

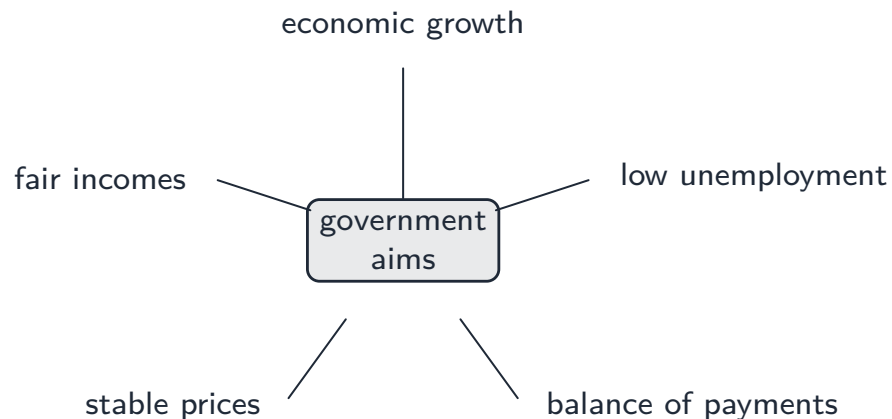
Exercise walk-through

4.1

Government macroeconomic intervention

IGCSE Economics

Government aims



Five **macroeconomic** aims:

- **economic growth**
- **full employment**
- **price stability**
- **balance-of-payments stability & fair incomes**

Aims can **conflict**.

How taxes are classified

by *what* is taxed

the first of the two groupings

a **direct tax**

paid **straight to the government** from **income** or **profit** – income tax, corporation tax

an **indirect tax**

paid on **spending**, collected by the seller – VAT, duties

by *who pays what share*

the second grouping

progressive

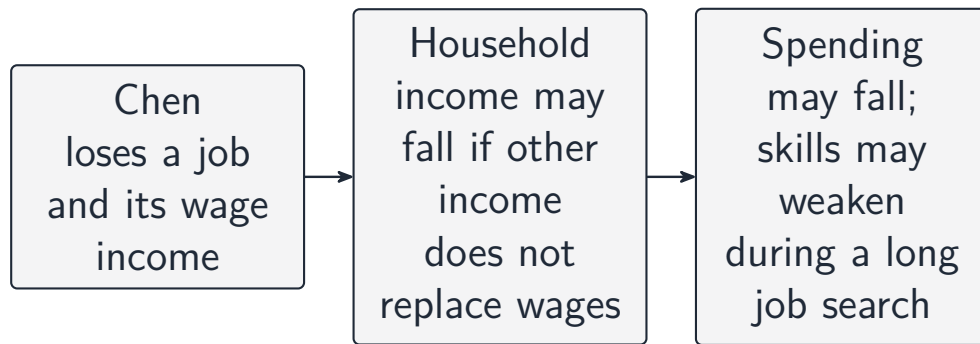
a **higher** percentage as income rises

regressive

a **lower** percentage as income rises – a fixed spending-tax payment can take a larger income share from poorer households

The two groupings are independent. Classify direct/indirect by what is taxed and rate structure by tax as a share of income. The groupings answer different questions.

Consequences of unemployment



Government may collect less income tax and spend more on support.

Unused labour can mean lost potential output.

Apply the chain to Chen's job loss. Income support or a new job can change the effect; unemployment is not proof of crime or poor health in an individual.

Exercises 2.1-2.3

2.1 State three macroeconomic aims of a government.

[3]

2.2 State one conflict between two macroeconomic aims.

[2]

2.3 Identify the three sets of government policy tools.

[3]

Exercises 2.1-2.3

2.1 State three macroeconomic aims of a government. [3]

2.1

- any **three** of: **economic growth** / **full employment** / **price stability** / **balance-of-payments stability** / **redistribution of income** (K each)
-

2.2 State one conflict between two macroeconomic aims. [2]

2.2

- any **one** developed conflict, e.g. **growth vs price stability** or **full employment vs low inflation** (K)
-

2.3 Identify the three sets of government policy tools. [3]

2.3

- **fiscal policy**, **monetary policy**, **supply-side policy** (K each)

Exercises 3.1·3.2

3.1 Fast economic growth is most likely to **conflict** with the aim of:

[1]

☐

A full employment

B price stability

C higher tax revenue

D higher incomes

3.2 Explain why low unemployment and low inflation may be difficult to achieve at the same time.

[4]

Exercises 3.1·3.2

3.1 Fast economic growth is most likely to **conflict** with the aim of:

[1]

☐

- A full employment
- B price stability
- C higher tax revenue
- D higher incomes

3.1 B

- fast growth raises demand, which can **pull up prices** (inflation) (K)
- A, C and D often move *with* growth, not against it

3.2 Explain why low unemployment and low inflation may be difficult to achieve at the same time.

[4]

3.2

- to cut unemployment the government usually **raises total demand** (K)
- firms hire more, but stronger demand **pushes prices up** (An)
- lower unemployment can come with **higher inflation** (An)

Exercise 3.3

3.3 Analyse why a government may not be able to achieve all of its macroeconomic aims at once. [6]

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3.3 Analyse why a government may not be able to achieve all of its macroeconomic aims at once. [6]

3.3

- the aims often **conflict**: raising demand to boost growth and jobs can cause inflation (K)
- faster growth can pull in imports, worsening the **balance of payments** (An)
- a government must set **priorities**; supply-side policy can ease some conflicts by raising capacity (An)