

The Role of the State in the Macroeconomy — Worksheet

Public expenditure · taxation · public sector borrowing and public sector debt · macroeconomic policies

Name: _____

Class: _____

Date: _____

DEFINE automatic stabilisers · **EXPLAIN** how a change in age distribution affects the pattern of public expenditure · **CLASSIFY** a payment by the type of public expenditure it is · **CALCULATE** an average rate of tax, and a fiscal deficit compared with the size of the economy · **ANALYSE** how a cut in income tax affects the trade balance · **EXAMINE** the problems that policymakers face · **DISCUSS** a plan to reduce a fiscal deficit · **EVALUATE** how a high level of public expenditure affects economic growth

Sitting 1 — Topic practice

30 marks

MULTIPLE CHOICE Task 1 — Six questions on the role of the state

6 marks

Choose one answer for each question.

1. When is crowding out least likely to happen?

- A When the economy is at full employment and few savings are left to borrow
- B When the economy is in a deep recession and many savings are not being borrowed
- C When interest rates are already high and are still rising
- D When firms compete hard to borrow the few savings that are left

Answer:

2. Which of these is an indirect tax?

- A corporation tax on profits
- B excise duty on cigarettes
- C income tax on wages
- D a tax on property that a person receives when a relative dies

Answer:

3. According to Laffer curve analysis, cutting a tax rate will raise tax revenue only if:

- A the rate is below the revenue-maximising rate
- B the tax is an indirect tax
- C the tax base does not change
- D the rate is above the revenue-maximising rate

Answer:

4. After the global financial crisis of 2008, what did the central banks of the largest economies do?

- A They raised interest rates to defend their currencies
- B They stopped buying any government bonds
- C They cut interest rates close to zero
- D They set legal maximum prices for houses

Answer:

5. Which of these limits one government's ability to control a transnational company (TNC)?

- A TNCs do not have to pay corporation tax
- B The TNC can move its production and its profits abroad
- C TNCs are not allowed to trade across borders
- D TNCs must publish every internal price

Answer:

6. US interest rates rise sharply. What is the most likely effect on smaller economies?

- A They can borrow more cheaply
- B Their currencies rise in value as money flows in
- C Their currencies fall in value as money flows out
- D They find US exports cheaper to buy

Answer:

DEFINE Task 2 — The meaning of automatic stabilisers

2 marks

Define the term automatic stabilisers.

automatic stabilisers

Give one example of an automatic stabiliser in a recession. (practice, not marked)

EXPLAIN Task 3 — An ageing population in Tamsa

4 marks

Twenty years ago, people aged over 65 were 10% of Tamsa's population. Today they are 22% of the population. Over the same years, the share of children under 15 fell from 30% to 18%. Tamsa's government pays a pension to everyone over 65, and it runs most of the country's schools and hospitals.

Explain how the change in Tamsa's age distribution is likely to affect the pattern of its public expenditure.

CLASSIFY Task 4 — Public expenditure in Pellia

8 marks

Pellia is a country. Each payment below is made by Pellia's government this year.

Write the type of public expenditure for each payment.

Key: Capital expenditure · Current expenditure · Transfer payment

#	What Pellia's government pays for	Type of public expenditure
1	Pellia builds a new hospital in its largest city.	

#	What Pellia's government pays for	Type of public expenditure
2	Pellia pays this month's wages of the nurses in its state hospitals.	
3	Pellia pays a state pension to a retired farmer.	
4	Pellia buys medicines for its state hospitals.	
5	Pellia pays unemployment benefit to a woman who has lost her job.	
6	Pellia builds a sea wall that will protect a coastal town for fifty years.	
7	Pellia pays a private firm to collect rubbish in its main city this year.	
8	Pellia pays parents a monthly allowance for each child.	

CALCULATE Task 5 — Average rates of tax in Ardena

4 marks

Ardena charges income tax at the rates in the table. Dalia earns \$25,000 a year. Omar earns \$65,000 a year.

Part of a person's income	Rate of income tax
The first \$5,000	0%
From \$5,000 to \$35,000	20%
Above \$35,000	40%

Calculate the average rate of tax that Dalia and Omar each pay, to one decimal place.

Dalia: average rate of tax, to one decimal place

Workings

Answer: %

Omar: average rate of tax, to one decimal place

Workings

Answer: %

Show your working for each step.

Corvia's government cuts income tax by \$40bn a year. Households in Corvia spend 35% of any extra income on imported goods. Corvia's exports do not change.

Analyse the likely effect of the income tax cut on Corvia's trade balance.

