Worksheet 9: Asking the right questions answers

1 Making taxation more progressive

Causes	Conseqences	Relationships
• Which taxes can be classified as progressive? • Which macroeconomic policy is this an example of? • Which reason(s) for levying taxes does the government have in mind if it makes taxation more progressive?	• What is the effect on the government budget? • What is the effect on disposable incomes? • Are there any negative effects of making taxation more progressive? • What is the effect on work incentives?	• What is the expected relationship with income distribution? • What is the expected relationship with tax revenue?

2 Contractionary monetary policy

Causes	Conseqences	Relationships
• Who is responsible for implementing a country's monetary policy? • What may necessitate the use of a contractionary monetary policy? • What are the three tools of contractionary monetary policy?	• What does monetary policy aim to affect? • What is the effect on aggregate demand? • How is each component of aggregate demand affected?	• Which macroeconomic objectives of the government are affected and how? • What is the link between contractionary monetary policy and national output? • What is the link between contractionary monetary policy and the exchange rate?

3 Increase in the rate of economic growth

Causes	Conseqences	Relationships
• What is a cause of economic growth related to the quantity of the factors of production? • What is a cause of economic growth related to the quality of the factors of production? • Are there external factors to the country's economy causing economic growth? • Are there negative events that can also cause economic growth?	• How is economic growth measured? • Can there be quantitative and qualitative consequences? • Can there be effects on the economy's trading partners? • What are the possible environmental consequences?	• Which macroeconomic objectives of the government are affected and how? • What is the link between economic growth and standards of living? • What is the link between economic growth and economic development?

4 Increase in the HDI

Causes	Conseqences	Relationships
• What are the three components of the HDI? • What can cause each of them to rise?	• What is the effect on the different economic agents? • What is the effect on standards of living, poverty and economic development?	• Which macroeconomic objectives of the government are affected and how? • What is the HDI link to possible changes in population in the country?

5 A rise in the exchange rate

Causes	Conseqences	Relationships
• What is a demand-side reason for the exchange rate to rise? • What is a supply-side reason for the exchange rate to rise?	• What is the result of a higher exchange rate on import and export prices? • How does a rise in the exchange rate impact domestic interest rates?	• Which other economic concepts may be directly affected by the rise in the exchange rate?

6 A current account surplus

Causes	Conseqences	Relationships
• What are the components of the CA? • What is the balance of outflows and inflows that would cause the surplus? • What are the domestic and the external causes?	• How does the surplus affect the domestic economy? • Which economic agents are affected and how? • What is the possible effect on the Balance of Payments?	• Which macroeconomic objectives of the government are affected and how? • What is the effect on domestic employment and output and inflation? • What is the relationship with the exchange rate?