4.3 Fiscal Policy

Question Paper

Course	CIE IGCSE Economics
Section	4. Government & the Macroeconomy
Topic	4.3 Fiscal Policy
Difficulty	Medium

Time allowed: 30

Score: /21

Percentage: /100

Question 1

The table shows a government's receipts from taxation.

	$m
tax on company profits	100
income tax	600
import duties	30
sales tax	250

What is the total amount of revenue raised by direct taxes?

A. $280m

B. $700m

C. $730m

D. $950m

[1 mark]

Question 2

The table shows the tax that an individual would pay at different levels of disposable income.

disposable income ($)	10 000	20 000	30 000	40 000
tax ($)	0	2000	4000	6000

Which type of tax is shown in the table?

A. corporation tax

B. indirect tax

C. progressive tax

D. regressive tax

[1 mark]

Question 3

Why are indirect taxes, such as VAT of 20% on goods and services, described as regressive when comparing high-income and low-income purchasers?

    A. High-income purchasers pay a higher percentage of their income in tax.

    B. High-income purchasers pay a lower percentage of their income in tax.

    C. Low-income purchasers pay a lower percentage of their income in tax.

    D. Low-income purchasers and high-income purchasers pay the same percentage of their income in tax.

[1 mark]

Question 4

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

[1 mark]

Question 5

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

[1 mark]

Question 6

Which measure would indicate that an expansionary fiscal policy is being used by the government?

    A. cuts in government spending

    B. higher interest rates

    C. lower interest rates

    D. lower taxes

[1 mark]

Question 7

A government decreased the tax on all goods produced in its country.

What is the **most** likely consequence of this?

    A. a decrease in exports

    B. an increase in imports

    C. an increase in production

    D. a worsening of the balance of trade in goods

[1 mark]

Question 8

Due to a rise in the number of retired people, there has been increased demand for some government expenditure.

Which type of government expenditure is **most** likely to be directly affected?

    A. defence

    B. health services

    C. re-training grants

    D. street lighting

[1 mark]

Question 9

An economy is experiencing rising prices.

Which government policy will help reduce consumer expenditure?

    A. introducing compulsory saving for income earners

    B. investing more in building infrastructure

    C. issuing more banknotes and coins

    D. reducing indirect taxes

[1 mark]

Question 10

One aim of government policy is to redistribute income through taxation in order to reduce inequality.

Which policy will achieve this aim?

    A. Impose a tax of $0.20 on every dollar earned.

    B. Increase the tax-free allowances after which tax must be paid progressively.

    C. Introduce a tax on all food.

    D. Provide an incentive to earn by reducing taxes for the highest paid.

[1 mark]

Question 11

Which actions would be likely to increase government expenditure and reduce revenues from taxation?

	government expenditure	tax revenues
A	improve health facilities for the elderly	encourage people to reduce their spending
B	increase the amount of the state pension	increase VAT (sales tax)
C	provide free bus transport for retired people	encourage people to work beyond retirement
D	raise the age of retirement	decrease bus fares

    A.

[1 mark]

Question 12

A government decides to increase tax revenues from consumer expenditure.

Which tax will it increase?

    A. capital gains tax

    B. death duties

    C. profits tax

    D. value added tax

[1 mark]

Question 13

The table shows tax paid at different income levels in an economy.

income level ($)	tax paid ($)
5 000	500
12 000	2400
20 000	5000
30 000	6000

Which description of the tax system used is correct?

    A. continually progressive

    B. progressive then regressive

    C. proportional

    D. regressive then progressive

[1 mark]

Question 14

Which form of taxation always takes an increasing percentage of the taxpayer's income as it rises?

    A. indirect

    B. progressive

    C. proportionate

    D. regressive

[1 mark]

Question 15

The standard rate for Value Added Tax (sales tax) is 20% in a country. Different consumers buying the same product have to pay the same amount of tax.

What kind of tax is this?

    A. direct

    B. progressive

    C. proportional

    D. regressive

[1 mark]

Question 16

What is a disadvantage of direct taxes?

    A. They can be a disincentive to work.

    B. They can be based on people's ability to pay.

    C. They can be a major source of tax revenue.

    D. They can be progressive.

[1 mark]

Question 17

When is a government said to balance its budget?

    A. when all goods and services are taxed equally

    B. when economic growth is the same in all regions of the economy

    C. when its total income equals its total expenditure

    D. when total exports equal total imports

[1 mark]

Question 18

The table shows the amount of tax paid as income rises in four countries, A–D.

Which country has a progressive tax?

	amount of tax (US$) paid on income of:				
	10 000	20 000	30 000	40 000	50 000
A	2 000	4 000	6 000	8 000	10 000
B	2 000	6 000	12 000	18 000	25 000
C	4 000	4 500	5 000	5 500	6 000
D	4 000	7 000	9 000	10 000	12 000

[1 mark]

Question 19

What is **most** likely to be an example of a progressive tax?

    A. customs duties on imported goods

    B. excise duties on cigarettes

    C. income tax

    D. sales tax

[1 mark]

Question 20

When is a government said to balance its budget?

    A. when all goods and services are taxed equally

    B. when economic growth is the same in all regions of the economy

    C. when its total income equals its total expenditure

    D. when total exports equal total imports

[1 mark]

Question 21

The table shows the amount of tax to be paid at different weekly incomes.

weekly income ($)	100	150	200	250
weekly tax ($)	20	30	36	40

Which statement describes the system of income tax as income rises over this range?

    A. It is progressive throughout.

    B. It is proportional then becomes progressive.

    C. It is proportional then becomes regressive.

    D. It is regressive throughout.

[1 mark]