IGCSE ECONOMICS · 2.1 GOVERNMENT AND THE ECONOMY · CHAPTER 30 · PAPER 2

Redistribution of Income

Topic question sheet L30 | **Total: 30 marks** | **Time: 35 minutes** | **Student Book pp. 240–249**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 The median income in an EU country is €19 400. Which income is below the relative poverty line? **(1)**

A €11 000 **B** €12 000
C €13 000 **D** €14 000

2 Which of the following might increase income inequality? **(1)**

A A fall in regressive taxation **B** A more progressive tax system
C Higher spending on education **D** A cut in state benefits

3 A tax where the proportion of income paid falls as income rises is: **(1)**

A progressive **B** regressive
C proportional **D** a subsidy

4 The World Bank (2015) defined absolute poverty as living on less than: **(1)**

A US$1.90 a day **B** US$10 a day
C 60% of median income **D** US$1000 a year

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 Define **absolute poverty**. **(1)**

6 Calculate the relative poverty line in Carridia using the EU definition. You are advised to show your working. **(2)**

7 State **two** government policies to reduce poverty. **(2)**

8 Explain why a progressive tax system can reduce income inequality. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Inequality in Carridia

In the fictional country of Carridia, median household income is US$15 000 a year. The richest 10% of households receive 48% of national income, while the poorest 40% receive just 11%.

The government plans to raise the top income tax rate from 30% to 40% and use the revenue to pay for free secondary schooling and a child benefit of US$600 a year. Business leaders warn that higher taxes could drive skilled workers abroad.

Fictional case, written for this sheet.

9 With reference to the extract, analyse how the government's plans could reduce inequality in Carridia. **(6)**

10 With reference to the extract, evaluate whether raising the top income tax rate is the best way to reduce inequality in Carridia. **(12)**

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Mark scheme: Redistribution of Income

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *The median income in an EU country is €19 400. Which income is below the relative poverty line? (1 mark)*

Answer: A (€11 000). 60% × 19 400 = €11 640.

2 *Which of the following might increase income inequality? (1 mark)*

Answer: D (A cut in state benefits). The poor lose income.

3 *A tax where the proportion of income paid falls as income rises is: (1 mark)*

Answer: B (regressive). E.g. VAT.

4 *The World Bank (2015) defined absolute poverty as living on less than: (1 mark)*

Answer: A (US$1.90 a day). US$1.90 a day.

Section B

5 *Define absolute poverty. (1 mark)*

Where people do not have enough resources to meet all of their basic human needs (1).

6 *Calculate the relative poverty line in Carridia using the EU definition. You are advised to show your working. (2 marks)*

Working: 60% × 15 000 (1).

Answer: US$9000 (1).

7 *State two government policies to reduce poverty. (2 marks)*

Any two (1 each): progressive taxation; benefit payments; investment in education; investment in health care.

8 *Explain why a progressive tax system can reduce income inequality. (3 marks)*

Point: higher earners pay a larger proportion of income in tax (1).

Development: post-tax incomes become more equal (1), especially if revenue is spent on benefits for the poor (1).

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Section C

9 *With reference to the extract, analyse how the government's plans could reduce inequality in Carridia. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): progressive tax; redistribution through benefits and education.

Application (2): top rate 30% → 40%; richest 10% get 48%; US$600 child benefit; free secondary schooling.

Analysis (2): higher tax cuts top incomes; benefits raise poor incomes now; education raises future earnings of poor children, narrowing the gap.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether raising the top income tax rate is the best way to reduce inequality in Carridia. (12 marks · levels)*

For: narrows the gap directly; funds benefits and schooling; ethical case given the poorest 40% get 11%.

Against: skilled workers may move abroad (brain drain), cutting growth and revenue; tax avoidance; education takes years to work.

Judgement: works best combined with education and benefits; depends on how mobile skilled workers are and whether revenue is well spent.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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