

10.2 Links between macroeconomic problems and their interrelatedness

Name: _____ Class: _____ Date: _____

Total: 22 marks

Objective

Build the skills to answer exam questions on the **links between macroeconomic problems** 宏观经济问题的关联—how the objectives are **interrelated** and the main **trade-offs** 取舍 between them.

You must be able to:

- explain the main policy trade-offs
- analyse why gaining on one objective can cost another
- evaluate how a policy mix can ease a trade-off

1 Worked examples

■ Trade-offs between objectives

these goals pull against each other

lower unemployment $\Rightarrow$ higher inflation

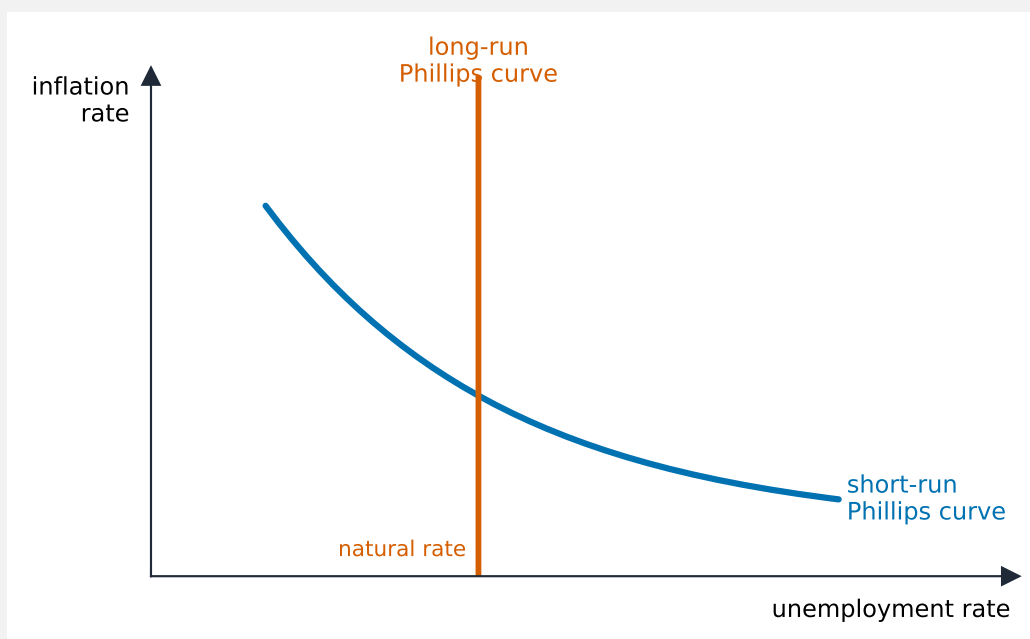
faster growth $\Rightarrow$ higher inflation

faster growth $\Rightarrow$ worse current account

faster growth $\Rightarrow$ more pollution

A clever policy mix tries to ease these clashes

- **Unemployment inflation:** raising demand to cut unemployment pushes prices up (the **Phillips curve** 菲利普斯曲线).



The Phillips curve makes the unemployment–inflation trade-off concrete

- **Growth inflation:** fast demand-led growth can overheat the economy.
- **Growth balance of payments:** higher incomes pull in more imports.
- **Growth the environment / equality:** more output can mean more pollution and a wider gap.

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

2 Practice

2.1 Define the term *trade-off* between objectives. [2]

2.2 State one trade-off involving economic growth. [1]

2.3 State which curve shows the short-run unemployment–inflation trade-off. [1]

3 Exam-style questions

3.1 Faster demand-led growth is most likely to **worsen** the: [1]

- **A** unemployment rate
 - **B** current account balance
 - **C** level of investment
 - **D** size of the labour force
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3.2 Explain why faster economic growth can worsen a country's current account. [6]

3.3 Discuss whether a government can ease the trade-offs between its macroeconomic objectives. [12]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **10.2 Links between macroeconomic problems and their interrelatedness** past-paper sheet in the Library, or try these in **Practice mode**:

- 9708/31 N25 —Q19 (unemployment and inflation)
- 9708/31 N25 —Q23 (policy trade-offs)
- 9708/32 N25 —Q16 (interrelated 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 a situation where improving one objective comes at the cost of doing worse on another (2 for a clear definition; 1 for a partial idea).

2.2 any one of: growth vs inflation; growth vs the current account; growth vs the environment; growth vs equality (1).

2.3 the Phillips curve (1).

3.1 B. Higher incomes from growth pull in more imports, worsening the current account.

3.2 [6] AO1 1 + AO3 up to 5 —as growth raises incomes, consumers spend more, including on imports → the import bill rises faster than exports → net exports fall → the current account moves towards (or deeper into) deficit.

3.3 [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **Eased by:** supply-side policy can raise growth *and* lower inflation, easing the unemployment–inflation and growth–inflation clashes; targeted measures can protect the environment or the poor. **But:** trade-offs rarely vanish —demand policy still faces them, and supply-side policy is slow. Judgement: a smart policy mix can soften the trade-offs, especially via supply-side measures, but cannot remove them entirely —the result depends on the policies chosen and the time horizon.