

4.1 Macroeconomic objectives and conflicts

Name: _____ Class: _____ Date: _____

Total: 18 marks

KEY WORDS Phillips curve • inflation target

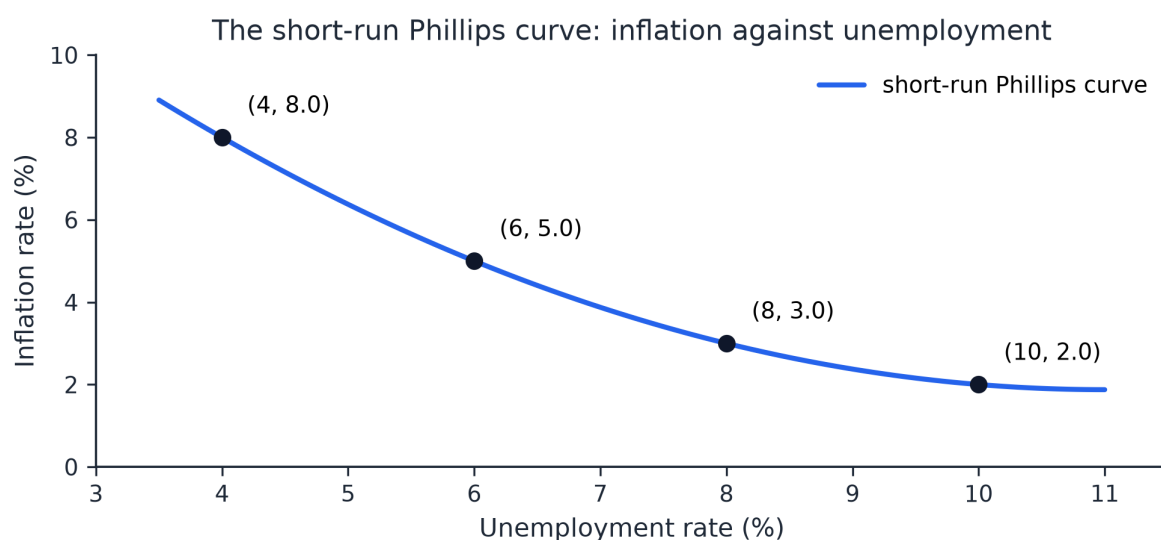
Macroeconomic objectives and conflicts

Objective

State the six macroeconomic objectives with their measures, and analyse the four conflicts between them, including the short-run Phillips curve (spec 2.3.6, rows 1–2).

1 Key knowledge and worked examples

Objectives and trade-offs. Growth; low and stable inflation; low unemployment; current-account equilibrium; a balanced budget; greater income equality. The Phillips curve trades inflation against unemployment in the short run: the points (4, 8), (6, 5), (8, 3) and (10, 2) trace the curve, so disinflation costs jobs at first. Growth strains the environment; reflation worsens inflation AND the current account together; uneven growth widens inequality.



Original illustrative curve; the labelled pairs are the worked trade-off.

2 Practice

2.1 List the six macroeconomic objectives. [2]

2.2 On the Phillips curve with points (4, 8), (6, 5), (8, 3) and (10, 2), what happens to unemployment if inflation is cut from 8% to 3%? [2]

2.3 Why does reflationary policy tend to worsen BOTH inflation and the current account? [2]

2.4 Name the conflict between growth and the environment, with one mechanism. [2]

2.5 Give one reason growth might widen income equality gaps. [2]

3 Exam-style questions

3.1 (*Original.*) Using a Phillips curve diagram, explain the short-run trade-off between inflation and unemployment, and one reason it may be easier to cut inflation than the curve suggests. [4]

3.2 (*Original, SAM context.*) India grew rapidly while Delhi suffered smog severe enough to close schools. Analyse the conflict between growth and environmental protection. [4]

Solutions

2.1 Economic growth; low and stable inflation; low unemployment; balance of payments equilibrium on the current account; balanced government budget; greater income equality.

2.2 Unemployment rises from 4% to 8% – moving along the curve from (4, 8) to (8, 3).

2.3 Reflation raises AD: prices rise (demand-pull inflation) AND incomes rise, sucking in imports – the current account moves towards deficit on both counts.

2.4 Growth versus the environment: rising output raises energy use and emissions (negative externalities of production) – growth's price omits the external cost.

2.5 If growth concentrates in skill-intensive sectors, the premium on those skills rises while others' wages stagnate – the income distribution widens even as average income grows.

3.1 Diagram: downward Phillips curve with the four points; disinflation from 8 to 3 moves the economy from (4, 8) to (8, 3) – unemployment rises to 8%. Why easier than it looks: if the inflation TARGET is credible, expectations fall, shifting the whole curve INWARDS so inflation falls without the full unemployment cost; also supply-side improvements can shift the curve favourably.

3.2 Growth raises output, incomes and tax revenue (the benefit) but its energy and transport demand produces emissions – Delhi's smog closed schools (an external cost the market price omits). The conflict is real but not absolute: growth also funds clean technology and environmental regulation; the judgement weighs current harm against the capacity growth creates to repair it.

Local review guidance: the Phillips answer moves along the drawn curve with both coordinates; (R1) “one reason it may be easier” needs the expectations/credibility mechanism; context marks come from using the India data. This is authored classroom guidance.