ECO.MIC19 Government Policies to Reduce Poverty and Inequality

AQA 7136 · Calculators not allowed · about 90 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

Answer all questions. Write full sentences for extended questions and the final essay. No calculator is required. Show workings for any short calculations and justify evaluative points in the essay.

1 Define progressive taxation in the context of UK redistributive policy, and give one clear example of a progressive tax or feature of the UK tax system.

(Total for Question 1 is 2 marks)

2 Define a regressive tax in the context of distributional policy and give one example of a regressive tax relevant to the UK.

(Total for Question 2 is 2 marks)

3 Explain what is meant by means-tested benefits in the UK welfare system, and give one advantage of means-tested benefits for reducing poverty.

(Total for Question 3 is 3 marks)

4 Explain what is meant by universal benefits, give one UK example of a universal or broadly universal benefit, and state one potential drawback of universal benefits for redistribution.

(Total for Question 4 is 4 marks)

5 Explain how an increase in the national living wage can reduce in-work poverty in the UK, and give one limitation of relying on wage policy alone.

(Total for Question 5 is 4 marks)

6 Define proportional taxation and give one example of a proportional tax or feature in the UK context.

(Total for Question 6 is 2 marks)

7 Explain what is meant by the poverty trap (or benefit trap) and give one policy adjustment that could reduce its impact.

(Total for Question 7 is 3 marks)

8 Explain how public spending on education can act as a redistributive policy to reduce inequality and describe one limitation of relying on education spending.

(Total for Question 8 is 4 marks)

9 Explain how concerns about disincentive effects inform debates over welfare generosity, giving one specific disincentive and how policy might address it.

(Total for Question 9 is 3 marks)

10 Explain the phrase 'cost to the exchequer' when applied to redistributive policies, and state one way governments might finance redistributive spending without increasing long-term taxation.

(Total for Question 10 is 3 marks)

11 Policy choice multiple choice, one mark. Which of the following is MOST associated with reducing inequality by increasing recipients human capital? A: Increasing the national living wage, B: Means-tested cash transfers, C: Public spending on education, D: Reducing VAT rates. Context: UK redistributive policy instruments.

- ☐ A
- ☐ B
- ☐ C
- ☐ D

(Total for Question 11 is 1 mark)

12 Short application: A policymaker proposes increasing in-work benefits that top up low wages. Explain two ways this policy could reduce measured poverty in the UK.

(Total for Question 12 is 4 marks)

13 Evaluate the effectiveness of the UK tax and benefit system in reducing poverty and inequality. In your answer, consider how different elements such as progressive taxation, means-tested benefits, universal benefits, and in-work support interact, and assess important drawbacks such as the poverty trap, disincentive effects and fiscal cost. Support your judgement.

Evaluate the effectiveness of the UK tax and benefit system in reducing poverty and inequality.

(Total for Question 13 is 15 marks)

Mark scheme · ECO.MIC19 Government Policies to Reduce Poverty and Inequality

Question 1

- **B1** a tax system where the average tax rate rises as income rises, so higher earners pay a larger proportion of their income in tax
- **B1** example: UK income tax bands where higher earnings are taxed at higher marginal rates (basic, higher, additional)
- **Answer: A system where the average tax rate increases with income; example: UK income tax bands with higher rates on higher incomes.**

Question 2

- **B1** a tax where lower-income households pay a higher proportion of their income than higher-income households
- **B1** example: indirect taxes such as VAT can be regressive because lower-income households spend a larger share of income on taxed consumption
- **Answer: A tax that takes a larger proportion of income from poorer households than from richer ones; example: VAT on general goods.**

Question 3

- **M1** means-tested benefits are payments where eligibility and/or the amount received depends on the claimant's income and assets
- **A1** advantage: they target limited public resources at those with the lowest incomes, increasing the effectiveness of redistribution
- **B1** this targeting can reduce measured poverty more for a given budget than universal payments that are paid to all households
- **Answer: Means-tested benefits depend on income and assets; they focus support on the poorest people so limited funds reduce poverty more efficiently than untargeted payments.**

Question 4

- **M1** universal benefits are payments or services available to a whole eligible group regardless of individual income or assets
- **A1** example: state-funded primary and secondary education is provided universally to children in the UK, or universal child benefit in principle
- **M1** drawback: they are less well targeted, so public money is spent on better-off households as well as the poor
- **A1** this can make universal benefits a less efficient tool for reducing measured poverty if the budget is constrained
- **Answer: Universal benefits go to all in an eligible group regardless of income, e.g. state education; drawback: they are untargeted so may allocate resources to relatively well-off households and reduce the efficiency of redistribution.**

Question 5

- **M1** raising the national living wage increases the take-home pay of low-paid workers, directly raising their incomes
- **A1** this reduces the number of workers whose income falls below recognised poverty thresholds, lowering in-work poverty and reducing reliance on means-tested benefits
- **M1** limitation: higher mandated wages increase labour costs for firms
- **A1** firms may respond by reducing employment, cutting hours, or raising prices, which can offset gains for some vulnerable workers or create other costs
- **Answer: A higher national living wage raises incomes for low-paid workers and cuts in-work poverty, but may lead firms to reduce employment or hours or raise prices, which limits effectiveness.**

