IGCSE ECONOMICS · 2.1 GOVERNMENT AND THE ECONOMY · CHAPTER 33 · PAPER 2

Supply-Side Policies and Government Controls

Topic question sheet L33 | **Total: 30 marks** | **Time: 35 minutes** | **Student Book pp. 266–273**

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 Which of the following is a supply-side measure designed to help firms increase investment? **(1)**

A Privatisation
B Tax breaks for people who buy shares in businesses
C Deregulation
D More vocational courses

2 Which of the following will help to improve occupational mobility? **(1)**

A Government training schemes
B Higher unemployment benefit
C Lower income tax
D Privatisation

3 Supply-side policies aim to shift the PPC: **(1)**

A inwards
B outwards
C along the curve
D not at all

4 Reducing paperwork and licence requirements for firms is: **(1)**

A privatisation
B deregulation
C nationalisation
D quantitative easing

Section B: Short answers

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

5 Define **aggregate supply**. **(1)**

6 Assuming profits stay the same, calculate the revenue from corporation tax after the cut. You are advised to show your working. **(2)**

7 State **two** supply-side policies in the extract. **(2)**

8 Explain how vocational training can increase aggregate supply. **(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: Supply-Side Reform in Tamaru

The fictional country of Tamaru has slow growth of 1.2% and youth unemployment of 22%. The government plans to cut corporation tax from 30% to 22%, sell the state electricity company and spend US$3 billion on vocational training and rural broadband.

Critics say the electricity company could become a private monopoly and that the training will take years to help. Corporation tax currently raises US$12 billion a year.

Fictional case, written for this sheet.

9 With reference to the extract, analyse how cutting corporation tax could increase economic growth in Tamaru. **(6)**

10 With reference to the extract, evaluate whether the government's supply-side plans will reduce youth unemployment. **(12)**

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Mark scheme: Supply-Side Policies and Government Controls

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 *Which of the following is a supply-side measure designed to help firms increase investment? (1 mark)*

Answer: B (Tax breaks for people who buy shares in businesses). Increases the flow of funds to firms.

2 *Which of the following will help to improve occupational mobility? (1 mark)*

Answer: A (Government training schemes). New skills let workers change jobs.

3 *Supply-side policies aim to shift the PPC: (1 mark)*

Answer: B (outwards). More productive potential.

4 *Reducing paperwork and licence requirements for firms is: (1 mark)*

Answer: B (deregulation). Cutting red tape.

Section B

5 *Define aggregate supply. (1 mark)*

The total amount of goods and services produced in a country at a given price level in a given period (1).

6 *Assuming profits stay the same, calculate the revenue from corporation tax after the cut. You are advised to show your working. (2 marks)*

Working: 12 ÷ 30 × 22, or 12 × (22/30) (1).

Answer: US$8.8 billion (1).

7 *State two supply-side policies in the extract. (2 marks)*

Any two (1 each): lower corporation tax; privatisation; training/education; infrastructure (broadband).

8 *Explain how vocational training can increase aggregate supply. (3 marks)*

Point: workers gain skills (1).

Development: higher labour productivity (1) so firms produce more output with the same resources; occupational mobility rises (1).

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Section C

9 *With reference to the extract, analyse how cutting corporation tax could increase economic growth in Tamaru. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): lower business taxes leave more profit for investment; attracts firms.

Application (2): 30% → 22%; growth only 1.2%.

Analysis (2): more investment in capital and technology raises productivity and capacity; foreign firms may locate there; output and jobs rise.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether the government's supply-side plans will reduce youth unemployment. (12 marks · levels)*

Yes: training targets skills gaps; broadband creates rural jobs and businesses; tax cut boosts investment and hiring.

No/limits: training slow; privatisation may cut jobs as the firm becomes efficient; tax revenue falls US$3.2bn (opportunity cost); private monopoly.

Judgement: likely to help in the long run, especially training; short-run effect small; depends on matching training to firms' needs.

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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