

Government and the economy

Edexcel IGCSE Economics 4EC1 sections 2.1.1-2.1.3 full package

1. Topic 6 at a glance

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4EC1 topic 6: spec sections 2.1.1 to 2.1.3 - the six macroeconomic objectives, the four policy families, and the trade-offs between objectives.

Must-know: growth is rising real GDP with the cycle
boom-downturn-recession-recovery; CPI from the weighted basket = 109 (9 percent);
demand-pull AD right vs cost-push SRAS left; the AD/AS model (70, 55) with a
reflation to (85, 62.5); fiscal, monetary, supply-side and controls; the four trade-offs.

2. The macroeconomic objectives

The macroeconomic objectives

Growth: real GDP rises; GDP limits (non-market activity, distribution, environment); the cycle's four stages each move growth, inflation and unemployment together; growth touches employment, living standards, poverty, potential, inflation and the environment.

Inflation measured by the CPI basket: $0.5 \times 110 + 0.3 \times 100 + 0.2 \times 120 = 109$, so 9 percent; demand-pull versus cost-push; interest-rate link; nine impact groups incl. menu and shoe-leather costs. Unemployment: ILO measure, five types, seven impacts. Current account: visibles and invisibles, deficit causes and impacts. Environment: four pollution types, six measures. Redistribution: inequality and poverty with three instruments.

3. Government policies

Government policies

Fiscal: direct and indirect taxes, spending, deficit versus surplus. Monetary: the central bank's interest-rate mechanism - dearer borrowing cuts C and I, cooling inflation - plus asset purchases at the zero bound. Supply-side: privatisation, deregulation, education, regional policy, infrastructure, lower business and income taxes. Controls: regulation, legislation, fines, permits.

On the model, reflation shifts AD from (70, 55) to (85, 62.5) - output with inflation; supply-side shifts SRAS right - output with LOWER prices.

4. Trade-offs

Trade-offs

Unemployment and inflation: deflating cuts price rises but costs jobs. Growth and inflation: fast growth overheats. Growth and the environment: output pollutes.

Inflation and the current account: dearer exports worsen the trade balance.

Every policy answer names the trade-off it accepts - that is where the evaluation marks live.

Check yourself

Check yourself

Growth with the cycle and GDP limits; inflation with the CPI arithmetic and both causes; unemployment types; the current account; the environment; redistribution.

The four policy families with their instruments and model effects.

The four trade-offs with the direction of each conflict.