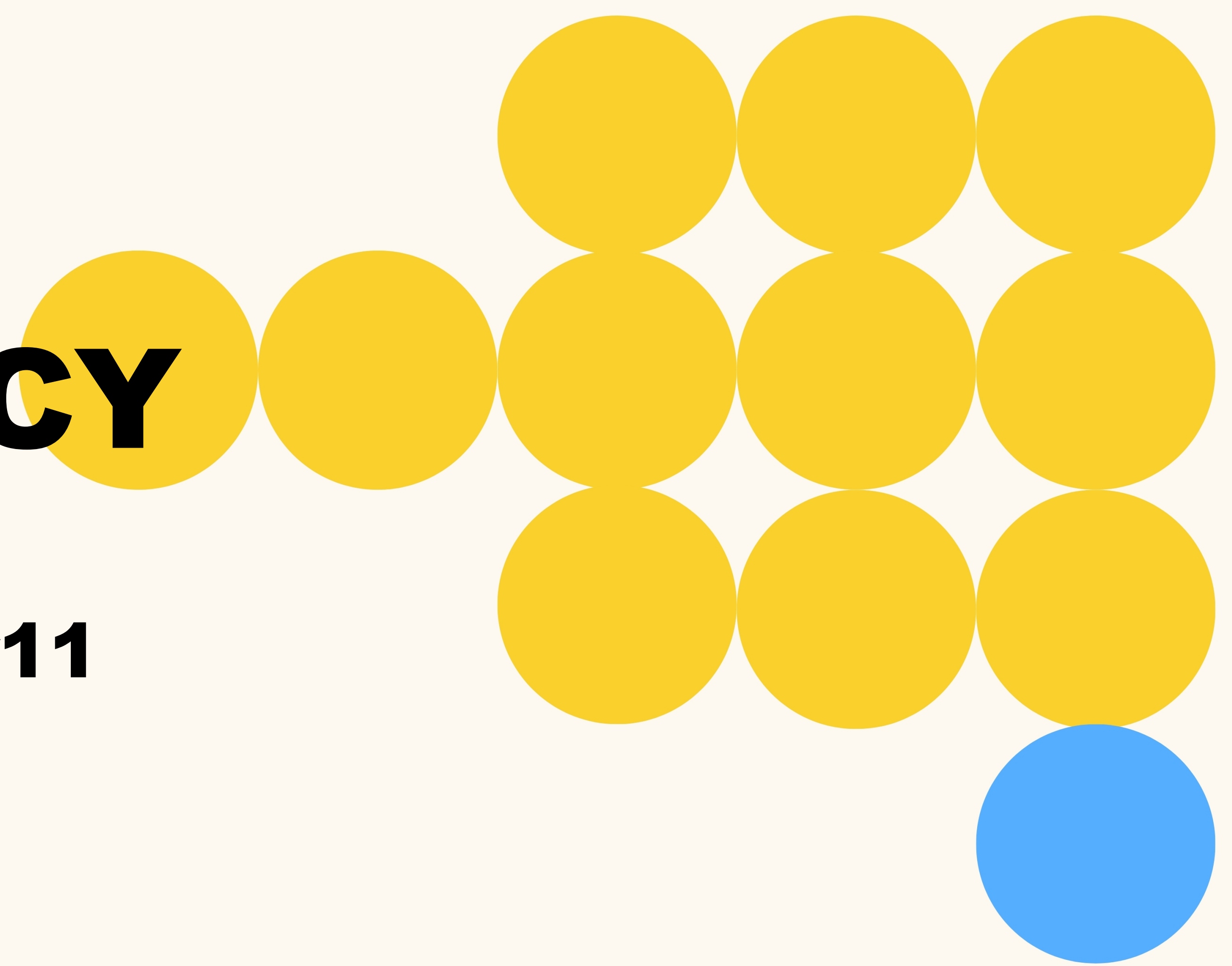


CHAPTER 26

FISCAL POLICY

Macroeconomics - year11



Agenda

Drive growth of monthly sales volume of purchases

- Multiple choice
- Essay

Be the most desirable brand



RECAP

1. **Fiscal policy:** changes in government spending and tax rate to influence AD.
2. **A budget deficit** (Government spending $>$ Tax revenue) \neq a trade deficit (Imports $>$ Exports).
3. VAT (Value Added Tax) is a regressive tax, while income tax is progressive.
4. **Direct Tax** : Tax on income and wealth
5. **Indirect Tax** : Tax on goods and services

