

Government & the Macroeconomy

IGCSE Economics ■ Topic 4

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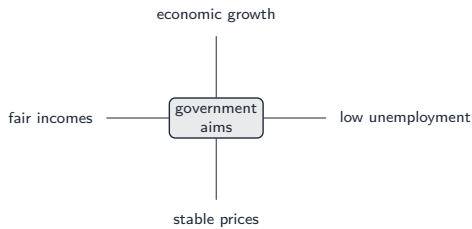
Government & the Macroeconomy

What we will cover

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

1 Aims and 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**.

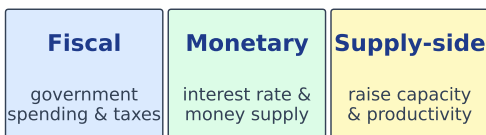
Policy tools

- **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

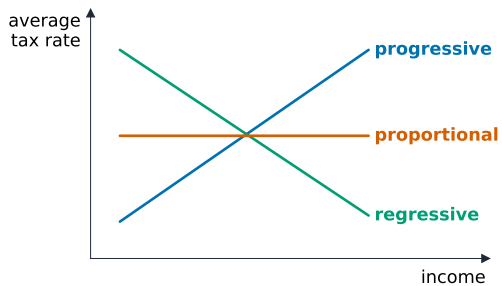
Policy tools – overview



Three sets of tools for the same aims:

- **fiscal policy** 财政政策 – government spending and tax
- **monetary policy** 货币政策 – interest rates (and the money supply)
- **supply-side policy** 供给侧政策 – raising what the economy can produce

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

2 Problems

Inflation

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

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

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



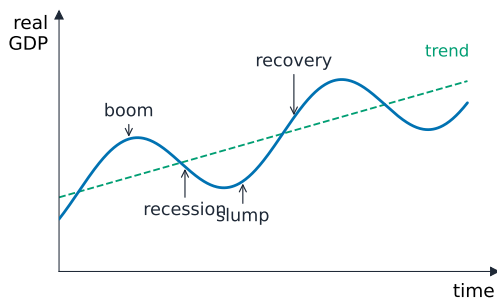
Unemployment wastes labour resources

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

- **frictional unemployment** 摩擦性失业 – short-term unemployment between jobs (a worker who just left one job and is looking for the next).
- **structural unemployment** 结构性失业 – a whole industry shrinks and workers' skills are no longer wanted (for example, coal miners after the...)
- **cyclical**

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.

3

Recap

Worked example – economic growth

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

- $\text{Growth} = \frac{\text{change in real GDP}}{\text{original real GDP}} \times 100$
- $= \frac{515 - 500}{500} \times 100$
- $= \frac{15}{500} \times 100 = 3\%$
- 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