

HL1 + SL12015 May HL

Using the concept of the Keynesian multiplier, explain the possible impact of a rise in government spending on economic growth.
M15/ECONO/HP1/TZ2

2014 May SL

4. (a) Using an appropriate diagram, explain why a country might experience a deflationary gap. [10 marks]

(b) “Fiscal policy is the most effective way of bringing an economy out of recession.” To what extent is this statement valid? [15 marks]

Note: this question focuses on section 2.4 Fiscal Policy
M14/3/ECONO/SP1/ENG/TZ2/XX

4. (a) Explain how an increase in investment might affect aggregate demand and aggregate supply. [10 marks]

(b) “An increase in aggregate demand may not lead to an increase in real national income.” To what extent is this statement valid? [15 marks]

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SL1 + HL1

(b) Discuss why, in contrast to the monetarist/new classical model, an economy can remain stuck in a deflationary (recessionary) gap according to the Keynesian model.

[15 marks]

N.B. It should be noted that definitions, theory and examples that have already been given in part (a), and then referred to in part (b), should be rewarded.

Answers **may** include:

- _definitions of monetarist/new classical model, deflationary (recessionary) gap, Keynesian model
- _theory of why deflationary (recessionary) gaps can persist according to the Keynesian model whereas they cannot in the monetarist/new classical model
- _diagrams to show monetarist model and Keynesian model
- _examples such as Japan in the 1990s
- _synthesis and evaluation (discuss).

Discussion **may** include: the Keynesian argument that deflationary (recessionary) gaps persist because of the inability of wages and prices to fall and the Keynesian assumption that the AS curve has a long, horizontal section meaning that equilibrium GDP is lower than potential GDP. In the monetarist model, wages and prices are assumed to be flexible, allowing markets to clear thus maintaining full employment of resources.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Opinions or conclusions should be presented clearly and should be supported by appropriate examples. –
M13/3/ECONO/HP1/ENG/TZ2/XX/M

SL 2 + HL2

HL1 + SL1

2013 May HL

3. (a) Using a diagram, describe how expansionary monetary policy might be used to close a deflationary (recessionary) gap. [10 marks]

(b) Discuss why, in contrast to the monetarist/new classical model, an economy can remain stuck in a deflationary (recessionary) gap according to the Keynesian model. [15 marks]

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XX

SL1 + HL1SL 2 + HL2