

10.1 Government macroeconomic policy objectives

Name: _____ Class: _____ Date: _____ **Total: 23 marks**

KEY WORDS supply-side • monetary • supply-side policy • fiscal
• monetary policy

Objective

Build the skills to answer exam questions on **government macroeconomic policy objectives** at A Level – the goals (**growth, price stability, full employment, balance of payments** , , ,) and the **policy tools** to reach them.

You must be able to:

- state the main macroeconomic objectives and how each is measured
- match objectives to fiscal, monetary and supply-side tools
- analyse why a policy mix is used

1 Key knowledge and worked examples

■ Objectives and tools



Demand-side tools are quick; supply-side tools are slow but lasting

- **Objectives:** growth (% Δ real GDP), price stability (% Δ CPI), full employment (unemployment rate), balance-of-payments stability.
- **Tools:** **fiscal** (spending/tax), **monetary** (interest rate), **supply-side** (capacity/productivity).
- Demand-side tools work on **aggregate demand** (quick, can cause inflation); supply-side works on capacity.

these goals pull against each other

lower unemployment $\Rightarrow$ higher inflation

faster growth $\Rightarrow$ higher inflation

faster growth $\Rightarrow$ worse current account

faster growth $\Rightarrow$ more pollution

The objectives often conflict – meeting one can mean missing another

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State how *price stability* is measured. [1]

2.2 State which policy mainly works on aggregate supply. [1]

2.3 State two macroeconomic policy objectives. [2]

3 Exam-style questions

3.1 Which policy mainly works on the **supply side** of the economy? [1]

A changing the interest rate
B changing government spending
C spending on education and training
D changing income tax to alter demand

3.2 Explain why a government uses a mix of demand-side and supply-side policies. [6]

3.3 Discuss whether monetary policy alone can achieve a government's macroeconomic objectives. [12]