



Edexcel A - A Level Economics

Theme 4 – A global perspective

4.5 Role of the state in the macroeconomy

Worked Examples

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4.5 Role of the state in the macroeconomy

Exam Style Question 1

After the Global Financial Crisis of 2008, the US President introduced expansionary fiscal policies of \$800 billion. The International Monetary Fund estimated that the multiplier at the time was approximately 1.5.

(Source adapted from: <https://www.economist.com/the-economist-explains/2016/09/07/what-is-the-keynesian-multiplier>)

Explain the impact of annual fiscal deficits on the US national debt. [2]

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Exam Style Question 1

Answer:

A fiscal deficit means the government is spending more than it collects in taxes. This leads to an increase in national debt, which is the total amount of money the government owes, usually from borrowing. [1] To fund this extra spending, the government must borrow more, adding to the overall debt. [1]

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Exam Style Question 2

The UK Government is planning to cut the rate of corporation tax on all pre-tax profits of companies to 17% by 2020.

(Source: adapted from <https://www.ft.com/content/7579f124-5742-11e7-9fed-c19e2700005f>)

Explain **one** possible reason why the revenue from corporation tax could increase if the government cuts the rate of tax. **[2]**

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Exam Style Question 2

Answer:

Cutting the rate of corporation tax might encourage more businesses to set up or stay in the UK because the lower tax makes it a more attractive place to do business. **[1]** This means more companies will be paying tax, so even though the tax rate is lower, overall tax revenue could still increase. **[1]**

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Please see the '4.5 Role of the state in the macroeconomy Revision Notes' pack for detailed notes.

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