Definitions and Concepts for AQA Economics AS-level

Paper 2: Macroeconomics

Topic 4 – Macroeconomic Policy

Balanced budget: Achieved when government expenditure equals government revenue.

Bank of England: Central bank in the UK economy, which is in control of monetary policy.

Budget deficit: Achieved when government expenditure exceeds government revenue.

Budget surplus: Achieved when government revenue exceeds government expenditure.

Central bank: Controls the banking system and manages the government's monetary policies.

Contractionary fiscal policy: Fiscal policy implemented to decrease aggregate demand.

Contractionary monetary policy: Monetary policy implemented to decrease aggregate demand.

Crowding out: When an increase in government spending displaces private spending, with little to no increase in aggregate demand.

Cyclical budget deficit: Part of the budget that tends to rise in economic slumps and fall in economic booms.

Deficit financing: Borrowing to finance a budget deficit.

Deindustrialisation: Decline in the manufacturing industry of an economy.

Deregulation: Removing regulations.

Direct tax: A tax on income and wealth.

Equation of exchange: The stock of money in an economy multiplied by the velocity of circulation equals the price level multiplied by real output (MV=PQ).

Expansionary fiscal policy: Fiscal policy implemented to increase aggregate demand.

Expansionary monetary policy: Monetary policy implemented to increase aggregate demand.

Fiscal policy: Use of government spending and taxation to achieve macroeconomic objectives.

Indirect tax: A tax on expenditure.

Interventionist policies: Occur when the government intervenes in, and sometimes replaces, free markets.

Marketisation: Shifting the provision of goods or services from the non-market sector to the market sector.

Monetary policy: Use of interest rates and other monetary instruments to achieve macroeconomic objectives.

Monetary Policy Committee (MPC): Nine economists who meet monthly to set the Bank Rate as well as other monetary instruments.

Money supply: Stock of money in the economy, composed of cash and bank deposits.

National debt: Unpaid government debt.

Natural rate of unemployment (NRU): Unemployment rate when the aggregate labour market is in equilibrium.

Principle of taxation (canon of taxation): Criterion used to judge whether a tax is good or bad.

Privatisation: Shifting the ownership of state owned assets to the private sector.

Progressive taxation: Taxes where a larger proportion of income is paid as income rises.

Proportional taxation: Taxes where the same proportion of income is paid as income rises.

Rate of interest: The reward for saving and the cost of borrowing.

Reflationary policies: Policies to increase aggregate demand, with intent to increase real output and employment.

Regressive taxation: Taxes where a smaller proportion of income is paid as income rises.

Reindustrialise: Growth in the manufacturing industry of an economy.

Structural budget deficit: Part of the budget that is unaffected by the economic cycle, and is more dependent on the decisions of the government.

Supply-side: Relates to changes in potential output of the economy which is affected by the factors of production.

Supply-side improvements: Reforms undertaken by the private sector to enable firms to become more productively efficient.

Supply-side policies: Use of interventionist policies to encourage efficient markets, thus achieving macroeconomic objectives.

Tax threshold: The level above which income tax must be paid.