

Revision Worksheet

A2 Economics

Essay Questions

Worksheet by: Apsara Sumanasiri

Student Name :

Date:

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JUNE 2006 Question 3

- (a) In 2000/01 the UK's public expenditure was 37 per cent of GDP. This is forecast to increase to over 42 per cent of GDP by 2007/08. Examine the likely economic implications; apart from increased taxation, of this trend. **[40]**
- (b) Evaluate the economic effects of a significant increased in taxation on the UK economy. **[60]**

[Write your answer plan in this space before looking at the answer guide]

Qu.3

- (a) In 2000/01 the UK's public expenditure was 37 per cent of GDP. This is forecast to increase to over 42 per cent of GDP by 2007/08. Examine the likely economic implications, apart from increased taxation, of this trend.

LEVEL 5

(28-40 marks)

Factors include:

- Improved public services
But: money might go on increased wages or administration
- Crowding Out: resource and financial
But: not a problem if unemployed resources
- Reduction in freedom and choice
But: might enable the poor to experience more freedom and choice
- Danger of inflation if increased expenditure is financed by borrowing from the Bank of England
But: other factors might reduce inflationary pressures e.g. China
- Increased economic growth
- Increased employment in the public sector

For a L5 mark (28-31): 3 factors and 1 evaluative point.

A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation

Max 28 marks if no evaluation.

Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.

(b) Evaluate the economic effects of a significant increase in taxation on the UK economy.

LEVEL 5

(42-60 marks)

Effects include:

- Decrease in aggregate demand and real output
But: depends on what is happening to public expenditure
- Possibility of a lower rate of inflation
But: could lead to inflationary wage demands
- Disincentives to work if income tax is increased
Depends on relative strength of substitution and income effects
- Improvement in the balance of trade in goods and services
But: other factors might be more significant in influencing the balance of trade
- Reduction in fiscal deficit and so less need for borrowing
But: higher unemployment might have a detrimental effect on the public finances. Also Laffer curve analysis.
- Significance of tax increases relative to other countries - this is likely to be used as an evaluative point.

For a L5 mark (42-47): should consider 4 points + 2 evaluative comments.

A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.

Max 42 marks (top L4) if no evaluation.

Award a L4 mark (36-41 marks) if only 3 points + evaluation

Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.