Week 46

A-Level Economics

Homework bundle for this week

本周作业合集

exercises.lol

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10. Government macroeconomic intervention (A Level)Starter Quiz ·课前小测

A-Level Economics Name: ____________ Score: ______

1. Which set best lists the main macroeconomic objectives?
   - ☐ growth, low unemployment, price stability, balance of payments
   - ☐ high taxes, high spending, low wages
   - ☐ profit, revenue, market share
   - ☐ imports, exports, tariffs
2. The Phillips curve shows a short-run trade-off between:
   - ☐ unemployment and inflation
   - ☐ growth and the exchange rate
   - ☐ imports and exports
   - ☐ tax and spending
3. Structural unemployment is best tackled by:
   - ☐ supply-side policy (e.g. retraining)
   - ☐ demand stimulus alone
   - ☐ raising interest rates
   - ☐ a weaker currency
4. In a deep recession, a government would most likely prioritise:
   - ☐ growth and employment
   - ☐ reducing the money supply
   - ☐ a trade surplus above all
   - ☐ cutting all spending
5. Rapid economic growth can worsen the current account because it:
   - ☐ sucks in more imports
   - ☐ reduces all spending
   - ☐ lowers incomes
   - ☐ cuts exports to zero
6. Pursuing faster growth can conflict with controlling inflation.

   ☐ True ☐ False

7. Many economists argue the unemployment–inflation trade-off holds only in the short run.

☐ True ☐ False

8. Crowding out is when heavy government borrowing reduces private investment.

☐ True ☐ False

9. Because objectives conflict, policy always involves making ________.

____

10. The curve showing the inflation–unemployment trade-off is named after ________.

____

A-Level Economics

1. **growth, low unemployment, price stability, balance of payments**

   These four (plus equity and the environment) are the standard objectives.

2. **unemployment and inflation**

   Lower unemployment tends to come with higher inflation in the short run.

3. **supply-side policy (e.g. retraining)**

   Structural problems need supply-side fixes; demand stimulus won't give workers the right skills.

4. **growth and employment**

   When output and jobs are falling, reviving growth and employment comes first.

5. **sucks in more imports**

   Higher incomes raise import spending, widening a trade deficit.

6. **True**

   A booming economy can overheat, pushing up prices — a classic conflict.

7. **True**

   In the long run unemployment tends back to its natural rate regardless of inflation.

8. **True**

   Government borrowing can raise interest rates and squeeze private investment.

9. **trade-offs**

   No policy improves every objective at once.

10. **Phillips**

    The Phillips curve.

10.1 Government macroeconomic policy objectives

Name: ______________ Class: __________ Date: ____________ **Total: 23 marks**

KEY WORDS supply-side 供给侧 • monetary 货币 • supply-side policy 供给侧政策 • fiscal 财政 • monetary policy 货币政策

Objective

Build the skills to answer exam questions on **government macroeconomic policy objectives** 宏观经济政策目标 at A Level — the goals (**growth, price stability, full employment, balance of payments** 增长、物价稳定、充分就业、国际收支) and the **policy tools** to reach them.

You must be able to:

- state the main macroeconomic objectives and how each is measured
- match objectives to fiscal, monetary and supply-side tools
- analyse why a policy mix is used

1 Worked examples

■ Objectives and tools

Demand-side tools are quick; supply-side tools are slow but lasting

- **Objectives:** growth (% Δ real GDP), price stability (% Δ CPI), full employment (unemployment rate), balance-of-payments stability.

- **Tools: fiscal 财政** (spending/tax), **monetary 货币** (interest rate), **supply-side 供给侧** (capacity/productivity).
- Demand-side tools work on **aggregate demand** (quick, can cause inflation); supply-side works on capacity.

these goals pull against each other

lower unemployment	⇌	higher inflation
faster growth	⇌	higher inflation
faster growth	⇌	worse current account
faster growth	⇌	more pollution

The objectives often conflict — meeting one can mean missing another

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

2 Practice

2.1 State how *price stability* is measured. [1]

2.2 State which policy mainly works on aggregate supply. [1]

2.3 State two macroeconomic policy objectives. [2]

3 Exam-style questions

3.1 Which policy mainly works on the **supply side** of the economy? [1]

- **A** changing the interest rate
- **B** changing government spending
- **C** spending on education and training
- **D** changing income tax to alter demand

3.2 Explain why a government uses a mix of demand-side and supply-side policies. [6]

3.3 Discuss whether monetary policy alone can achieve a government's macroeconomic objectives. [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 by the percentage change in the consumer price index (CPI) (1).

