Exercise walk-through

Government macroeconomic intervention ▪ 4.1

eXercise

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)

Method — Aims and tools

- **Aims:** economic growth, **full employment 充分就业**, **price stability 价格稳定**, **balance of payments 国际收支** stability, redistribution.
- **Conflict 冲突**: fast growth or cutting unemployment can pull prices up (inflation).
- **Tools: fiscal 财政** (spending/tax), **monetary 货币** (interest rates), **supply-side 供给侧** (capacity).

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

Method — Aims and tools

Fiscal

government spending & taxes

Monetary

interest rate & money supply

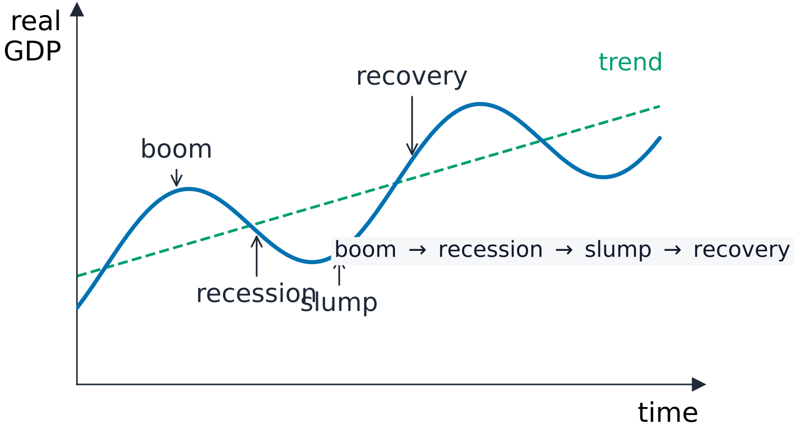
Supply-side

raise capacity & productivity

Exam: fiscal = G & T; monetary = interest rate / money; supply-side = capacity & productivity

The three sets of policy tools

Method — Aims and tools



Real GDP moves through boom, recession, slump and recovery

Practice 2.1 ▪ 3 marks

State three macroeconomic aims of a government.

Solution 2.1

Method: Aims and tools

Worked steps

any three of: economic growth; full employment; price stability; balance-of-payments stability; redistribution of income $(1 + 1 + 1)$.

Practice 2.2 ▪ 2 marks

State one conflict between two macroeconomic aims.

Solution 2.2

Method: Aims and tools

Worked steps

any one developed conflict, e.g. growth vs price stability; full employment vs low inflation (2 for a developed conflict; 1 for naming two aims).

Practice 2.3 ▪ 3 marks

Identify the three sets of government policy tools.

Solution 2.3

Method: Aims and tools

Worked steps

fiscal policy; monetary policy; supply-side policy $(1 + 1 + 1)$.

Exam-style 3.1 ▪ 1 mark

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

A full employment

B price stability

C higher tax revenue

D higher incomes

Solution 3.1

Method: Aims and tools

A full employment

B price stability ✓

C higher tax revenue

D higher incomes

Worked steps

B. Fast growth raises demand, which can pull up prices (inflation).

Exam-style 3.2 ▪ 4 marks

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

Solution 3.2

Method: Aims and tools

Worked steps

[4] K 1 + An up to 3 — to cut unemployment the government usually raises total demand → firms hire more workers, but stronger demand pushes prices up → so lower unemployment can come with higher inflation, making both hard to achieve together.

Exam-style 3.3 ▪ 6 marks

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

Solution 3.3

Worked steps

[6] K/App/An — the aims often conflict: raising demand to boost growth and jobs can cause inflation, and faster growth can pull in imports, worsening the balance of payments $\rightarrow$ so improving one aim can worsen another $\rightarrow$ a government must set priorities and accept trade-offs, though supply-side policy can ease some conflicts by raising capacity.