Exercise walk-through

Government macroeconomic policy objectives ▪ 5.1

eXercise

You must be able to

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

Method — Objectives and conflicts

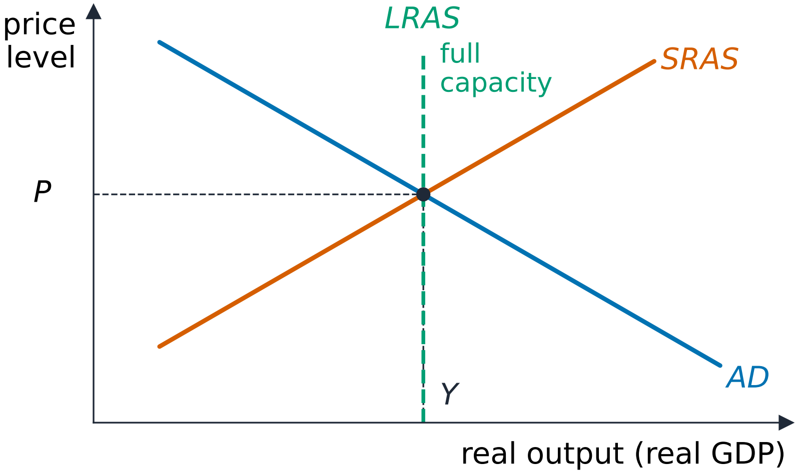
- **Aims:** price stability (~2% inflation), full employment, economic growth, balance-of-payments stability, redistribution.
- **Conflicts:** growth $\leftrightarrow$ inflation; growth $\leftrightarrow$ balance of payments (more imports); unemployment $\leftrightarrow$ inflation; growth $\leftrightarrow$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

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

Method — Objectives and conflicts

Governments set macroeconomic objectives through fiscal and other policy

Method — Objectives and conflicts



Practice 2.1 ▪ 3 marks

State three macroeconomic policy objectives.

Solution 2.1

Method: Objectives and conflicts

Worked steps

any three of: price stability; full employment; economic growth; balance-of-payments stability; redistribution of income $(1 + 1 + 1)$.

Practice 2.2 ▪ 2 marks

State one conflict between two macroeconomic objectives.

Solution 2.2

Method: Objectives and conflicts

Worked steps

any one developed conflict, e.g. growth vs inflation; growth vs the balance of payments; low unemployment vs low inflation (2 for a developed conflict; 1 for naming two aims).

Practice 2.3 ▪ 2 marks

State the difference between a demand-side and a supply-side policy.

Solution 2.3

Method: Objectives and conflicts

Worked steps

a demand-side policy works on aggregate demand (fiscal/monetary); a supply-side policy works on aggregate supply / productive capacity (2 for a clear difference; 1 for a partial idea).

Exam-style 3.1 ▪ 1 mark

Faster economic growth is most likely to **conflict** with:

A lower unemployment

B price stability

C higher tax revenue

D higher incomes

Solution 3.1

Method: Objectives and conflicts

A lower unemployment

B price stability ✓

C higher tax revenue

D higher incomes

Worked steps

B. Fast growth raises AD, which can pull up prices (inflation).

Exam-style 3.2 ▪ 6 marks

Explain why the objectives of low unemployment and low inflation may conflict.

Solution 3.2

Method: Objectives and conflicts

Worked steps

[6] AO1 1 + AO3 up to 5 — cutting unemployment usually means raising AD $\rightarrow$ as the economy nears full capacity, "too much money chases too few goods" $\rightarrow$ demand-pull inflation rises $\rightarrow$ so lower unemployment can come at the cost of higher inflation (the short-run trade-off).

Exam-style 3.3 ▪ 12 marks

Discuss whether a government can achieve all of its macroeconomic objectives at the same time.

Solution 3.3

Method: Objectives and conflicts

Worked steps

[12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **Difficulty:** objectives conflict (growth $\leftrightarrow$ inflation, growth $\leftrightarrow$ balance of payments), so pursuing one can harm another. **But:** supply-side policy can raise growth *and* cut inflation, easing the trade-off, and priorities shift with the economic situation. Judgement: a government can rarely meet *all* aims fully at once, so it sets priorities; supply-side measures help, but trade-offs usually remain.