

Exam Practice Questions: 2.13: Government Policies

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2.13 GOVERNMENT MACROECONOMIC POLICIES: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

1. Explain different categories of government expenditure and revenues. **[10 marks]**
2. Discuss how the shape of the aggregate supply curve may be important in influencing the effectiveness of demand-side policies. **[10 marks]**
3. Make reference to the role of central banks, explain how the rate of interest is determined. **[10 marks]**
4. Considering both expansionary **and** contractionary policy, analyse how interest rates affect aggregate demand. **[10 marks]**
5. Distinguish between expansionary monetary policy and expansionary fiscal policy. **[10 marks]**
6. Explain how growth in the potential output of an economy may be affected by government policies aimed at increasing competition. **[10 marks]**
7. Distinguish between contractionary monetary policy and contractionary fiscal policy. **[10 marks]**
8. Explain how the different automatic stabilisers in an economy can help reduce the size and frequency of business cycle fluctuations. **[10 marks]**

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9. In times of recession, compare and contrast how effective monetary and fiscal policy are likely to be. **[10 marks]**
10. Describe how inflationary and recessionary gaps can be closed with fiscal policy. **[10 marks]**
11. Evaluate the effectiveness of fiscal policy. **[15 marks]**
12. Evaluate the statement: 'There are two roles for fiscal policy; firstly, it can assist in growing an economy's potential output; and secondly, it can reduce the size and frequency of the business cycle'. **[10 marks]**
13. Evaluate the statement: 'Supply-side policies achieve long-term economic growth whereas demand-side policies achieve low unemployment and price stability in the short-term'. **[15 marks]**
14. Describe how inflationary and recessionary gaps can be closed with monetary policy. **[10 marks]**
15. Distinguish between expansionary monetary policy and expansionary fiscal policy. **[10 marks]**
16. Evaluate the effectiveness of monetary policy. **[15 marks]**
17. Distinguish between market-based **and** interventionist supply-side policies. **[10 marks]**
18. Evaluate the ability of supply-side policies in achieving the objectives of price stability **and** low unemployment. **[15 marks]**
19. Explain how aggregate demand and supply are affected by two interventionist supply-side policies. **[10 marks]**
20. Explain how reforms that promote labour market flexibility may lead to the growth of potential output in an economy. **[10 marks]**
21. Evaluate the various labour market reforms in terms of their effects on inflation, employment, equity **and** economic growth. **[15 marks]**
22. Explain how incentive-based policies may lead to the long-run aggregate supply curve shifting right. **[10 marks]**
23. In terms of their effects on stakeholders and the economy, evaluate incentive-based policies. **[15 marks]**

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24. Explain how reforms that promote labour market flexibility may lead to the growth of potential output in an economy. **[10 marks]**

25. Evaluate the statement: 'Monetary and fiscal policies can effectively close deflationary and inflationary gaps but they cannot be effective in addressing stagflation.' **[15 marks]**

POLICY QUESTIONS ON UNEMPLOYMENT AND INFLATION

26. In terms of policies that aim to decrease the level of unemployment, explain why it is important to identify the cause(s) unemployment in an economy. **[10 marks]**

27. Evaluate the role of demand-side policies in reducing the rate of unemployment in an economy. **[15 marks]**

28. Explain policies that could be used to decrease the level of structural unemployment in an economy. **[10 marks]**

29. Evaluate the role of supply-side policies in reducing the level of structural unemployment in an economy. **[15 marks]**

30. Examine government policies in reducing the level of demand-deficient unemployment in an economy. **[15 marks]**

31. Examine the role of interest rates in contractionary and expansionary monetary policy in achieving and maintaining full employment. **[10 marks]**

32. Evaluate the role of supply-side policies in decreasing structural and cyclical unemployment. **[15 marks]**

33. Evaluate policies that could lower the type of unemployment that results from an economy operating at an equilibrium below the full employment level of output. **[15 marks]**

34. Explain whether or not the full employment level of output can be increased by policies targeting structural unemployment. **[10 marks]**

35. Discuss the most effective policies in decreasing the level of structural unemployment in an economy. **[15 marks]**

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36. In formulating policies to decrease the inflation rate, explain why it is important to identify the particular cause of current inflation. **[10 marks]**
37. Evaluate demand-side policies to decrease the rate of inflation. **[15 marks]**
38. Explain macroeconomic policies to decrease cost-push inflation. **[10 marks]**
39. Evaluate macroeconomic policies that could be used to decrease cost-push inflation. **[15 marks]**

HL PAPER 1 QUESTIONS

40. As the economy nears its full employment level of output, explain why it becomes more difficult to decrease the rate of inflation. **[10 marks]**
41. Evaluate macroeconomic policies that could be used to decrease the natural rate of unemployment. **[15 marks]**
42. The unemployment rate in an economy in a recessionary gap is 12%. The government incorrectly estimates the natural rate of unemployment is 4% whereas it is in fact 7%. Explain the possible consequences of using demand-side policies to decrease the unemployment rate. **[10 marks]**
43. Discuss the statement: 'If the priority is to decrease the rate of inflation then governments must accept a higher rate of unemployment.' **[15 marks]**