Exercise walk-through

Government macroeconomic policy objectives ▪ 10.1

eXercise

You must be able to

- state the main macroeconomic objectives and how each is measured
- match objectives to fiscal, monetary and supply-side tools
- analyse why a policy mix is used

Method — Objectives and tools

- **Objectives:** growth (% Δ real GDP), price stability (% Δ CPI), full employment (unemployment rate), balance-of-payments stability.
- **Tools: fiscal 财政** (spending/tax), **monetary 货币** (interest rate), **supply-side 供给侧** (capacity/productivity).
- Demand-side tools work on **aggregate demand** (quick, can cause inflation); supply-side works on capacity.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

Method — Objectives and tools

Central banks are a main tool of macroeconomic policy

Method — Objectives and tools

these goals pull against each other

lower unemployment	$\rightleftharpoons$	higher inflation
faster growth	$\rightleftharpoons$	higher inflation
faster growth	$\rightleftharpoons$	worse current account
faster growth	$\rightleftharpoons$	more pollution

The objectives pull against each other, so a government must trade one off against another

Practice 2.1 ▪ 1 mark

State how *price stability* is measured.

Solution 2.1

Method: Objectives and tools

Worked steps

by the percentage change in the consumer price index (CPI) (1).

Practice 2.2 ▪ 1 mark

State which policy mainly works on aggregate supply.

Solution 2.2

Method: Objectives and tools

Worked steps

supply-side policy (1).

Practice 2.3 ▪ 2 marks

State two macroeconomic policy objectives.

Solution 2.3

Method: Objectives and tools

Worked steps

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

Exam-style 3.1 ▪ 1 mark

Which policy mainly works on the **supply side** of the economy?

- **A** changing the interest rate
- **B** changing government spending
- **C** spending on education and training
- **D** changing income tax to alter demand

Solution 3.1

Method: Objectives and tools

- **A** changing the interest rate
- **B** changing government spending
- **C** spending on education and training ✓
- **D** changing income tax to alter demand

Worked steps

C. Spending on education and training raises capacity — a supply-side policy.

Exam-style 3.2 ▪ 6 marks

Explain why a government uses a mix of demand-side and supply-side policies.

Solution 3.2

Method: Objectives and tools

Worked steps

[6] AO1 1 + AO3 up to 5 — demand-side policies (fiscal, monetary) act quickly on AD to manage the short run (a recession or inflation), but they can cause inflation or worsen the balance of payments; supply-side policy raises long-run capacity and productivity → combining them manages the short run while building lasting growth.

Exam-style 3.3 ▪ 12 marks

Discuss whether monetary policy alone can achieve a government's macroeconomic objectives.

Solution 3.3

Method: Objectives and tools

Worked steps

[12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** monetary policy is flexible and effective at controlling demand-pull inflation. **Against:** it works with long lags, is weak in a deep slump, cannot fix structural unemployment or a supply-side problem, and a single rate cannot target every objective at once. Judgement: monetary policy alone cannot meet all objectives — it must be combined with fiscal and supply-side policy; its limits depend on the economic situation.