RECAP

6. **Expansionary Fiscal Policy:** When the government increases spending and reduces taxes to boost aggregate demand (AD), leading to higher economic growth and increased employment.
7. **Contractionary Fiscal Policy:** When the government decreases spending and increases taxes to reduce aggregate demand (AD), resulting in reduced inflation and a smaller trade deficit, leading to stability in the balance of payments.

Part1-Multiple choice

1. What is fiscal policy?

- a) The use of interest rates to control the money supply
- b) Government decisions on taxation and spending to influence the economy
- c) Policies aimed at controlling the exchange rate
- d) Regulations governing international trade

Part1-Multiple choice

1. What is fiscal policy?

- a) The use of interest rates to control the money supply
- b) Government decisions on taxation and spending to influence the economy
- c) Policies aimed at controlling the exchange rate
- d) Regulations governing international trade

Answer: b) Government decisions on taxation and spending to influence the economy

Part1-Multiple choice

2. Which of the following is an example of expansionary fiscal policy?

- a) Increasing income tax rates
- b) Reducing government spending on infrastructure
- c) Decreasing corporate tax rates
- d) Raising indirect taxes on goods and services

Part1-Multiple choice

2. Which of the following is an example of expansionary fiscal policy?

- a) Increasing income tax rates
- b) Reducing government spending on infrastructure
- c) Decreasing corporate tax rates
- d) Raising indirect taxes on goods and services

Answer: c) Decreasing corporate tax rates

Part1-Multiple choice

3. A government budget surplus occurs when:

- a) Government spending equals government revenue
- b) Government spending exceeds government revenue
- c) Government revenue exceeds government spending
- d) Government borrows more than it spends

Part1-Multiple choice

3. A government budget surplus occurs when:

- a) Government spending equals government revenue
- b) Government spending exceeds government revenue
- c) Government revenue exceeds government spending
- d) Government borrows more than it spends

Answer: c) Government revenue exceeds government spending

Part1-Multiple choice

4. Which type of tax takes a higher percentage of income from high-income earners compared to low-income earners?

- a) Regressive tax
- b) Proportional tax
- c) Progressive tax
- d) Indirect tax

Part1-Multiple choice

4. Which type of tax takes a higher percentage of income from high-income earners compared to low-income earners?

- a) Regressive tax
- b) Proportional tax
- c) Progressive tax
- d) Indirect tax

Answer: c) Progressive tax

Part1-Multiple choice

5. What is the primary purpose of contractionary fiscal policy?

- a) To reduce inflation
- b) To decrease unemployment
- c) To increase government debt
- d) To boost economic growth

Part1-Multiple choice

5. What is the primary purpose of contractionary fiscal policy?

- a) To reduce inflation
- b) To decrease unemployment
- c) To increase government debt
- d) To boost economic growth

Answer: a) To reduce inflation

Part1-Multiple choice

6. Which of the following is considered a direct tax?

a) Value Added Tax (VAT)

b) Sales tax

c) Income tax

d) Excise duty

Part1-Multiple choice

6. Which of the following is considered a direct tax?

- a) Value Added Tax (VAT)
- b) Sales tax
- c) Income tax
- d) Excise duty

Answer: c) Income tax

Part2-Essay

- 1 (a) State two types of tax. [2]
- 2 (b) Explain how a progressive tax differs from a regressive tax. [4]
- 3 (c) Analyse how fiscal policy measures may reduce unemployment.[6]
- 4 (d) **Discuss whether fiscal policy measures will increase economics growth [8]**

Part2-Essay

4 (d) Discuss whether fiscal policy measures will increase economics growth [8]

Part2-Essay

4 (d) Discuss whether fiscal policy measures will increase economics growth [8]

The End

