

# 4.8 Inflation & Deflation

## Question Paper

Course	CIEIGCSE Economics
Section	4. Government & the Macroeconomy
Topic	4.8 Inflation & Deflation
Difficulty	Medium

**Time allowed:** 150

**Score:** /124

**Percentage:** /100

### **Question 1**

Since 1990, the population of Lithuania has fallen by one fifth because of net emigration. People usually leave in search of better living standards. In 2015, there were signs of improved macroeconomic performance as real GDP per head rose and unemployment fell. People expected that the decline in unemployment would affect the country's inflation rate and might also turn the government's budget deficit into a budget surplus.

**Analyse** how a fall in unemployment may increase a country's inflation rate.

**[6 marks]**

### **Question 2**

Mexico has a history of trade deficits. The government is moving the economy closer to free trade, to try to improve its macroeconomic performance. It was predicted in 2017 that Mexico's economy would experience a small rise in its unemployment rate. In 2017 the economy's inflation rate was 6.6%, the highest rate since 2001. A number of policy measures may be used to reduce inflation, including increasing the rate of income tax.

**Discuss** whether or not an increase in the rate of income tax will reduce inflation.

**[8 marks]**

### **Question 3**

In 2015, the Malaysian government set out its objectives to increase productivity and savings. There has been higher consumer expenditure, driven in part by higher wages received mainly by older workers. However, low levels of savings remain a concern. Savings provide funds for investment (spending on capital goods) which contributes to economic growth and can influence inflation.

**Analyse** how an increase in investment could influence inflation

**[6 marks]**

#### **Question 4**

**Discuss** whether or not a cut in income tax would stop deflation.

Refer to the [source material](#) in your answers

**[5 marks]**

#### **Question 5**

In a mixed economic system, such as Portugal's, the government intervenes in the economy. Reasons for government intervention include to correct market failure and to achieve its aims for the economy, such as control of inflation. In 2017, one-fifth of Portugal's population was living in poverty and the government increased its spending

**Analyse** how a high rate of inflation may harm the poor

**[6 marks]**

### **Question 6**

The election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.

**Explain** why inflation may fall even if there is an increase in total demand.

**[4 marks]**

### **Question 7**

It was announced in November 2016 that 500 and 1000 rupee banknotes could no longer be used in shops in India. These were replaced by the central bank, an institution that makes extensive use of division of labour. In India, cash is still an important form of money used in economic transactions. The replacement of banknotes put pressure on banking staff and other workers in the tertiary sector, and affected the general price level.

**Discuss** whether or not deflation will benefit an economy.

**[8 marks]**

**Question 8**

In 2016, Argentina's annual inflation was 20%, down from 40% in 2015. Inflation had been high since 2003. Wages were constantly adjusted upwards. In addition, some employees demanded more non-wage benefits. Industrial action, often in the form of strikes called by trade unions, became more common in Argentina.

**Explain two** causes of inflation.

**[4 marks]**

### **Question 9**

In 2017, the UK included bicycle helmets for the first time in its calculation of the consumer prices index (CPI). Many bicycle retailers now provide their customers with a choice of bicycle helmets. Estimates show that 25 million bicycle helmets are sold globally per year and the number sold is on a steady upward trend.

**Explain** how the CPI is calculated.

**[4 marks]**

### **Question 10**

Between 2007 and 2017, the average wage in China tripled, while it fell in Brazil. The rise in average wage in China was particularly high in the tertiary sector. Farm workers experienced a smaller rise. In June 2017, unemployment in China was only 4% while it was 13.5% in Brazil. Despite the lower unemployment, China's inflation rate was lower than that of Brazil.

**Analyse** how lower unemployment may cause inflation.

**[6 marks]**

### **Question 11**

In February 2017, Europe experienced a shortage of fresh vegetables due to bad weather. For a period of time, the markets for a number of vegetables, including broccoli and lettuces, were not in equilibrium. The price of food tends to fluctuate more than the price of manufactured goods and services. These fluctuations influence the rate of inflation.

Explain how a rise in the price of food would affect a country's consumer prices index (CPI).

**[4 marks]**

### **Question 12**

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**Discuss** whether or not a higher inflation rate will benefit producers.

**[8 marks]**

### **Question 13**

**Identify**, using information from the extract, **two** reasons why India's inflation rate fell in 2016.

Refer to the [source material](#) in your answers.

**[2 marks]**

### **Question 14**

**Discuss** whether or not a government should aim for a low rate of inflation.

Refer to the [source material](#) in your answers.

**[5 marks]**

### **Question 15**

The economic problem results in people having to make choices. In Bulgaria, in recent years, people have changed how much they spend. The Bulgarian government is encouraging people to spend more. It is trying to ensure that deflation does not return and that the country will continue to experience an increase in output.

**Analyse** why deflation may cause a fall in output.

**[6 marks]**

### **Question 16**

**Analyse** the extent to which a rise in oil prices will cause inflation.

Refer to the [source material](#) in your answers.

**[5 marks]**

### **Question 17**

The largest airline in Pakistan was originally formed as a result of a merger between a state- owned airline and a private airline. In April 2016, the Pakistan government made this merged firm a public limited company. This was hoped to improve the productivity of this loss-making airline and also improve the overall economy of Pakistan.

**Analyse** how increased productivity could reduce inflation.

**[6 marks]**

### **Question 18**

**Analyse** how an increase in wages could cause inflation.

Refer to the [source material](#) in your answers.

**[5 marks]**

### **Question 19**

High technology (hi-tech) firms use a range of resources including labour and land. One US hi-tech firm has produced a new price index which it claims is more accurate than the Consumer Prices Index (CPI). Central banks try to achieve the most accurate measure of inflation because inflation has effects on a range of people, including savers and borrowers, and on the level of investment in a country.

**Explain** how inflation may affect borrowers and savers.

**[4 marks]**

### **Question 20**

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**Analyse** why it is important to a government that inflation is measured accurately.

**[6 marks]**

**Question 21**

The government of Slovenia has introduced a range of supply-side policy measures to influence the country's inflation rate. Among other factors affecting the economy is a change in trade union membership and strength.

**Analyse** why a government may want to reduce its country's inflation rate.

**[6 marks]**

### **Question 22**

In February 2016, share prices on stock exchanges fell throughout the world. There were a number of reasons for this; including concerns about the slowdown in world growth, the possibility of deflation and unemployment, and fears that some commercial banks could go out of business.

**Analyse** what can cause deflation.

**[6 marks]**

### **Question 23**

In early 2016, the central bank of the Republic of Turkey cut interest rates five times. This was despite an inflation rate of 7.6%. The economy had a combination of a low saving rate and weak investment. To stimulate economic growth the Turkish government announced a package of reforms including subsidies for research and investment.

**Explain** how the Consumer Prices Index (CPI) is calculated.

**[4 marks]**