2.2 supply-side policy (1).

2.3 any two of: economic growth; price stability; full employment; balance-of-payments stability (1 + 1).

3.1 **C**. Spending on education and training raises capacity — a supply-side policy.

3.2 *[6]* AO1 1 + AO3 up to 5 — demand-side policies (fiscal, monetary) act quickly on AD to manage the short run (a recession or inflation), but they can cause inflation or worsen the balance of payments; supply-side policy raises long-run capacity and productivity → combining them manages the short run while building lasting growth.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** monetary policy is flexible and effective at controlling demand-pull inflation. **Against:** it works with long lags, is weak in a deep slump, cannot fix structural unemployment or a supply-side problem, and a single rate cannot target every objective at once. Judgement: monetary policy alone cannot meet all objectives — it must be combined with fiscal and supply-side policy; its limits depend on the economic situation.

15 In which situation is expansionary fiscal policy **least** likely to be effective?

A inflation is below its target rate

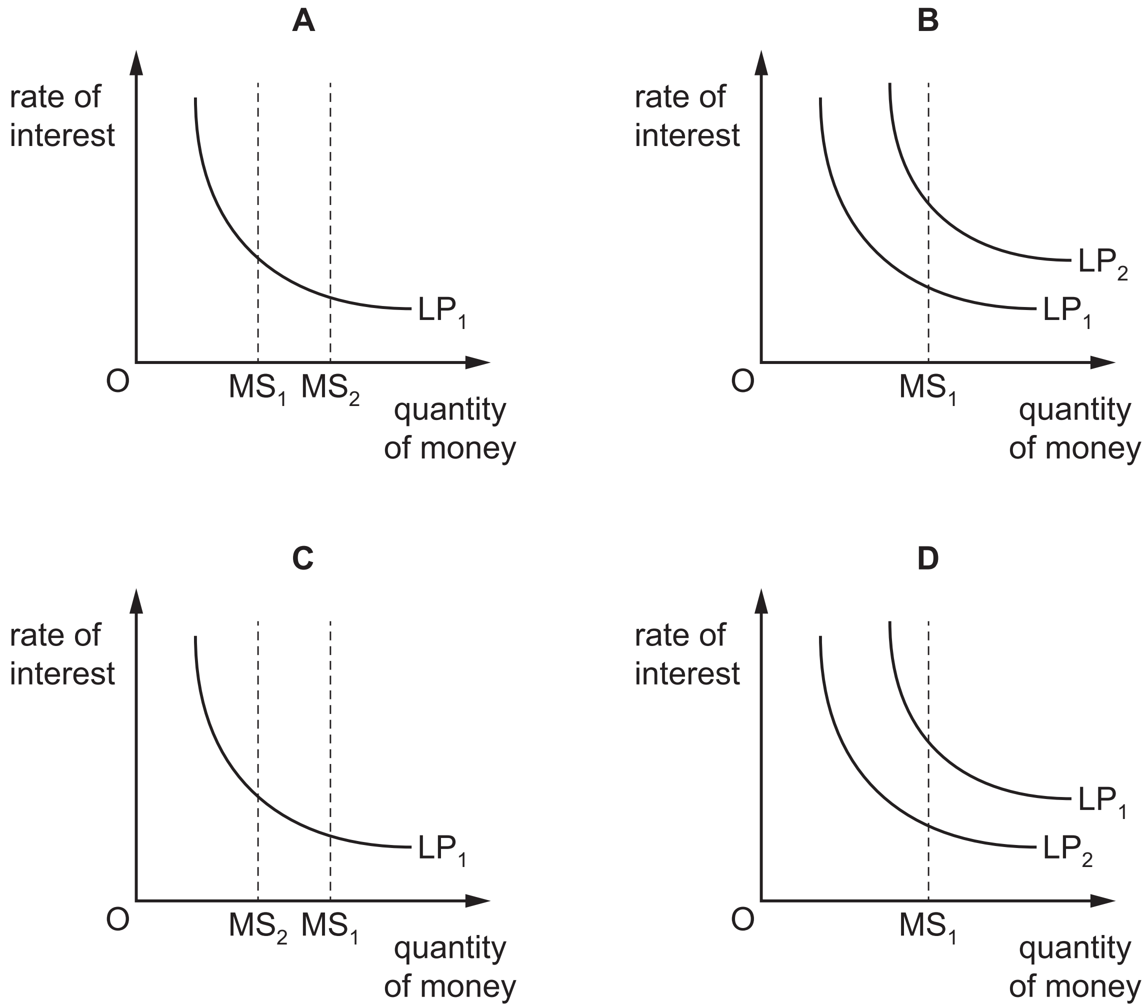
B lack of confidence in the economy

C there is a negative output gap

D unemployment is high

16 In these four diagrams, the money supply in an economy is initially at MS_1 and the demand for money is initially at LP_1.

