A-LEVEL ECONOMICS • EXERCISE SHEET

10.1 Government macroeconomic policy objectives

Name: ____________ Class: ________ Date: __________ **Total: 22 marks**

Objective

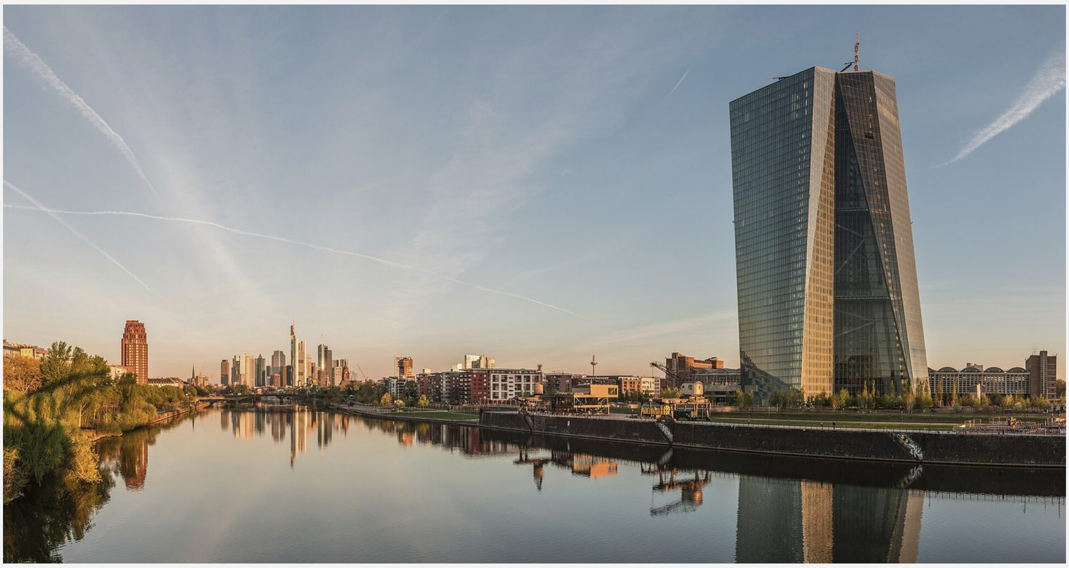
Build the skills to answer exam questions on **government macroeconomic policy objectives** 宏观经济政策目标 at A Level —the goals (**growth, price stability, full employment, balance of payments** 增长、物价稳定、充分就业、国际收支) and the **policy tools** to reach them.

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 Worked examples

■ Objectives and tools



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

Image: source

- **Objectives:** growth (% Δ real GDP), price stability (% Δ CPI), full employment (unemployment rate), balance-of-payments stability.

- **Tools: fiscal** 财政 (spending/tax), **monetary** 货币 (interest rate), **supply-side** 供给侧 (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 $\rightleftharpoons$ higher inflation

faster growth $\rightleftharpoons$ higher inflation

faster growth $\rightleftharpoons$ worse current account

faster growth $\rightleftharpoons$ 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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **10.1 Government macroeconomic policy objectives** past-paper sheet in the Library, or try this in **Practice mode**:

- 9708/32 N25 —Q15 (macroeconomic objectives)

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 by the percentage change in the consumer price index (CPI) (1).

2.2 supply-side policy (1).

2.3 any two of: economic growth; price stability; full employment; balance-of-payments stability (1 + 1).

3.1 C. Spending on education and training raises capacity —a supply-side policy.

3.2 *[6]* AO1 1 + AO3 up to 5 —demand-side policies (fiscal, monetary) act quickly on AD to manage the short run (a recession or inflation), but they can cause inflation or worsen the balance of payments; supply-side policy raises long-run capacity and productivity → combining them manages the short run while building lasting growth.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** monetary policy is flexible and effective at controlling demand-pull inflation. **Against:** it works with long lags, is weak in a deep slump, cannot fix structural unemployment or a supply-side problem, and a single rate cannot target every objective at once. Judgement: monetary policy alone cannot meet all objectives —it must be combined with fiscal and supply-side policy; its limits depend on the economic situation.