

5.1 Government macroeconomic policy objectives

Name: _____ Class: _____ Date: _____ Total: 26 marks

KEY WORDS inflation 通货膨胀 • economic growth 经济增长 • balance of payments 国际收支
• price stability 物价稳定 • full employment 充分就业

Objective

Build the skills to answer exam questions on **macroeconomic policy objectives** 宏观经济政策目标 — the five aims (**price stability, full employment, growth, balance of payments, redistribution** 物价稳定、充分就业、增长、国际收支、再分配) and the **conflicts** 冲突 between them.

You must be able to:

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

1 Worked examples

■ Objectives and conflicts

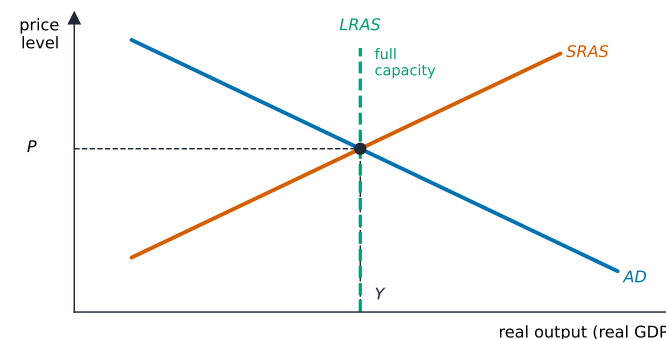


Five aims that often pull against each other

- **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** 需求侧; supply-side policy works on **aggregate supply** 总供给.



short-run equilibrium: $AD = SRAS$ • long-run capacity: vertical $LRAS$

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]

3.3 Discuss whether a government can achieve all of its macroeconomic objectives at the same time. [12]

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

2.2 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).

2.3 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).

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

3.2 [6] AO1 1 + AO3 up to 5 — cutting unemployment usually means raising AD → as the economy nears full capacity, “too much money chases too few goods” → demand-pull inflation rises → so lower unemployment can come at the cost of higher inflation (the short-run trade-off).

3.3 [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **Difficulty:** objectives conflict (growth ↔ inflation, growth ↔ 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.