

Analyse how a decrease in direct taxes can affect the French economy (6)

A decrease in direct taxes, such as income tax, means households keep more of their income. This increases their **disposable income**, allowing consumers to **spend more on goods and services**. As a result, consumer demand will probably increase.

Lower direct taxes can also **increase incentives to work** and invest. If workers keep more of their earnings, they may be more willing to work longer hours or enter employment.

However, a fall in direct taxes may **reduce government revenue**. This could lead to a larger budget deficit and the government might then need to reduce spending on public services such as healthcare, or education.

Overall, a decrease in direct taxes may stimulate economic activity through higher spending and investment, but the impact depends on how the government manages the potential loss of tax revenue.

Evaluate whether raising income tax on the richest 20% of the population would benefit the lowest paid (6)

Raising income tax on the richest 20% could benefit the lowest paid if the government uses the extra tax revenue to increase welfare benefits or public services. For example, higher tax revenue could be used to fund education, healthcare or income support.

However, higher taxes on high earners could reduce their incentives to work, invest or start businesses. If this leads to lower investment or slower economic growth, job creation may fall. In turn this would reduce economic opportunities for the lowest paid workers.

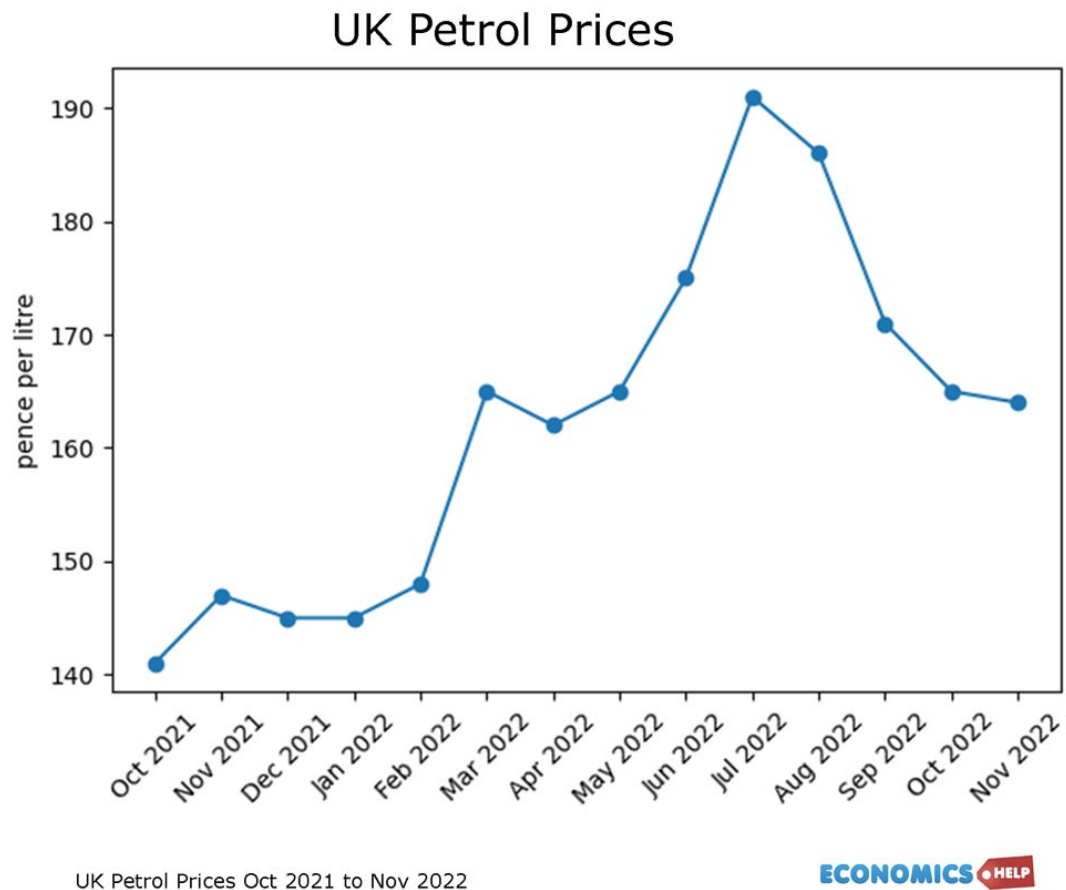
Overall, the lowest paid may benefit if the extra tax revenue is effectively redistributed, but the impact depends on how the government uses the additional tax income and how high earners respond to higher taxes.

Evaluate the extent to which a rise in the value of the Pound could affect UK consumers and producers. (6)

A rise in the value of the pound would have the effect of raising the price of exports but reducing the price of imports. For consumers who buy imported goods, they would see cheaper prices and this would enable them to buy relatively more goods and services.

Evaluate the importance of price elasticity of demand for petrol for consumers. (6)

Price elasticity of demand measures the responsiveness of demand to a change in price.



For example, in the graph, the price of petrol rose from 140p a litre in Oct 2021 to 190p in July 2022. As price rises, consumers with petrol cars need to keep buying petrol to get to work. Therefore, even though price rises, demand only falls a small amount. This means demand is price inelastic in the short-term.

However, in the long-term, consumers may want to avoid paying high petrol prices and so they may consider switching to electric cars and so over time, demand will fall by more.

Examiner Tip

For evaluation always consider **Elasticity**

Elasticity gives good evaluation because the effect of higher prices depends on whether demand is inelastic or elastic.

Quick Definitions

1. Basic Economic Concepts

Term	Definition
Scarcity	Unlimited wants exceed limited resources.
Opportunity cost	The next best alternative foregone when a choice is made.
Factors of production	Resources used to produce goods and services: land, labour, capital and enterprise.
Specialisation	When individuals, firms or countries focus on producing a limited range of goods.

2. Markets and Price

Term	Definition
Demand	The willingness and ability to buy a good or service at different prices.
Supply	The willingness and ability to sell a good or service at different prices.
Market equilibrium	The price where quantity demanded equals quantity supplied.
Excess demand	When quantity demanded exceeds quantity supplied.
Excess supply	When quantity supplied exceeds quantity demanded.

Useful Evaluation Phrases

Introducing evaluation

- However, the impact may depend on...
- On the other hand...
- This may not always happen because...
- The effect may be limited if...

Considering different outcomes

- The impact may vary depending on...
- The size of the effect will depend on...
- This could be more significant if...
- This may be less important when...

Considering conditions

- If demand is elastic, then...
- If supply is inelastic, then...
- In the short run...
- In the long run...

Comparing effects

- While this may benefit some firms, others may...
- Although this increases revenue, it may also...
- This could improve profits but may also increase costs.

Judgement phrases

- Overall, the most important effect is...
- Overall, the main impact is likely to be...
- Overall, this will depend on...
- Therefore, the effect is likely to be greater when...

Examples of Evaluation Sentences

However, the impact may depend on how large the change is. If oil prices increase by a few percent, it will have very limited effect on demand.

However, the outcome may depend on how consumers respond. For example, if consumers are confident, then they may keep spending despite higher interest rates.

