Government & the Macroeconomy

IGCSE Economics ▪ Topic 4

IGCSE Economics

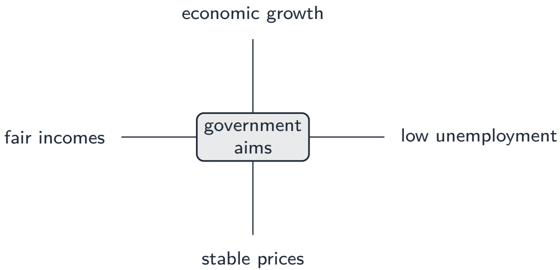
What we will cover

1. Government aims
2. Policy tools
3. Taxes
4. Inflation
5. Unemployment
6. The business cycle

Fiscal	**Monetary**	**Supply-side**
government spending & taxes	interest rate & money supply	raise capacity & productivity

policy tools

Government aims



Five **macroeconomic** 宏观经济 aims:

- **economic growth** 经济增长
- **full employment** 充分就业
- **price stability** 价格稳定
- balanced trade & fair incomes

Aims can conflict.

Policy tools

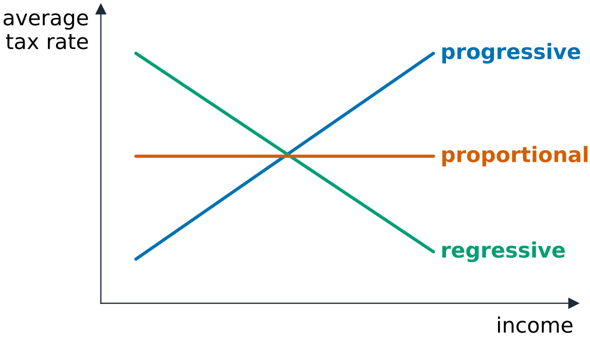
- **fiscal policy** 财政政策 – spending & tax
- **monetary policy** 货币政策 – interest rates
- **supply-side policy** 供给侧政策 – improving the economy's capacity

Central banks set the monetary tools

Policy tools – overview

Fiscal	Monetary	Supply-side
government spending & taxes	interest rate & money supply	raise capacity & productivity

Taxes



- **direct tax** 直接税 (on income) vs **indirect tax** 间接税 (on spending)
- **progressive** 累进税 – higher % on the rich
- **regressive** 累退税 – hits the poor harder

Inflation

Demand-pull

total demand grows faster than supply → "too much money chasing too few goods"

Cost-push

firms' costs rise (wages, materials) → they raise prices to cover them

Inflation 通货膨胀 is a general rise in prices, from:

- **demand-pull** 需求拉动 – too much spending
- **cost-push** 成本推动 – rising costs

Unemployment

Unemployment 失业: people who want a job cannot find one. Types:

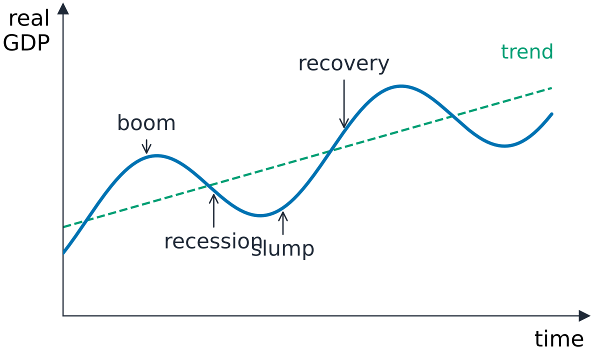
- **frictional** 摩擦性, **structural** 结构性
- **cyclical** 周期性, **seasonal** 季节性

Unemployment wastes labour resources

Unemployment – types

Frictional	Structural	Cyclical	Seasonal
short gaps between jobs	skills no longer match jobs	low demand in a recession	only certain times of year

The business cycle



The **business cycle** 经济周期 swings between boom & recession.

In a recession the government can boost spending or cut interest rates.

Worked example – economic growth

Real GDP was £500bn last year and £515bn this year. Find the growth rate.

- Growth $= \dfrac{\text{change in real GDP}}{\text{original real GDP}} \times 100$
- $= \dfrac{515 - 500}{500} \times 100$
- $= \dfrac{15}{500} \times 100 = 3\%$
- Real GDP already has inflation removed, so this is a genuine rise in output.

Always use real, not nominal, GDP – nominal rises with prices alone. Two quarters of negative growth is the usual definition of a recession.

Topic 4 – key takeaways

1 Aims

growth, jobs, stable prices, fair incomes

2 Tools

fiscal, monetary & supply-side policy

3 Taxes

direct vs indirect; progressive vs regressive

4 Problems

inflation & unemployment

Check yourself

1. What does fiscal policy change?
2. Which policy uses interest rates?
3. Which tax takes a bigger % from the rich?
4. Name one cause of inflation.

Answers **1.** government spending & taxation **2.** monetary policy **3.** a progressive tax **4.** demand-pull or cost-push