5 Government macroeconomic policy – Part 1 —Answers

Answers

5.1 Any two: price stability (low inflation); full employment; economic growth; balance-of-payments stability; a fairer income spread.

5.2 The use of government spending and taxation to influence the economy (its output, jobs and prices).

5.3 Raise government spending, or cut taxes (expansionary fiscal policy).

5.4 A budget deficit is when government spending is greater than tax revenue (it must borrow); a budget surplus is when tax revenue is greater than spending.

5.5 (a) direct; (b) indirect.

5.6 Cutting taxes leaves people with more to spend, so aggregate demand rises. Higher demand creates jobs and cuts unemployment —but if the economy is near full capacity, the extra spending pulls prices up (demand-pull inflation). So the two objectives *conflict*.