

4.2 Macroeconomic policies

Name: _____ Class: _____ Date: _____ **Total: 24 marks**

KEY WORDS fiscal policy • monetary policy • quantitative easing

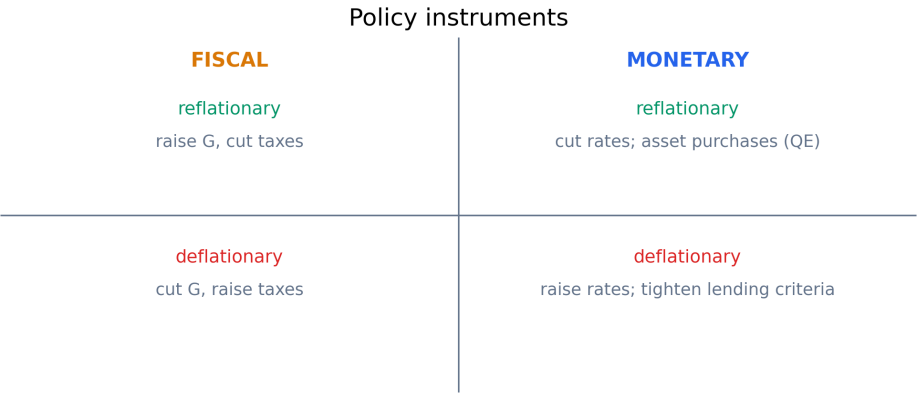
Macroeconomic policies

Objective

Distinguish fiscal from monetary and reflationary from deflationary policy, apply the supply-side instrument lists, and evaluate the policy families with the central bank’s roles (spec 2.3.6, rows 3–4).

1 Key knowledge and worked examples

Policies. Supply-side shifts LRAS right: free market (deregulation, privatisation, tax cuts, welfare reform, bureaucracy cuts) or interventionist (education and skills, investment incentives, infrastructure, start-up finance, regional policy). Fiscal uses G and T; monetary uses interest rates, QE, lending criteria and reserve ratios. The central bank implements policy, targets inflation, banks the government and is lender of last resort.



Original schematic; the four quadrants organise the instrument lists.

2 Practice

2.1 Distinguish fiscal policy from monetary policy. [2]

2.2 Classify each as reflationary or deflationary: (a) a rise in income tax; (b) an open-market asset purchase by the central bank. [2]

2.3 Name any three free-market supply-side instruments. [2]

2.4 Name any three interventionist supply-side instruments. [2]

2.5 (SAM WEC12/01 Q10, adapted.) Define quantitative easing in one sentence. [2]

2.6 State the central bank’s four roles. [2]

3 Exam-style questions

3.1 (Original.) With AD: $P = 90 - Y/2$ and LRAS vertical at $Y = 85$, a reflationary fiscal expansion shifts AD up by 10. Explain the likely effect on output and the price level, and why the outcome differs with spare capacity. [4]

3.2 (*Original.*) A supply-side programme shifts LRAS from 85 to 105. Using the model, find both equilibria and evaluate one strength and one weakness of interventionist supply-side policy. [4]

3.3 (*Original.*) Explain how a cut in the base rate from 6.5% to 6.25% (SAM Extract B, India) is expected to affect aggregate demand. [4]