Question 6

- **B1** a proportional tax charges the same average tax rate regardless of income level
- **B1** example: a flat-rate tax where everyone pays the same percentage of income, or examples of flat elements such as the standard rate band for some national insurance thresholds
- **Answer: A proportional tax charges the same proportion of income from all taxpayers; example: a flat-rate tax where everyone pays the same percentage.**

Question 7

- **M1** the poverty trap arises when people lose means-tested benefits or pay much higher taxes as they earn more, so the net gain from increased employment or higher pay is small
- **A1** this weakens work incentives and can trap people in low-income states or unemployment
- **B1** policy adjustment: tapering off benefits more gradually, increasing in-work benefits or introducing earned-income tax credits to ensure that net income rises with work
- **Answer: The poverty trap is when benefit withdrawal and taxes reduce the net gain from working more, discouraging work; reducing the taper rate or offering in-work credits can lessen the trap.**

Question 8

- **M1** spending on education can increase human capital, raising the skills and earning potential of lower-income individuals
- **A1** higher skills increase lifetime earnings, reducing income inequality and intergenerational poverty by improving labour market opportunities
- **M1** limitation: benefits take time to materialise and depend on access and quality, so short-term inequality may persist
- **A1** additionally, if higher-income families capture more benefits (through tutoring or private provision), public education spending may not reduce inequality as much as intended
- **Answer: Education spending improves skills and future earnings for lower-income groups, reducing inequality over time, but effects are slow and may be diluted if access and quality are unequal.**

Question 9

- **M1** a disincentive effect is where generous benefits reduce recipients motivation to seek work or increase hours because the net gain from additional work is small
- **A1** example: if benefits are withdrawn sharply when someone returns to work, the effective marginal tax rate is high, discouraging employment
- **B1** policy response: introduce gradual withdrawal rates, in-work incentives or conditionality combined with support for job search and training to maintain work incentives
- **Answer: Generous benefits can reduce work incentives if withdrawals make extra earnings barely pay; gradual tapering and in-work incentives can help preserve incentives while supporting the poor.**

Question 10

- **M1** the cost to the exchequer refers to the direct fiscal cost to the government budget of funding benefits or public services used for redistribution
- **A1** this cost raises questions about affordability, opportunity cost and effects on fiscal deficits and debt
- **B1** one financing option: reallocate existing spending, borrow temporarily (increasing deficit), or use one-off asset sales; example answer: temporary borrowing or reprioritisation of spending
- **Answer: Cost to the exchequer is the fiscal cost of redistributive measures; governments might finance them by reprioritising spending, temporary borrowing, or one-off asset sales rather than raising permanent taxes.**

Question 11

- **B1** C is correct: public spending on education increases human capital which reduces inequality over the long run
- **Answer: C**

Question 12

- **M1** top-ups increase the net income of low-paid workers, directly raising household incomes above poverty thresholds
- **A1** this reduces the headcount poverty rate among working households and can cut reliance on means-tested emergency support
- **M1** second route: better in-work income can increase work incentives and employment retention
- **A1** sustained employment raises lifetime earnings and reduces long-run or chronic poverty
- **Answer: Top-ups raise immediate incomes above poverty lines and can boost work incentives and retention, reducing both short-term and long-term measured poverty.**

Question 13

- **Level 1** (1-5): Basic description of one or two redistributive policies with limited application. Little or no analysis of effectiveness and few evaluative points. Judgement, if present, is unsupported.
- **Level 2** (6-10): Clear analysis of how elements of the tax and benefit system can reduce poverty and inequality, with some use of evidence or examples. Considers drawbacks such as targeting errors, poverty traps or fiscal cost, and begins to weigh strengths and weaknesses.
- **Level 3** (11-15): Balanced and developed evaluation that weighs multiple benefits and limitations. Considers interactions between taxes and benefits, distributional outcomes, incentive effects and fiscal constraints. Draws a supported judgement about overall effectiveness and suggests contextual factors or policy trade-offs.
- **Indicative content:**
  - How progressive taxation raises revenue from higher earners and can reduce post-tax income inequality, including the role of income tax bands and top rates
  - The role of means-tested benefits in targeting the poorest and increasing redistribution, but the administrative complexity and possible stigma
  - Universal benefits and public services (education, healthcare) reduce inequality by providing in-kind redistribution and equal access, but are less targeted and can be costly
  - In-work policies such as the national living wage and in-work credits reduce in-work poverty but may have trade-offs through possible employment effects or price rises
  - The poverty trap: high effective marginal withdrawal rates when benefits and tax interact can reduce work incentives and blunt the impact of policies
  - Fiscal affordability and the cost to the exchequer: trade-offs between generosity, tax levels and public debt or taxation of middle-income households
  - Distributional outcomes versus poverty reduction: policies that reduce the poverty headcount may not reduce income inequality as much if the very rich gain relatively more in other ways
  - Time horizons: education and public services produce long-run reductions in inequality but take time to work, whereas cash transfers can have immediate effects
  - Policy coherence: how well-designed tapers, targeted support and complementary active labour market policies can mitigate disincentive effects and improve effectiveness
  - Judgement: a reasoned conclusion that the UK system is partially effective, particularly at reducing absolute poverty in the short run and providing basic services, but with limitations from targeting, incentives and fiscal constraints, and scope for reforms such as improved tapering, better in-work support, or rebalancing universal and targeted spending