2.6 Macroeconomic Objectives and Policies

Macroeconomic Objectives

i. What are the 7 macroeconomics?
ii. Which of these are the 4 ‘main’ objectives of macroeconomic stability?
iii. What is the long run trend rate of Economic Growth?
iv. Describe the trend in UK GDP growth over the last ten years (tradingeconomics)
v. Why do governments **not** aim for 0% unemployment?
vi. Describe the trend in UK unemployment over the last ten years (tradingeconomics)
vii. Which economic agent decides the target rate of inflation?
viii. Which range of inflation is considered ‘acceptable’?
ix. Which measure does the Bank of England use here?
x. What happens if the rate of inflation falls outside this range?
xi. Describe the trend in UK inflation over the last ten years (tradingeconomics)
xii. Why do governments aim for equilibrium on the current account?
xiii. Describe the trend in UK current account balance over the last ten years (tradingeconomics)
xiv. Why does the government aim for a balanced government budget?
xv. Describe the trend in UK budget balance over the last ten years (tradingeconomics)
xvi. Why do governments aim for environment sustainability?
xvii. Name a current international agreement which gives targets for environmental sustainability
xviii. Describe the trend in UK CO_2 usage over the last ten years (tradingeconomics)
xix. Describe the trend in UK inequality over the last ten years (tradingeconomics)

Demand side policies

i. Illustrate an expansionary demand side policy on an AD-AS diagram
ii. Illustrate a contractionary demand side policy on an AD-Ad diagram
iii. What is meant be ‘monetary policy’?
iv. What is meant by the ‘base rate’?
v. Which economic agent is responsible for conducting monetary policy?
vi. How often do they meet to adjust base rates?
vii. Which economic indicators might be consulted before deciding on a change in base rate?
viii. Give an overview of base rates over the last 20 years
ix. Would interest rates need to be increased or decreased in order to tackle inflation?
x. Would interest rates need to be increased or decreased in order to tackle unemployment?
xi. Draw the monetary policy transmission mechanism diagram?
xii. What is quantitative easing?
xiii. Does quantitative easing aim to increase or decrease the money supply?
xiv. How do we refer to the demand for cash?
xv. Draw the demand and supply for cash, paying close attention the axes labels
xvi. Why is the LP downward sloping?
xvii. Show the portion of the LP curve where the liquidity trap is present
xviii. What is meant by the liquidity trap?
xix. What shape is the supply for cash and why?
xx. What are government bonds?
xxi. What is quantitative easing?
xxii. Does QE aim to increase or decrease the money supply?
xxiii. Does QE involve buying or selling government bonds?
xxiv. Why was QE used in the Great Recession of 2008/9?
xxv. Give 3 limitations of monetary policy
xxvi. What is fiscal policy?
xxvii. What would expansionary fiscal policy involve?
xxviii. How would expansionary shift AD?

xxix. What is the difference between a budget/fiscal surplus and a budget/fiscal deficit?
xxx. What is the difference between direct and indirect taxation
xxxi. Give 2 examples of direct taxation
xxxii. Give 2 examples of indirect taxation
xxxiii. Give 6 limitations of fiscal policies
xxxiv. Give 2 examples of US monetary responses to the Great Depression
xxxv. Give 2 examples of US fiscal responses to the Great Depression
xxxvi. Give 2 examples of UK monetary responses to the Great Depression
xxxvii. Give 2 examples of UK fiscal responses to the Great Depression
xxxviii. Give 2 examples of US monetary responses to the Great Recession
xxxix. Give 2 examples of US fiscal responses to the Great Recession
xl. Give 2 examples of UK monetary responses to the Great Recession
xli. Give 2 examples of UK fiscal responses to the Great Recession
xlii. Are demand side policies seen as more effective by Classical Economists or Keynesian Economists?

<u>Supply side policies</u>

i. What is a supply side policy?
ii. What is the difference between interventionist and market-based supply side policies?
iii. Give 5 examples of market-based supply side policies
iv. Give 5 examples of interventionist supply side policies
v. Explain why a government may choose to use market-based policies over interventionist policies
vi. Explain why a government may choose to use interventionist over market-based policies
vii. Illustrate the effect of supply side policies on a) Keynesian diagram b) classical diagram
viii. Give one benefit of supply side policies over demand side policies
ix. Give one disadvantage of supply side policies over demand side policies.

<u>Conflicts and trade-offs between objectives and policies</u>

i. How might the objective of growth conflict with the objective of inflation?
ii. How might the objective of growth conflict with the objective of a balanced current account?
iii. How might the objective of growth conflict with the objective of a balanced budget?
iv. How might the objective of growth conflict with the objective of environmental sustainability?
v. Draw a Phillips curve, taking care to label the axes correctly
vi. What trade off does this show?
vii. Why does this trade-off occur?
viii. Explain the different views of classical and Keynesian economists on the Phillips curve
ix. What phenomena occurred during the 1970s which indicated the Phillips curve relationship may have deteriorated?
x. How might a Keynesian explain the lack of evidence for the Phillips curve over the last 30 years?
xi. How might policies to promote environmental sustainability affect competitiveness?
xii. How might progressive taxation, designed to reduce inequality, affect inflations?
xiii. How might expansionary fiscal policy affect the interest rate?
xiv. How might an increase in interest rates affect inequality?

Theme 2, over and out.