Which diagram shows the effect of a policy of quantitative easing on the rate of interest?



10.2 Links between macroeconomic problems and their interrelatedness

Name: ______________ Class: __________ Date: ____________ **Total: 23 marks**

KEY WORDS trade-off 取舍 • phillips curve 菲利普斯曲线
• links between macroeconomic problems 宏观经济问题的关联 • inflation 通货膨胀
• economic growth 经济增长

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 ⇌ higher inflation

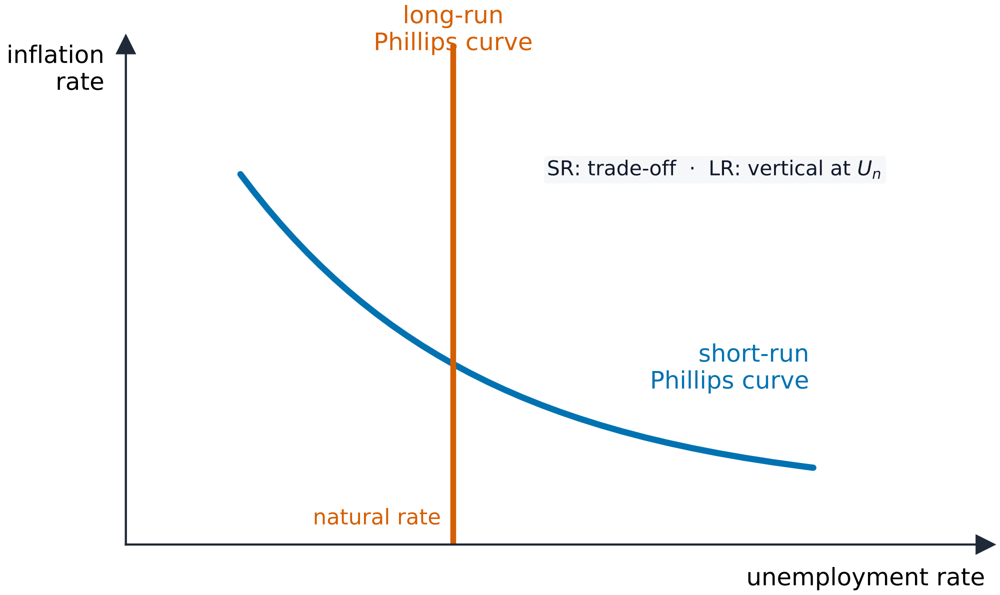
faster growth ⇌ higher inflation

faster growth ⇌ worse current account

faster growth ⇌ 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

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]

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.

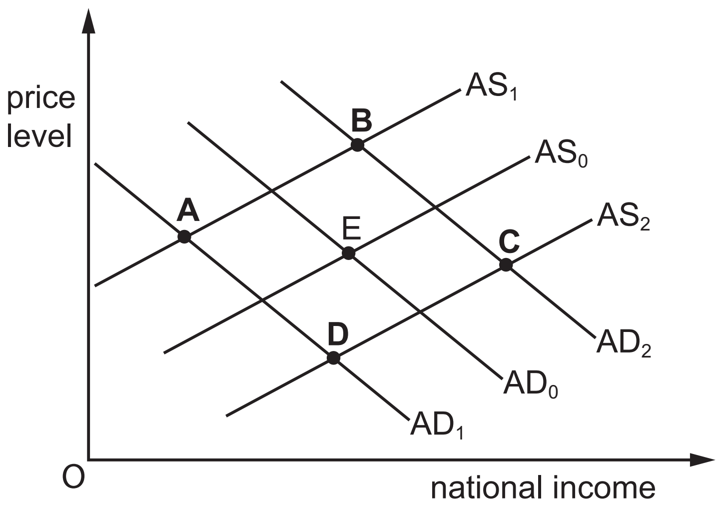
19 A country's trade balance has worsened. The country has a fixed exchange rate.

Which additional changes for unemployment and price level are likely to follow?

	the level of unemployment	the price level
A	decreases	decreases
B	decreases	increases
C	increases	decreases
D	increases	increases

23 The diagram shows the aggregate demand, AD, and aggregate supply, AS, curves for an economy. The initial equilibrium is at point E. There is a revaluation of the exchange rate.

