A-LEVEL ECONOMICS • EXERCISE SHEET

10.2 Links between macroeconomic problems and their interrelatedness

Name: ________ Class: ______ Date: ______ **Total: 23 marks**

KEY WORDS trade-off 取舍 • phillips curve 菲利普斯曲线 • links between macroeconomic problems 宏观经济问题的 • inflation 通货膨胀 • economic growth 经济增长

Objective

Build the skills to answer exam questions on the **links between macroeconomic problems 宏观经济问题的关联** — how the objectives are **interrelated** and the main **trade-offs 取舍** between them.

You must be able to:

- explain the main policy trade-offs
- analyse why gaining on one objective can cost another
- evaluate how a policy mix can ease a trade-off

1 Worked examples

■ Trade-offs between objectives

these goals pull against each other

lower unemployment ⇌ higher inflation

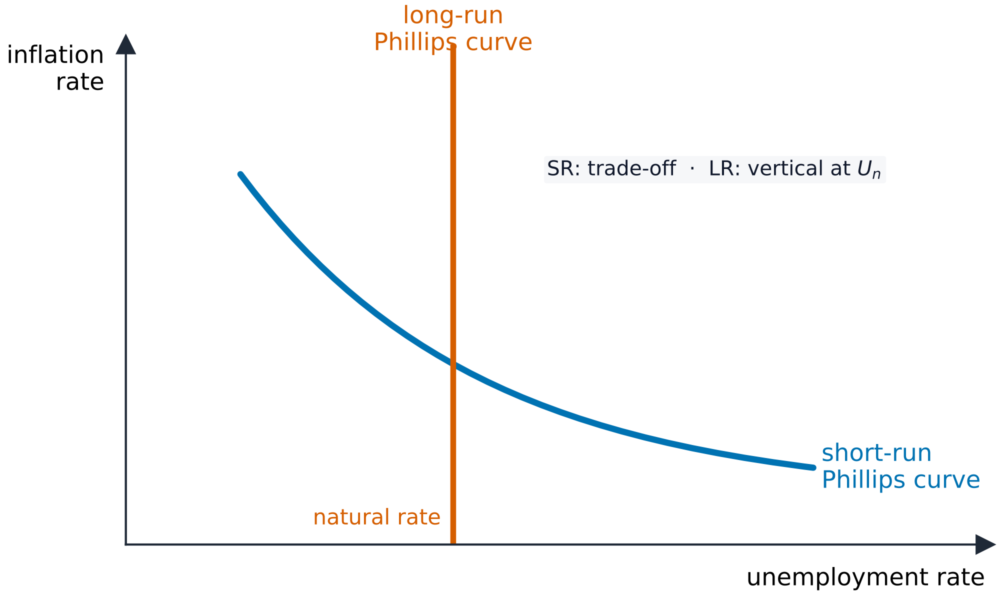
faster growth ⇌ higher inflation

faster growth ⇌ worse current account

faster growth ⇌ more pollution

A clever policy mix tries to ease these clashes

- **Unemployment ↔ inflation:** raising demand to cut unemployment pushes prices up (the **Phillips curve 菲利普斯曲线**).



The Phillips curve makes the unemployment–inflation trade-off concrete

- **Growth ↔ inflation:** fast demand-led growth can overheat the economy.
- **Growth ↔ balance of payments:** higher incomes pull in more imports.
- **Growth ↔ the environment / equality:** more output can mean more pollution and a wider gap.

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

2 Practice

2.1 Define the term *trade-off* between objectives. [2]

2.2 State one trade-off involving economic growth. [1]

2.3 State which curve shows the short-run unemployment–inflation trade-off. [1]

3 Exam-style questions

3.1 Faster demand-led growth is most likely to **worsen** the: [1]

- **A** unemployment rate
- **B** current account balance
- **C** level of investment
- **D** size of the labour force

3.2 Explain why faster economic growth can worsen a country's current account. [6]

3.3 Discuss whether a government can ease the trade-offs between its macroeconomic objectives. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a situation where improving one objective comes at the cost of doing worse on another (2 for a clear definition; 1 for a partial idea).

2.2 any one of: growth vs inflation; growth vs the current account; growth vs the environment; growth vs equality (1).

2.3 the Phillips curve (1).

3.1 B. Higher incomes from growth pull in more imports, worsening the current account.

3.2 *[6]* AO1 1 + AO3 up to 5 — as growth raises incomes, consumers spend more, including on imports → the import bill rises faster than exports → net exports fall → the current account moves towards (or deeper into) deficit.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Eased by:** supply-side policy can raise growth *and* lower inflation, easing the unemployment–inflation and growth–inflation clashes; targeted measures can protect the environment or the poor. **But:** trade-offs rarely vanish — demand policy still faces them, and supply-side policy is slow. Judgement: a smart policy mix can soften the trade-offs, especially via supply-side measures, but cannot remove them entirely — the result depends on the policies chosen and the time horizon.