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Question 25 (Answer: **D**)

- Poverty rises when incomes fall, prices rise faster than incomes, or support is withdrawn.
- So higher unemployment, lower benefits or higher indirect taxes would all increase it.
- A fall in the price level or in income tax would leave people better off.

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Question 20 (Answer: **C**)

- Lower interest rates make borrowing cheaper and saving less rewarding.
- So consumers borrow and spend more, and firms invest more.
- Consumer spending therefore rises, and saving falls.

Question 24 (Answer: **D**)

- Deflation is a *negative* rate of price change.
- So read the graph for the years where the plotted percentage falls below zero.
- A falling but still positive rate is disinflation, not deflation.

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Question 24 (Answer: **D**)

- A CPI falling from 120 to 110 means the general price level has fallen – deflation.
- So the purchasing power of money rises and real incomes rise.
- But consumers may delay purchases expecting further falls, which reduces demand.

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Question 24 (Answer: **A**)

- A weighted index multiplies each item's price change by its weight.
- So multiply each percentage change by its weight, add them, and divide by the total weight.
- The item with the largest weight has the greatest effect on the final figure.

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Question 19 (Answer: **B**)

- Very high top tax rates can reduce the incentive to work extra hours.
- If highly paid workers cut their hours, output falls and tax revenue may fall too.
- That is the disincentive effect – the reason a higher rate does not always raise more revenue.

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Question 23 (Answer: **D**)

- The CPI weights each category by how much households spend on it.
- So multiply each price change by its weight and add the results.
- A category whose weight has risen now has more influence on the index.

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Question 20 (Answer: **B**)

- Economic growth is an increase in a country's real output over time.
- It is measured by the rise in real GDP.
- A rise in the *price* level is inflation, which is a different thing entirely.

5(d)	**Discuss whether or not fiscal policy is effective in reducing poverty.** In assessing each answer, use the table opposite. Why it might: • policy measures to promote economic growth may increase investment and create jobs • increased spending on education providing more qualifications / skills, making it easier to find jobs, higher wages • more generous state benefits increasing income • progressive taxation may increase government revenue and allow more spending to reduce poverty. • cuts in indirect taxation e.g. VAT, may lower prices of goods and services, enabling the poor to buy more and reduce poverty. Why it might not: • contractionary fiscal policy / increased taxes could lead to more people losing jobs / income. • expansionary fiscal policy / tax cuts may be inflationary, causing higher prices for essential items and increasing poverty • education may only be accessible to those not in poverty • state benefits may lead to a cycle of poverty • progressive taxation may lead to brain drain and therefore less government revenue. • cuts in higher income tax rates may not reduce absolute poverty but may increase relative poverty.	**8**	<table><tr><th>Level</th><th>Description</th></tr><tr><td>3</td><td>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 and situations. One side of the argument may have more depth than the other, but overall both sided 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 decisions and outcomes.</td></tr></table>