If the Marshall-Lerner rule applies, which point on the diagram would show the new long-run equilibrium?



21 Which combination shows the most likely outcome if a government increases the level of direct taxation?

A balance of payments deteriorates and inflation increases

B economic growth increases and balance of payments improves

C inflation decreases and unemployment increases

D unemployment decreases and balance of payments improves

21 What does the Phillips curve show?

A the relationship between economic growth and employment

B the relationship between inequality and income per capita

C the relationship between inflation and unemployment

D the relationship between prices and national income

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10.3 Effectiveness of policy options to meet all macroeconomic objectives

Name: ____________ Class: ________ Date: ____________ **Total: 24 marks**

KEY WORDS laffer curve 拉弗曲线 • crowding out 挤出效应 • time lags 时滞 • tax revenue 税收收入 • effectiveness of policy options 政策有效性

Objective

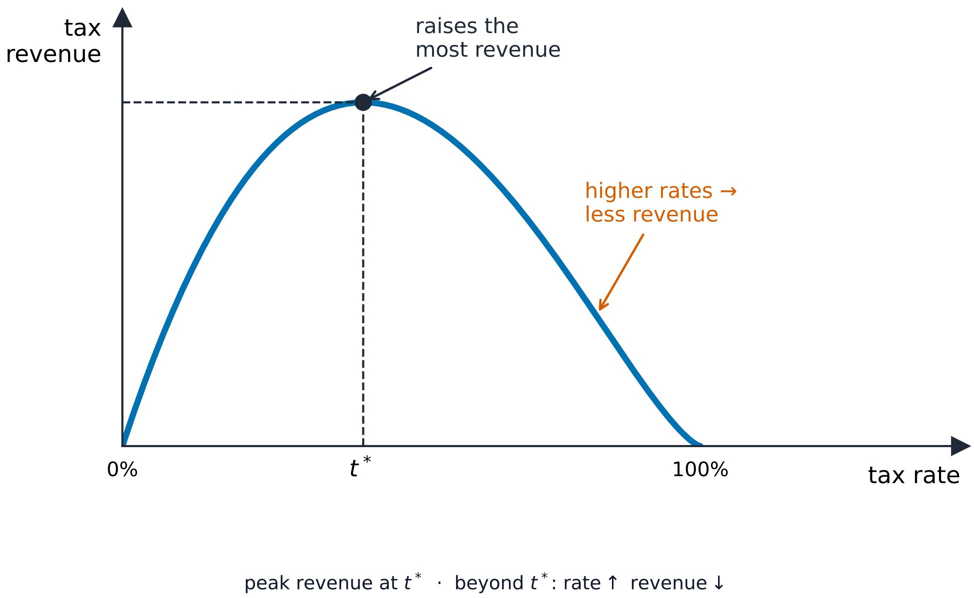
Build the skills to answer exam questions on the **effectiveness of policy options 政策有效性** — the strengths and weaknesses of **fiscal, monetary and supply-side** policy, including **crowding out 挤出效应** and the **Laffer curve 拉弗曲线**.

You must be able to:

- explain the strengths and weaknesses of each policy
- explain crowding out and the Laffer curve
- evaluate the best policy mix to meet objectives

