A-LEVEL ECONOMICS • HOLIDAY HOMEWORK 假期作业

5 Government macroeconomic policy – Part 2

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)		
Monetary policy	货币政策			
central bank	中央银行			
interest rate	利率			
Supply-side policy	供给侧政策			
productive capacity	生产能力			
incentive	激励			
privatisation	私有化			
deregulation	放松管制			
training	培训			
infrastructure	基础设施			
demand-side policies	需求侧政策			

Recall

In **Part 1** you met the government's objectives, fiscal policy, and the types of tax. Part 2 looks at the other two sets of tools: **monetary policy** and **supply-side policy**.

New ideas

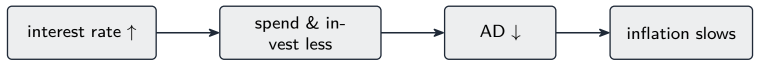
1 Monetary policy

Monetary policy 货币政策 is run by the **central bank** 中央银行. Its main tool is the **interest rate** 利率.

If the central bank **raises** the interest rate:

- borrowing becomes dearer, so households and firms spend and invest less;
- saving is rewarded, so people spend less.

So aggregate demand falls, which slows inflation. A **cut** in the rate does the opposite.



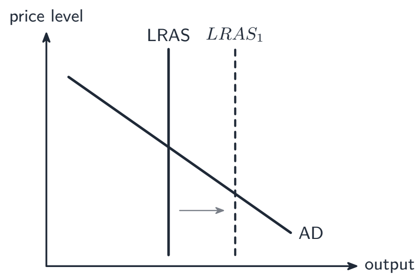
Micro-check. Who sets the interest rate? [1]

2 Supply-side policy

Supply-side policy 供给侧政策 tries to raise the economy's **productive capacity** 生产能力 — shifting long-run aggregate supply to the right. Two kinds:

- **market-based** — cut taxes to boost the **incentive** 激励 to work, **privatisation** 私有化, **deregulation** 放松管制;
- **interventionist** — spend on **training** 培训 to raise skills, and on **infrastructure** 基础设施 (roads, broadband).

It can raise growth **and** lower inflation at the same time, but it is **slow** (education takes years to pay off).



Micro-check. State one supply-side policy that raises workers' skills. [1]

■ 3 Demand-side and supply-side

- fiscal and monetary policy are **demand-side policies** 需求侧政策 — they work on aggregate demand (AD);
- supply-side policy works on aggregate supply (AS).

A government usually uses a **mix** of all three.

Micro-check. Is cutting the interest rate a demand-side or a supply-side policy? [1]

Watch out: monetary (central bank, interest rate) and fiscal policy work on the *demand* side (AD); supply-side policy works on the *supply* side (raises capacity). Supply-side can raise growth *and* cut inflation, but it is *slow*.

Practice

5.1 State who runs **monetary policy**, and its main tool. [2]

5.2 A central bank **raises** the interest rate. State what happens to (a) borrowing and (b) aggregate demand. [2]

5.3 State the aim of **supply-side policy**. [1]

5.4 Give **one** market-based and **one** interventionist supply-side policy. [2]

5.5 State whether each is **demand-side** or **supply-side**: (a) cutting the interest rate; (b) spending on worker training. [2]

5.6 Challenge. Supply-side policy can raise growth *and* lower inflation at the same time, unlike demand-side policy. Explain why, and give one drawback. [2]