IGCSE ECONOMICS · 2.1 GOVERNMENT AND THE ECONOMY · CHAPTER 34 · PAPER 2

Relationships Between Objectives and Policies

Topic question sheet L34 | **Total: 31 marks** | **Time: 35 minutes** | **Student Book pp. 274–283**

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 Low interest rates to promote economic growth might: **(1)**

A cause inflation
B raise unemployment
C reduce a current account deficit
D stifle investment

2 More environmental protection is likely to be needed if the government: **(1)**

A drives inflation down too quickly
B stimulates the economy to grow faster
C tries to cut inflation
D tries to cut a current account deficit

3 Which policy to reduce inflation is least likely to worsen the current account? **(1)**

A Raising interest rates
B Supply-side policies
C Quantitative easing
D Cutting income tax

4 An economy is said to overheat when: **(1)**

A demand grows faster than firms can supply
B unemployment rises
C interest rates fall
D imports fall

Section B: Short answers

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

5 Define a **trade-off** between macroeconomic objectives. **(1)**

6 State **two** macroeconomic problems facing Marrovia. **(2)**

7 Explain why Marrovia's rapid growth may have caused inflation. **(3)**

8 Explain why raising interest rates might worsen Marrovia's current account. **(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: Policy Choices in Marrovia

The fictional country of Marrovia has inflation of 8%, unemployment of 4% and a current account deficit of 5% of GDP. Its factories are working close to full capacity and there is a shortage of skilled workers.

The central bank wants to raise interest rates from 3% to 6%. The government would prefer to raise taxes and fund more technical training. Environmental groups warn that air pollution has risen with recent growth of 6% a year.

Fictional case, written for this sheet.

9 With reference to the extract, analyse the possible trade-off between reducing inflation and unemployment in Marrovia. **(6)**

10 With reference to the extract, evaluate whether Marrovia should use higher interest rates or the government's plan to reduce inflation. **(12)**

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Mark scheme: Relationships Between Objectives and Policies

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 *Low interest rates to promote economic growth might: (1 mark)*

Answer: A (cause inflation). Demand may outstrip supply.

2 *More environmental protection is likely to be needed if the government: (1 mark)*

Answer: B (stimulates the economy to grow faster). More output, more pollution.

3 *Which policy to reduce inflation is least likely to worsen the current account? (1 mark)*

Answer: B (Supply-side policies). Lower costs help exports.

4 *An economy is said to overheat when: (1 mark)*

Answer: A (demand grows faster than firms can supply). Prices rise instead of output.

Section B

5 *Define a trade-off between macroeconomic objectives. (1 mark)*

When achieving one objective makes another harder to achieve (1).

6 *State two macroeconomic problems facing Marrovia. (2 marks)*

Any two (1 each): high inflation (8%); current account deficit (5% of GDP); rising pollution; skills shortage.

7 *Explain why Marrovia's rapid growth may have caused inflation. (3 marks)*

Point: factories near full capacity (1).

Development: demand grew faster than firms could produce (1), so with a skills shortage they raised prices instead: demand-pull inflation (1).

8 *Explain why raising interest rates might worsen Marrovia's current account. (3 marks)*

Point: higher rates raise the exchange rate (1).

Development: exports become dearer and imports cheaper (1), so export sales fall and import spending rises (1).

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Section C

9 *With reference to the extract, analyse the possible trade-off between reducing inflation and unemployment in Marrovia. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): contractionary policy cuts aggregate demand; trade-off.

Application (2): rates 3% → 6% or higher taxes; inflation 8%, unemployment only 4%.

Analysis (2): lower spending and investment mean firms cut output and jobs; unemployment rises from 4% as inflation falls.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether Marrovia should use higher interest rates or the government's plan to reduce inflation. (12 marks · levels)*

Interest rates: quick, targets demand directly; but stronger currency worsens a 5% current account deficit; raises unemployment.

Government plan: higher taxes cut demand without raising the exchange rate; training eases the skills shortage and raises capacity (supply-side); but training is slow and taxes may be unpopular.

Judgement: government plan better given the current account deficit and skills shortage; perhaps with a smaller rate rise; depends on how fast inflation must fall.

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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