4.1 Government macroeconomic intervention

Name: _____ Class: _____ Date: _____ **Total: 19 marks**

KEY WORDS inflation • macroeconomic aims • balance of payments • conflict • unemployment

Objective

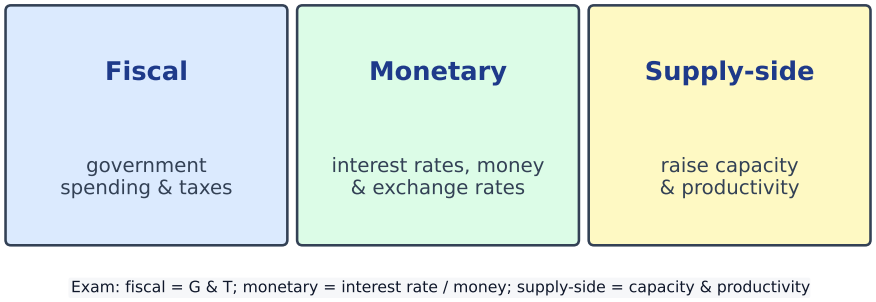
Build the skills to answer exam questions on **government macroeconomic intervention** – the five **macroeconomic aims** and how they can **conflict**, and the three policy tools.

You must be able to:

- state the five macroeconomic aims
- explain a conflict between two aims
- identify the three policy tools (fiscal, monetary, supply-side)

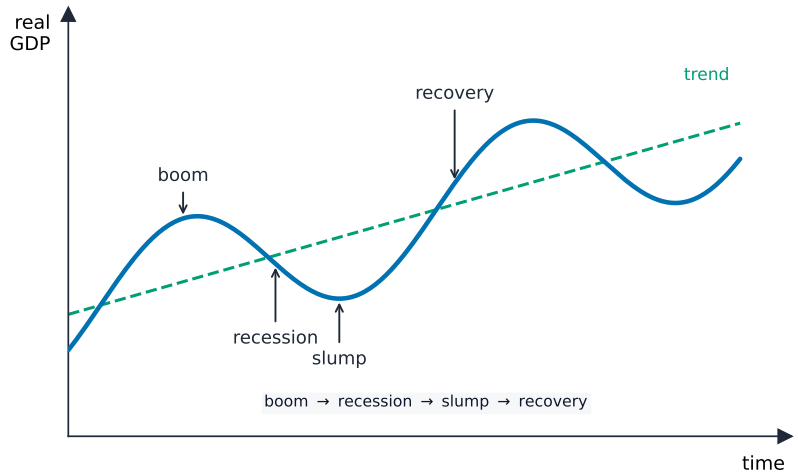
1 Key knowledge and worked examples

Aims and tools



Governments balance aims that can pull against each other

- **Aims:** economic growth, **full employment**, **price stability**, **balance of payments** stability, redistribution.
- **Conflict**: fast growth or cutting unemployment can pull prices up (inflation).
- **Tools: fiscal** (spending/tax), **monetary** (interest rates), **supply-side** (capacity).



Policy aims to smooth the business cycle – supporting demand in a slump, cooling it in a boom

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

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]

3 Exam-style questions

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]

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

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

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

2.2

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

2.3

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

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

- 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)

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)