how a cut in the corporation (corporate income) tax rate can increase economic growth. [6]

(d) Discuss whether or not a decrease in government spending will reduce inflation. [8]

(a) (a) Identify two macroeconomic aims of government that may conflict. [2] **[2]**

Question 4

(b) (b) Explain two reasons why a country may have a high population growth rate. [4] **[4]**

(c) (c) Analyse how a cut in the corporation (corporate income) tax rate can increase economic growth. [6] **[6]**

(d) (d) Discuss whether or not a decrease in government spending will reduce inflation. [8] **[8]**

Solution 4

(a) Mark scheme

- Identify two macroeconomic aims of government that
- may conflict.
- ▪
- Full employment / low unemployment (1) and price
- stability (1).
- ▪
- Economic growth (1) current account balance (1).
- ▪

Solution 4

- Price stability (1) redistribution of income / poverty
- reduction (1).
- ▪
- Economic growth (1) economic sustainability (1).
- 2 If more than two macroeconomic aims given, consider the
- first three.
- Allow any macroeconomic aim.

Solution 4

(b) Mark scheme

- Explain two reasons why a country may have a high
- population growth rate.
- Logical explanation which might include:
- ▪
- High birth rate (1) due to e.g. low age of marriage / lack
- of education on birth control (1).
- ▪
- Low death rate / high life expectancy (1) due to e.g.

Solution 4

- good quality healthcare (1).
- ▪
- Immigration /net immigration (1) due to e.g. high
- incomes (1).
- ▪
- High fertility rates (1) due to e.g. young female
- population (1).
- ▪
- Birth rate higher than the death rate (1) results in higher
- natural growth rate (1).

Solution 4

- 4 One mark each for each of two reasons identified and one
- mark each for each of two explanations.
- If more than two reasons given, consider the first three.
- 0455/21
- May/June 2025
- Guidance

Solution 4

(c) Mark scheme

- Analyse how a cut in the corporation (corporate income)
- tax rate can increase economic growth.
- Coherent analysis which might include:
- ▪
- Cut in corporation (corporate income) tax will increase
- the amount of profits that can be kept by firms (1) may
- attract MNCs to country (1) this will increase the funds
- firms have to spend (1) on capital goods (1) and

Solution 4

- increase incentive to invest (1) more to spend on wages
- (1) may create job opportunities / reduce unemployment
- (1) raise consumer expenditure (1) firms grow faster (1).
- ▪
- Higher investment (1) will increase total demand (1). It
- may also increase the quality of capital goods (1) may
- introduce new technology (1) may increase productivity
- /productive capacity (1) increase output / GDP (1).
- ▪
- Provide an incentive to enterprise (1) as more profits

Solution 4

- can be retained / higher profits (1).
- 6 Do not credit answers that refer to income tax or any other
- tax than corporation tax.
- 0455/21
- May/June 2025
- Guidance

Solution 4

(d) Mark scheme

- Discuss whether or not a decrease in government
- spending will reduce inflation.
- In assessing each answer, use the table opposite.
- Why it might:
- ▪
- may reduce total demand
- ▪
- lower total demand may reduce demand-pull inflation

Solution 4

- ▪
- if near full employment, lower demand may have a
- significant impact on inflation
- ▪
- may reduce need for taxes, lower indirect taxes may
- reduce prices.
- Why it might not:
- ▪
- lower government subsidies may raise prices
- ▪

Solution 4

- lower government spending on education and training
- may reduce productivity and may increase cost of
- production
- ▪
- lower government spending on infrastructure could
- increase transport costs
- ▪
- higher costs of production may increase cost-push
- inflation
- ▪

Solution 4

- may be other causes of inflation e.g. rise in wages
- 8
- Level
- Description
- 3
- A reasoned discussion which accurately
- examines both sides of the economic
- argument, making use of economic
- information and clear and logical
- analysis to evaluate economic issues

Solution 4

- and situations. One side of the
- argument may have more depth than
- the other, but overall both sides of the
- argument are considered and
- developed. There is thoughtful
- evaluation of economic concepts,
- terminology, information and/or data
- appropriate to the question. The
- discussion may also point out the
- possible uncertainties of alternative

Solution 4

- decisions and outcomes.
- 6–8
- 2
- A reasoned discussion which makes
- use of economic information and clear
- analysis to evaluate economic issues
- and situations. The answer may lack
- some depth and development may be
- one-sided. There is relevant use of
- economic concepts, terminology,

Solution 4

- information and data appropriate to the
- question.
- 3–5
- 0455/21
- May/June 2025
- Guidance
- 8
- Level
- Description
- 1

Solution 4

- There is a simple attempt at using
- economic definitions and terminology.
- Some reference may be made to
- economic theory, with occasional
- understanding.
- 1–2
- 0
- A mark of zero should be awarded for
- no creditable content.
- 0

Solution 4

- 0455/21
- May/June 2025
- Guidance

Question 17

0455/11 N24 ▪ Q17 ▪ 1 mark

17 The central bank of Mexico set its rate of interest to try to keep the rise in the price level to only 3%.

Which government aim was it directly trying to achieve?

A balance of payments equilibrium

B economic growth

C full employment

D low inflation

Solution 17

Answer: **D**

Why

- Keeping the rise in the price level to a target figure is controlling inflation.
- That is the aim of price stability.
- Interest rates are the instrument; price stability is the aim being pursued.

Question 23

0455/12 N24 ▪ Q23 ▪ 1 mark

23 The table shows changes in economic policies for four countries, **A**, **B**, **C** and **D**.

Which country is most likely to be following a policy of preventing deflation?

	money supply	government spending	taxation
A	decreasing	decreasing	decreasing
B	decreasing	decreasing	increasing
C	increasing	increasing	decreasing
D	increasing	increasing	increasing

Question 23

Solution 23

Answer: **C**

Why

- Deflation is a sustained fall in the general price level.
- Preventing it means raising aggregate demand.
- So look for the country cutting interest rates or taxes, or raising government spending.

Question 11

0455/13 N24 ▪ Q11 ▪ 1 mark

11 Under which circumstances are households more likely to save?

	inflation rate	interest rate	unemployment rate
A	high	high	high
B	high	high	low
C	low	high	low
D	low	low	low

Question 11

D	low	low	low

Solution 11

Answer: **C**

Why

- People save more when saving is rewarding and the future looks uncertain.
- A high interest rate raises the reward for saving.
- High unemployment makes people save precautionarily, while high inflation erodes savings and discourages them.