AQA Economics AS-level

Macroeconomics

Topic 4 - Macroeconomic Policy

Flashcards

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 expenditure deceeds government revenue

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)

9 economists who meet monthly to set the Bank Rate as well as other monetary instruments

Money supply

Stock of money in the economy, comprised 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