

Edexcel (B) Economics A-level  
**Theme 2: The Wider Economic  
Environment**

**2.6 Introduction to Macroeconomic Policy**

**2.6.1 Possible macroeconomic objectives**

Notes



The government has four main macroeconomic objectives. These aim to provide **macro stability**.

### **Economic growth:**

In the UK, the long run trend of economic growth is about 2.5%. Governments aim to have sustainable economic growth for the long run.

In emerging markets and developing economies, governments might aim to increase economic development before economic growth, which will improve living standards, increase life expectancy and improve literacy rates.

### **Low unemployment:**

Governments aim to have as near to full employment as possible. They account for frictional unemployment by aiming for an unemployment rate of around 3%. The labour force should also be employed in productive work.

### **Low and stable rate of inflation:**

In the UK, the government inflation target is 2%, measured with CPI. This aims to provide price stability for firms and consumers, and will help them make decisions for the long run. If the inflation rate falls 1% outside this target, the Governor of the Bank of England has to write a letter to the Chancellor of the Exchequer to explain why this happened and what the Bank intends to do about it.

This is a good summary by the Bank of England about the government's inflation target:

<http://www.bankofengland.co.uk/monetarypolicy/Pages/framework/framework.asp>  
[x](#)

### **Balance of payments equilibrium on current account:**

Governments aim for the current account to be satisfactory, so there is not a large deficit. This is usually near to equilibrium.



A balance of payments equilibrium on the current account means the country can sustainably finance the current account, which is important for long term growth.

Additionally, the government might have the following macroeconomic objectives.

### **Balanced government budget:**

This ensures the government keeps control of state borrowing, so the national debt does not escalate. This allows governments to borrow cheaply in the future should they need to, and makes repayment easier.

### **Protection of the environment:**

This aims to provide long run environmental stability. It ensures resources used are not exploited, such as oil and natural gas, and that they are used sustainably, so future generations can access them too. Moreover, it means there is not excessive pollution.

### **Greater income equality:**

Income and wealth should be distributed equitably, so the gap between the rich and poor is not extreme. It is generally associated with a fairer society.

