IGCSE ECONOMICS

ECONOMIC TAXES

1. DISCUSS WHETHER A RISE IN DIRECT TAXES WILL REDUCE ECONOMIC GROWTH

DISCUSSION FOR:

1. A rise in income tax will reduce disposable income. This may reduce consumer expenditure, thereby lower the total demand and hence reduce the firm's output.
2. It will reduce incentives to work; it will also increase the tax avoidance thus leaving less revenue for government spending for example on health and education. This will reduce productive potential of workers.
3. A rise in corporation tax will increase cost of production and will reduce the profits that firms can keep. It will reduce the incentive to produce and reduce the funds available for investment to expand the output

DISCUSSION AGAINST:

1. A rise in income tax may not reduce consumer expenditure. If savings fall wages increase more than tax rise

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2. A rise in corporation tax mat=y not reduce investment if firms reduce savings/dividend payments.
3. A rise in income tax may reduce spending on imports and this would reduce the current account deficit and increase net exports.
4. The extra tax revenue earned may increase government spending and this could offset any fall in consumer expenditure and investment

Also note: All material provided in the LMR section is purely based on past papers. The material are guidelines around which you need to elaborate your answers.