Question 18 (Answer: **B**)

- A balanced budget becoming lower spending means revenue now exceeds spending – a surplus.
- Less government spending is a withdrawal from the circular flow.
- So aggregate demand falls, and with it output and employment in the short run.

Question 19 (Answer: **A**)

- Monetary policy uses interest rates, the money supply and the exchange rate.
- Income tax is a *fiscal* instrument, controlled by the government rather than the central bank.
- So changing income tax rates is fiscal policy, not monetary.

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Question 18 (Answer: **C**)

- Direct taxes are levied on income and wealth; indirect taxes on spending.
- So taxes on income are direct, while taxes on goods, services and customs duties are indirect.
- Add the categories in each group before comparing.

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Question 21 (Answer: **C**)

- Labour productivity is output per worker.
- It rises most when workers become more skilled or better equipped.
- Education and training raise it directly; a corporation tax cut works only indirectly, through investment.

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Question 21 (Answer: **C**)

- Economic growth needs aggregate demand or productive capacity to rise.
- Lower taxes, lower interest rates or more government spending all raise demand.
- Raising corporation tax or interest rates would restrain the economy instead.

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Question 18 (Answer: **D**)

- A tax whose *percentage* rises with income is progressive.
- One whose percentage stays the same is proportional.
- One whose percentage *falls* as income rises is regressive.

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Question 18 (Answer: **B**)

- More unemployment means fewer people earning and paying income tax.
- So tax revenue falls.
- At the same time more people claim benefits, so welfare payments rise.

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Question 18 (Answer: **A**)

- A budget deficit means spending exceeds revenue; a surplus means the reverse.
- So compare the two rows for each year.
- Then see whether the gap is widening or narrowing between year 1 and year 2.

Question 18 (Answer: **B**)

- Work out the tax as a *percentage* of earnings at each level.
- $1000/5000 = 20\%$, $2000/8000 = 25\%$, $3000/9000 = 33\%$.
- The percentage rises with income, so the system is progressive.