

# Edexcel (B) Economics A-level

## Theme 2.6: Introduction to Macroeconomic Policy

### Flashcards

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# What are the 4 main macroeconomic objectives?



# What are the 4 main macroeconomic objectives

1. Economic growth
2. Low unemployment
3. Low inflation
4. Balance of payments equilibrium



What rate of unemployment does the government aim for?





# What rate of unemployment does the government aim for?

3%



# What is a budget deficit?



# What is a budget deficit?

This occurs when expenditures exceed tax revenues



Describe the difference between  
government deficit and the budget deficit



Describe the difference between government debt and the budget deficit

Government debt is an accumulation of budget deficits



# What is discretionary fiscal policy?



# What is discretionary fiscal policy?

This is when the government increases their spending and manipulates taxes in order to influence aggregate demand



# What do governments spend the most money on?





# What do governments spend the most money on?

## Pensions and welfare payments



# What is the biggest source of tax revenue?



# What is the biggest source of tax revenue?

Income tax



What type of fiscal policies does the government implement when inflation is high



What type of fiscal policies does the government implement when inflation is high

Deflationary fiscal policies



Give 2 features of expansionary fiscal policy



Give 2 features of expansionary fiscal policy

Increase in expenditures and reduction in taxes



# Describe crowding out





## Describe crowding out

Occurs when an increase in government spending reduces the resources available for the private sector to use



Will fiscal policies have an immediate impact on the economy?



Will fiscal policies have an immediate impact on the economy?

No, there is a time lag



# What 3 things does monetary policy involve?



# What 3 things does monetary policy involve?

1. Interest rates
2. Money supply
3. Exchange rates



# How often do the MPC meet?



# How often do the MPC meet?

8 times a year



# What is the base rate?





# What is the base rate?

The interest rate set by a central bank to loan money to commercial banks



# Do low interest rates encourage saving or borrowing?



Do low interest rates encourage saving or borrowing

Low interest rates encourage borrowing



# What is the positive wealth effect?



# What is the positive wealth effect?

This occurs when people spend more because they feel richer



# Briefly describe how quantitative easing works



Briefly describe how quantitative easing works

The central bank digitally creates new money, which it then uses to buy corporate and bank bonds, so that banks are more willing to loan money to consumers to stimulate more demand in the economy



# Why might changing the base rate have no effect on the economy?





Why might changing the base rate have no effect on the economy?

Banks may not choose to pass this base rate onto consumers in the form of higher interest rates



# What is the aim of supply side policies?



# What is the aim of supply side policies?

To improve the long-run productive potential of the economy



# How are training and education beneficial to firms?



# How are training and education beneficial to firms?

They improve the productivity of the workforce



# Give 1 benefit of privatisation



# Give 1 benefit of privatisation

Firms now have a profit-motive, and so will find ways to cut costs and improve productivity, which in turn increases output



Are supply-side policies better at reducing structural or cyclical unemployment?





# Are supply side policies better at reducing structural or cyclical unemployment?

## Structural unemployment



# How will an increase in interest rates affect exchange rates?



How will an increase in interest rates affect exchange rates?

It attracts more hot money, thus appreciating the currency against one with a lower interest rate



# What is the Marshall-Lerner condition?



# What is the Marshall-Lerner condition?

This states that a devaluation in a currency only leads to an improvement in the balance of payments if the sum of export and import elasticities is equal to or greater than 1



What is likely to happen to aggregate demand given an exchange rate appreciation?



What is likely to happen to aggregate demand given an exchange rate appreciation?

Exports become expensive, so AD is most likely to fall



# What does the Phillips curve show?





# What does the Phillips curve show?

The inverse relationship between inflation rates and the rate of unemployment



# Explain why inflation rises as unemployment falls



# Explain why inflation rises as unemployment falls

As the economy grows, workers have more bargaining power as firms need more of them, so workers demand higher wages which increases the prices of goods and thus the overall inflation rate



# What is a positive output gap?



# What is a positive output gap?

Occurs when the actual level of output exceeds the potential level of output



# Why does economic growth lead to a current account deficit?



# Why does economic growth lead to a current account deficit?

British consumers have a high propensity to import, which eventually exceeds the level of exports during times of economic prosperity



# What is a command economy?





# What is a command economy?

This is when the government allocates all the scarce resources in an economy



# What is a mixed economy?



# What is a mixed economy?

Combines the features of both a command economy and free market economy

