A-LEVEL ECONOMICS • HOLIDAY HOMEWORK 假期作业

5 Government macroeconomic policy – Part 1

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
price stability	物价稳定			
inflation	通货膨胀			
full employment	充分就业			
economic growth	经济增长			
balance of payments	国际收支			
conflict	冲突			
Fiscal policy	财政政策			
expansionary	扩张性			
contractionary	紧缩性			
budget deficit	预算赤字			
budget surplus	预算盈余			
direct tax	直接税			
indirect tax	间接税			
progressive	累进税			

English	中文	Write it 3 times (English)		
regressive	累退税			

Recall

In topic 4 you met GDP, aggregate demand and supply, unemployment and inflation. Bring this with you:

- Output, jobs and prices can all go wrong in an economy.
- Aggregate demand (AD) is total spending: $C + I + G + (X - M)$.

At AS we study how the **government** tries to steer the whole economy.

New ideas

1 Macroeconomic policy objectives

A government usually has five main aims:

- **price stability** 物价稳定 — low, steady **inflation** 通货膨胀;
- **full employment** 充分就业 — jobs for almost everyone who wants one;
- **economic growth** 经济增长 — rising real output;
- **balance of payments** 国际收支 stability;
- a fairer spread of income.

These can **conflict** 冲突 — for example, raising demand to cut unemployment can pull prices up (more inflation).

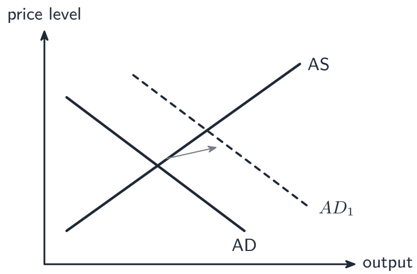
Micro-check. Name **two** macroeconomic policy objectives. [1]

2 Fiscal policy

Fiscal policy 财政政策 is the use of government **spending** and **taxation** to influence the economy.

- **expansionary** 扩张性 fiscal policy raises spending or cuts taxes → AD rises (to fight a recession);
- **contractionary** 紧缩性 fiscal policy cuts spending or raises taxes → AD falls (to fight inflation).

A **budget deficit** 预算赤字 is when spending is greater than tax revenue (the government must borrow). A **budget surplus** 预算盈余 is the opposite.

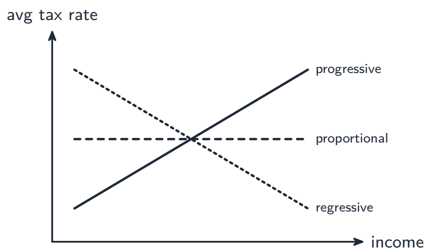


Micro-check. Which kind of fiscal policy would fight a **recession** — expansionary or contractionary? [1]

■ **3 Direct and indirect taxes**

- a **direct tax** 直接税 is paid straight to the government on income or profit (income tax);
- an **indirect tax** 间接税 is a tax on spending (added to a good's price).

Taxes can also be **progressive** 累进税 (the rate **rises** with income — the rich pay a larger share), proportional, or **regressive** 累退税 (the rate **falls** as income rises).



Micro-check. Income tax on a person's earnings is a **direct** or an **indirect** tax? [1]

Watch out: expansionary fiscal policy (more spending / lower taxes) *raises* AD to fight a recession; contractionary (less spending / higher taxes) *lowers* AD to fight inflation. Direct tax = on income/profit; indirect tax = on spending. Objectives can *conflict*.

Practice

5.1 State **two** of the government's macroeconomic objectives. [2]

5.2 Define **fiscal policy**. [2]

5.3 A government wants to **raise** aggregate demand. State **one** fiscal action it could take. [1]

5.4 State the difference between a **budget deficit** and a **budget surplus**. [2]

5.5 State whether each is a **direct** or an **indirect** tax: (a) income tax; (b) a tax added to the price of petrol. [2]

5.6 Challenge. A government cuts taxes to reduce unemployment. Explain why this might also push up inflation. [2]