

10 Objectives and policy – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)		
macroeconomic objectives	_____	_____	_____
inflation	_____	_____	_____
	_____	_____	_____
fiscal policy	_____	_____	_____
	_____	_____	_____
monetary policy	_____	_____	_____
	_____	_____	_____
supply-side policy	_____	_____	_____
	_____	_____	_____
aggregate demand	_____	_____	_____
	_____	_____	_____

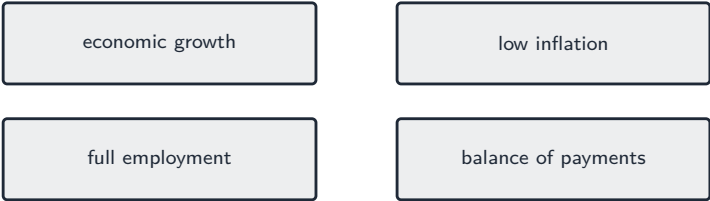
Recall

A government has several big aims for the economy, and a few sets of tools to reach them.

New ideas

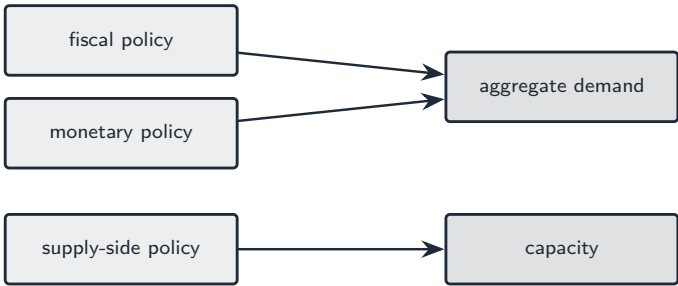
Read these first, then do the Practice.

■ 1 The four objectives



Governments aim at several **macroeconomic objectives** at once: economic growth, low **inflation**, full employment, and a stable balance of payments.

■ 2 Three sets of tools



- **fiscal policy** – changing government spending and taxes;
- **monetary policy** – changing the interest rate;
- **supply-side policy** – raising the economy’s capacity.

The first two work on **aggregate demand** (quick); the third works on capacity (slow but lasting).

Watch out: fiscal (spending/taxes) and monetary (interest rate) policy act on aggregate *demand* – fast; supply-side policy raises *capacity* – slow but lasting. A government juggles several objectives that can conflict.

Practice

Try these in order.

10.1 Name two *macroeconomic objectives*.

10.2 What does *fiscal policy* change? [1]

10.3 What does *monetary policy* mainly change? [1]

10.4 Which policy works on the economy's *capacity*? [1]

10.5 Which two policies act mainly on *aggregate demand*? [1]

10.6 Challenge. An economy is in a deep recession with high unemployment. Recommend whether the government should use expansionary or contractionary fiscal policy, and explain. [2]
