Inflation, unemployment and policy judgement

Pearson Edexcel · International A-Level · Economics · Vocabulary in context

Word	Example
inflation target /ɪnˈfleɪʃn ˈtɑːgɪt/	The UK has an **inflation target** of 2%. UK 2%
trade-off /treɪd ɒf/	There is a **trade-off**: lower inflation can mean more unemployment.
Phillips curve /ˈfɪlɪps kɜːv/	The **Phillips curve** shows that low unemployment often comes with high inflation.
stagflation /stægˈfleɪʃn/	**Stagflation** is high inflation together with high unemployment.
supply-side policies /səˈplaɪ saɪd ˈpɒlɪsiz/	**Supply-side policies**, such as training, help the economy produce more.
deregulation /diːˌregjʊˈleɪʃn/	**Deregulation** removes rules so new firms can join a market.
privatisation /ˌpraɪvətaɪˈzeɪʃn/	**Privatisation** sells a state-owned firm to private owners.
bureaucracy /bjʊəˈrɒkrəsi/	Too much **bureaucracy** slows down new businesses with forms and rules.
infrastructure /ˈɪnfrəstrʌktʃə/	New roads and railways improve a country's **infrastructure**.
regional policy	**Regional policy** helps poorer parts of a country to grow.

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government failure /ˈgʌvənmənt ˈfeɪlɪə/	**Government failure** happens when a policy makes things worse.
fiscal policy /ˈfɪskl ˈpɒlɪsi/	Changing taxes and government spending is **fiscal policy**.
monetary policy /ˈmʌnɪtəri ˈpɒlɪsi/	The central bank uses **monetary policy** when it changes interest rates.
quantitative easing /ˈkwɒntɪteɪtɪv ˈiːzɪŋ/	In **quantitative easing**, the central bank creates money to buy bonds.
reserve requirements	**Reserve requirements** set how much money banks must keep and not lend.
reflationary	A **reflationary** policy raises aggregate demand.
deflationary	A **deflationary** policy, such as higher taxes, cuts total spending.
price level /praɪs ˈlevl/	The **price level** is the average of all prices in the economy.
bonds /bɒndz/	Governments sell **bonds** to borrow money.
base rate /beɪs reɪt/	A higher **base rate** makes loans more expensive.
central bank /ˈsentrəl bæŋk/	The **central bank** sets interest rates.
lender of last resort /ˈlendə ɒv læst rɪˈzɔːt/	The central bank is the **lender of last resort**: it lends to banks in a crisis.
time lags /taɪm lægz/	Interest rate changes work with **time lags** of up to two years.

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crowd out /kraʊd aʊt/	Government borrowing can **crowd out** private investment by pushing interest rates up.
budget deficit /ˈbʌdʒɪt ˈdefɪsɪt/	A **budget deficit** means the government spends more than it collects in tax.

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