

Government and the Macroeconomy

Multiple Choice Questions and Answers (O level)

The role of government

Which type of business is always in the public sector?

- A** monopoly
- B** multinational corporation
- C** public corporation
- D** public limited company

February/March 2019 Answer **C**

Which combination of changes in a government's budget will lead to greater income inequality?

	direct taxes	indirect taxes	health and education spending
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	decrease
D	increase	increase	increase

February/March 2018 Answer **B**

The macroeconomic aims of government

Fiscal policy

Which pair of government actions combines a fiscal policy with a supply-side policy?

- A** changing government spending with changing interest rates
- B** cutting tax rates with providing information on job vacancies
- C** limiting bank lending with the privatisation of industry
- D** restricting credit with less control over labour markets

February/March 2018 Answer **B**

What is an example of an expansionary fiscal policy?

- A** decreased budget deficit
- B** higher interest rates
- C** increased money supply
- D** reduced tax rates

February/March 2019 Answer **D**

Taxes

Which statement describes a progressive tax?

- A** a tax that has a higher percentage rate as income rises
- B** a tax that increases government income over time
- C** a tax that places an increasing burden on the poor
- D** a tax that rises in line with the rate of inflation

February/March 2018 Answer **A**

The Indian government uses direct and indirect taxation.

Which is a direct tax?

- A** corporate (profits) tax
- B** customs duty
- C** goods and services tax
- D** petrol tax

March 2017 Answer **A**

A worker earns \$60 000 a year and pays 25% income tax. He spent \$2000 on furniture and \$5000 on a computer and paid 20% sales tax on each.

How much indirect tax did he pay?

- A** \$1000 **B** \$1400 **C** \$15 000 **D** \$16 400

March 2017 Answer B

Subsidy

A government believes that consumption of a certain good will be of benefit to society.

Which policy is **most** likely to encourage producers to increase their output of that good? **A** an increase in the period required for training the industry's workers

B an increase in the regulations affecting businesses

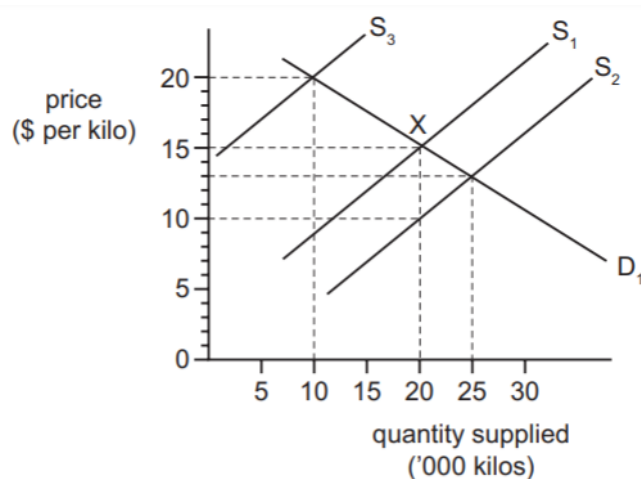
C an increase in the subsidies for that good

D an increase in the taxation of that good

AnswerC February/March 2018

The Indian government gives farmers a subsidy of \$5 per kilo to supply food in a market where X is the equilibrium position.

The effect is illustrated in the diagram below.



What will be the new equilibrium price and quantity supplied as a result of the subsidy?

	equilibrium price (\$ per kilo)	quantity supplied ('000 kilos)
A	10	20
B	13	25
C	15	20
D	20	10

March 2017 Answer B

Economic growth

- 16** A government lowers interest rates to encourage more borrowing and spending by households to increase economic growth.

Why could this lead to a conflict with other government aims?

- A** It could cause uncertainty and lead to lower demand.
- B** It could encourage more savings and lead to higher unemployment.
- C** It could lead to lower prices of consumer goods and result in deflation.
- D** It could stimulate consumer demand and lead to inflation.

February/March 2019 AnswerD

- 19** What is a recession?

- A** a period when incomes rise by less than inflation
- B** a period when prices are falling continuously for twelve months
- C** a period when real GDP is declining for two consecutive quarters
- D** a period when unemployment is rising

February/March 2018 AnswerC

Official statistics in 2010 showed South Africa had a very high unemployment rate at around 25%, although wages were double those in Brazil.

What might be a reason for South Africa's high wages in a time of high unemployment compared with Brazil?

- A** a skilled workforce in Brazil
- B** high levels of savings in South Africa
- C** more labour-intensive production in Brazil
- D** strong trade unions in South Africa

Employment and unemployment

Which policy would be **most** likely to reduce unemployment in the short run?

- A** a programme of privatisation
- B** a reduction in the standard rate of income tax
- C** grants to firms to research new technology
- D** removal of all restrictions on imports into the country

February/March 2019 AnswerB

The table shows the weekly values of certain items for the average person in each group. In which group does the average person save the most?

		income (\$)	spending (\$)	borrowing (\$)
A	employed workers	500	400	50
B	retired people	150	140	0
C	school students	25	30	5
D	unemployed	200	300	100

February/March 2019 Answer A

What could discourage women from seeking employment?

- A** More education and training are provided.
- B** More flexible and part-time jobs are available.
- C** There are fewer promotion opportunities for women.
- D** There is a shift in employment to the services sector.

February/March 2019 AnswerC

17 Which combination of government policies is **most** likely to reduce unemployment?

	income tax rate	government spending	rate of interest
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	decrease
D	increase	increase	increase

February/March 2018 AnswerB

What may cause an immediate decrease in the working population?

- A** a falling death rate
- B** a falling infant mortality rate **C** a rising birth rate
- D** a rising rate of net emigration

March 2017 Answer D

Inflation and deflation

An economy is suffering from a period of deflation. What does this mean for the economy?

- A** Consumers may delay purchase of some products.
- B** Purchasing power of consumers falls.
- C** Tax revenues for the government will rise.
- D** The real value of personal savings falls.

February/March 2018 Answer A

An economy experienced deflation.

Which combination shows the likely outcome of this?

	consumer confidence	price level	investor confidence
A	decrease	decrease	decrease
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	increase

AnswerA February/March 2019

The table shows the Consumer Price Index (CPI) of an economy over five years.

year	CPI
1	100
2	103
3	105
4	107
5	110

Between which years was the rate of inflation the greatest?

- A** from year 1 to year 2
- B** from year 2 to year 3
- C** from year 3 to year 4
- D** from year 4 to year 5

March 2017 Answer A

In a year the rate of inflation in a country was 3%. During that year company managers' salaries rose by 6% and office workers' wages rose by 2%.

What happened to real income (purchasing power)?

	company managers	office workers
A	fell	fell
B	fell	rose
C	rose	fell
D	rose	rose

March 2017 Answer C