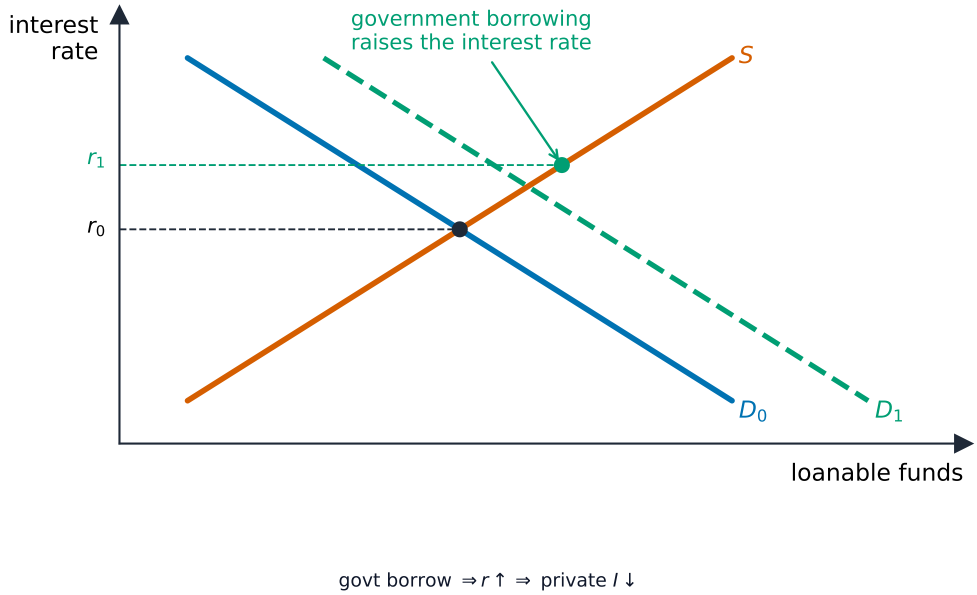
1 Worked examples

■ The Laffer curve



Revenue is zero at 0% and 100%; going above t lowers revenue*

- **Fiscal policy:** powerful and targeted, but has **time lags** 时滞, raises **national debt** 国债, and risks **crowding out** 挤出效应.
- **Monetary policy:** flexible, but works with a lag and is weak in a deep slump.



A key limit on fiscal policy: crowding out private investment

- **Supply-side policy:** raises growth *and* lowers inflation, but is slow and costly.
- **Laffer curve** 拉弗曲线: above the revenue-maximising rate t^*, higher tax rates *cut* revenue.

Answer shapes: an **Explain** [**up to 8**] answer may use a diagram (AO3); **Discuss** [**12**] adds a judgement (AO4).

2 Practice

2.1 Define the term *crowding out*. [2]

2.2 State what the **Laffer curve** shows. [2]

2.3 State one weakness of monetary policy. [1]

3 Exam-style questions

3.1 According to the Laffer curve, raising the tax rate **above** the revenue-maximising rate will: [1]

- **A** always raise tax revenue
- **B** lower tax revenue
- **C** leave tax revenue unchanged
- **D** raise the money supply

3.2 Explain how heavy government borrowing can crowd out private investment. [6]

3.3 Discuss which policy a government should rely on most to achieve long-term economic growth. [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 when heavy government borrowing raises interest rates and so reduces private-sector investment (2 for a clear definition; 1 for a partial idea).

2.2 that as the tax rate rises, tax revenue first rises but then falls, because very high rates discourage work and encourage avoidance (2 for a clear statement; 1 for a partial idea).

2.3 any one of: it works with a long time lag; it is weak in a deep slump (a liquidity trap); it cannot fix structural problems (1).

3.1 B. Above the revenue-maximising rate, higher tax rates lower revenue.

3.2 *[6]* AO1 1 + AO3 up to 5 — to fund a deficit the government borrows heavily → this raises the demand for loanable funds → the interest rate rises → dearer borrowing means firms invest less → public spending "crowds out" private investment, reducing the net effect on AD.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Supply-side:** the only tool that raises capacity and productivity, giving growth *with* low inflation — but slow and costly. **Demand-side (fiscal/monetary):** quick to raise output but mainly short-run and inflation-prone. Judgement: for *long-term* growth supply-side policy should lead, supported by stable demand-side policy — the best mix depends on the time horizon and the economy's starting point.

16 What describes a Keynesian measure to reduce cyclical unemployment?

A adopting a supply-side policy to retrain unskilled workers

B allowing the private sector to take over the supply of merit goods

C increasing the ratio of capital equipment to manual labour in production

D using fiscal policy to increase effective demand

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20 A government funds an increase in transfer payments to the unemployed by increasing the higher rate of income tax.

What is the most likely impact of this change?

A government borrowing increases

B the incentive to work increases

C the marginal propensity to consume increases

D the quantity of imports increases

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18 Which combination of policies is most likely to reduce cyclical unemployment but might increase frictional unemployment?

	direct taxes	unemployment benefits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

22 The central bank of an economy decreases the money supply in an attempt to reduce inflation.

Under which conditions is this policy most likely to be effective?

	exchange rate	responsiveness of aggregate demand to interest rate changes
A	fixed	low
B	fixed	high
C	floating	low
D	floating	high

22 A government is aiming to increase the role of market forces.

Which policy might achieve this?

A deregulation

B nationalisation

C price controls

D production quotas

25 What does the Laffer curve show?

A the amount of tax revenue received at each tax rate

B the impact on the distribution of income after tax rates rise

C the rise in inflation following a fall in unemployment due to a cut in income tax

D the rise in poverty due to a rise in the basic rate of income tax