

5.1 Government macroeconomic policy objectives

Name: _____ Class: _____ Date: _____

Total: 26 marks

KEY WORDS inflation • economic growth • balance of payments
• price stability • full employment

Objective

Build the skills to answer exam questions on **macroeconomic policy objectives**
– the five aims (**price stability, full employment, growth, balance of payments, redistribution** , , , ,) and the **conflicts** between them.

You must be able to:

- state the main macroeconomic objectives
- explain the conflicts between objectives
- analyse a policy trade-off

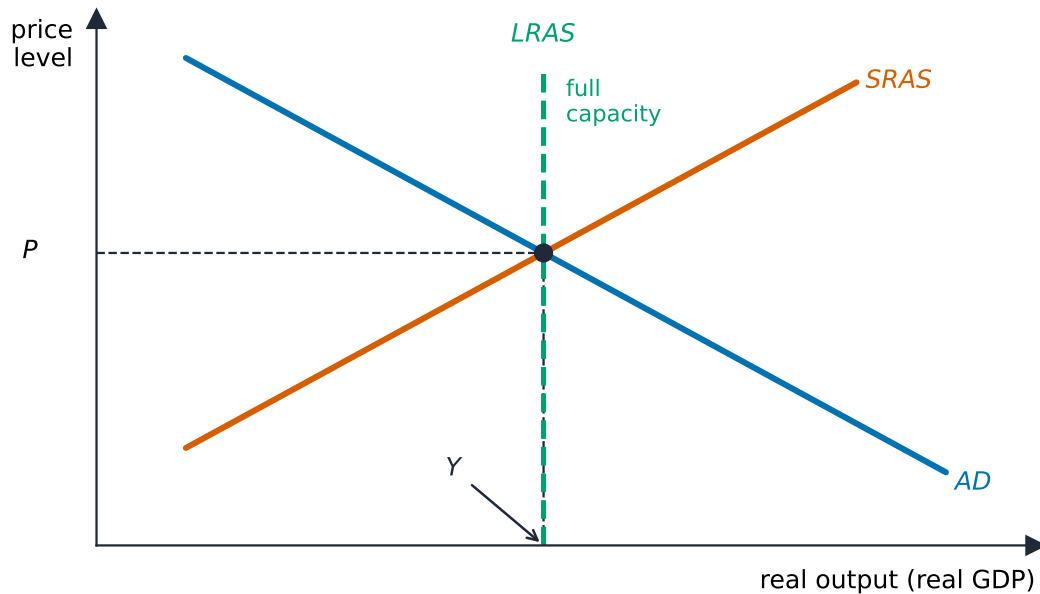
1 Key knowledge and worked examples

■ Objectives and conflicts



Five aims that often pull against each other

- **Aims:** price stability (~2% inflation), full employment, economic growth, balance-of-payments stability, redistribution.
- **Conflicts:** growth $\leftrightarrow$ inflation; growth $\leftrightarrow$ balance of payments (more imports); unemployment $\leftrightarrow$ inflation; growth $\leftrightarrow$ the environment.
- Fiscal and monetary policy are **demand-side** ; supply-side policy works on **aggregate supply** .



AD-AS is the master diagram: the price level shows inflation, real output shows growth and jobs

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

2 Practice

2.1 State three macroeconomic policy objectives.

[3]

2.2 State one conflict between two macroeconomic objectives.

[2]

2.3 State the difference between a demand-side and a supply-side policy. [2]

3 Exam-style questions

3.1 Faster economic growth is most likely to **conflict** with: [1]

- ☐ **A** lower unemployment
B price stability
C higher tax revenue
D higher incomes

3.2 Explain why the objectives of low unemployment and low inflation may conflict. [6]

[12]