Knowledge — name and explain one economic idea (2)

Application — use the facts about Corvia (2)

Analysis — your chain of reasoning (2)

Sitting 2 — Mock section
Source: Varnia

- 1 Varnia is a small country that imports all of its fuel. Most of its export income comes from coffee. In 2022, Varnia's economy was at full capacity: it used almost all of its workers and machines. Figure 1 shows the government's finances.
- 2 In 2023, the world price of coffee fell sharply, and a recession abroad reduced orders for Varnia's coffee. Output and incomes fell. That year, the government did not change any tax rate or spending plan. Many workers lost their jobs and claimed unemployment benefit.
- 3 In 2024, the government began a fuel subsidy that pays part of the price of every litre. The subsidy costs \$3bn a year. Lenders began to charge more for new loans to the government. The average interest rate on the national debt rose from 4% in 2022 to 6% in 2025. Most extra borrowing paid for benefits, wages and the fuel subsidy, not for new roads or ports.
- 4 In 2024 and 2025, output grew again, but in 2025 it was still below full capacity. The first estimate put Varnia's gross domestic product (GDP) in 2025 at \$204bn, and later figures lowered it to \$196bn. Figure 1 shows the later figure. In 2026, the government plans to reduce its fiscal deficit. It will end the fuel subsidy and cut spending on new roads by \$2bn a year. Most fuel in Varnia is used by people in rural areas, who travel long distances. Varnia buys only a small share of the world's fuel.

Figure 1: Varnia's government finances, 2022 to 2025

Year	GDP (\$bn)	Public expenditure, including debt interest (\$bn)	Tax revenue (\$bn)	National debt at the end of each year (\$bn)	Debt interest (\$bn)
2022	200	64	58	120	4.8
2023	186	68	52	136	5.6

Year	GDP (\$bn)	Public expenditure, including debt interest (\$bn)	Tax revenue (\$bn)	National debt at the end of each year (\$bn)	Debt interest (\$bn)
2024	190	70	55	151	7.6
2025	196	69	60	160	9.6

CALCULATE Task 7 — The fiscal deficit in 2023

2 marks

Using Figure 1, calculate Varnia's fiscal deficit in 2023 as a percentage of GDP, to one decimal place.

Workings

Answer: %

EXPLAIN Task 8 — The growth of the national debt in Varnia

4 marks

With reference to the source, explain one factor that has increased the size of Varnia's national debt since 2022.

ANALYSE Task 9 — Effects of a larger national debt

6 marks

With reference to the source, analyse two likely effects on Varnia of the rise in its national debt since 2022.

Knowledge — name two effects of a larger national debt, and explain each one (2)

Application — one fact from the source for each effect (2)

Analysis — one chain for each effect (2)

EXAMINE Task 10 — Problems for policymakers in Varnia

8 marks

With reference to the source, examine two problems that Varnia's policymakers may face when they try to reduce the fiscal deficit.

Knowledge — name two problems for policymakers, and say what each one means (2)

Application — one fact from the source for each problem (2)

Analysis — one chain for each problem (2)

Evaluation — for each problem, say what its size depends on (2)

DISCUSS Task 11 — The plan to reduce the fiscal deficit

14 marks

With reference to the source and your own knowledge, discuss the likely effects of the government's plan to reduce Varnia's fiscal deficit.

Knowledge — one economic idea for a benefit of the plan and one for a cost (2)

Application — one fact from the source for the benefit and one for the cost (2)

Analysis — two chains, one for the benefit and one for the cost (4)

Evaluation — weigh the two chains, say what the effects depend on, and judge the overall effect (6)

EVALUATE Task 12 — Public expenditure and economic growth

20 marks

In some countries, the government spends more than half of GDP. In others, it spends far less. Some economists say that a high level of public expenditure slows economic growth.

Evaluate the likely effects of a high level of public expenditure, measured as a share of GDP, on economic growth in a country.

Knowledge — say what public expenditure is, and name one way a high level can help growth and one way it can harm growth (3)

Application — use real countries or real examples (3)

Analysis — one chain for how a high level helps growth and one for how it harms growth (6)

Evaluation — weigh the two chains, say what the answer depends on, and judge (8)

[illegible]

EVALUATE **Task 13 – Your judgement in one sentence** *Not marked. One sentence: your judgement on Task 12.*

Write the one sentence that answers Task 12's question.



This sheet and its answers online: revvylearn.com/w/e4-role-state-macroeconomy

Answers and mark scheme: revvylearn.com/w/e4-role-state-macroeconomy/answers

Marks and levels follow the IAL Economics paper; mark your work against the answers page - this is not Edexcel's marking.

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