

# Edexcel (B) Economics A-level

## Theme 4.4: Macroeconomic Policies and Impact on Firms and Individuals

### Flashcards

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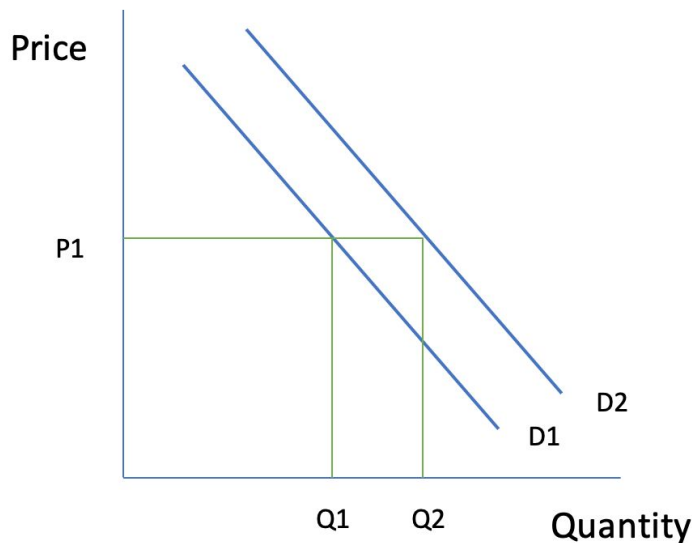


Draw an individual demand curve and show what would happen to quantity given an increase in demand



# Draw an individual demand curve and show what would happen to quantity given an increase in demand

As shown, an increase in demand leads to an increase in quantity, whilst maintaining price level 'P1'.



# How do prices affect the demand/supply curve?



# How do prices affect the demand/supply curve?

Prices cause movements along the demand and supply curves.

Prices do not cause shifts in the demand and supply curves.



Recall 3 reasons why the supply curve  
is upward sloping



## Recall 3 reasons why the supply curve is upward sloping

1. If price increases, it's more profitable for firms to supply the good
2. High prices encourage new firms to enter the market
3. Larger output increases costs, which are passed onto consumers in the form of higher prices



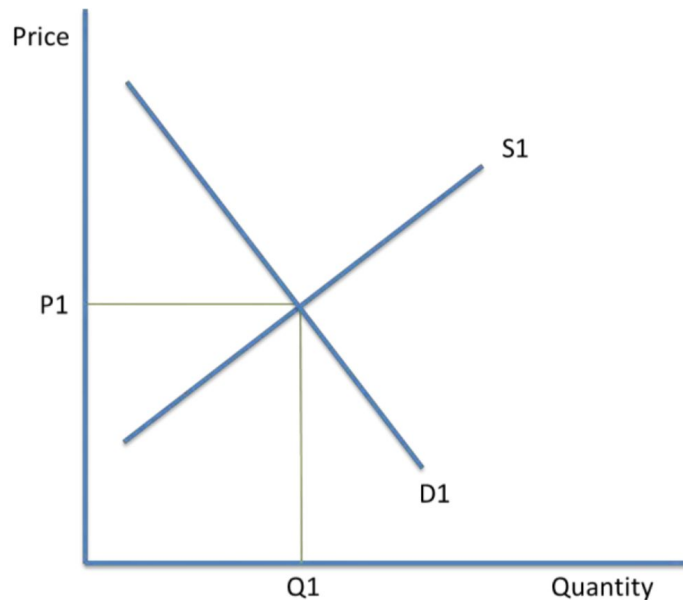
Define and draw the market  
equilibrium price





# Define and draw the market equilibrium price

This is the price where supply meets demand, and has no tendency to change ( $P_1Q_1$ ).



List the components of aggregate demand



List the components of aggregate demand

**Consumer Spending**

**Investment**

**Government Spending**

**Exports - Imports**



Which is the largest component of aggregate demand?



Which is the largest component of aggregate demand?

Consumer spending



# Define disposable income



## Define disposable income

Income left over for consumers to spend once taxes have been deducted



How do low interest rates encourage more consumer spending?





How do low interest rates encourage more consumer spending?

Low interest rates make it cheaper to borrow money and discourages saving.

It also lowers the cost of variable rate mortgages, increasing disposable income



What are the only two things consumers can do with income?



What are the only two things consumers can do with income?

Save it or spend it



How is business confidence and capital investment correlated?



How is business confidence and capital investment related?

As confidence increases, so does capital investment



Is fiscal policy demand-side or supply-side?



# Is fiscal policy demand-side or supply-side?

## Demand-side



When would the government initiate contractionary fiscal policy?





When would the government initiate contractionary fiscal policy?

During economic booms, in order to ease inflationary pressures and prevent any periods of economic instability



How would the exchange rate affect the current account deficit?



How would the exchange rate affect the current account deficit?

A depreciation of the pound (£) makes imports expensive and exports cheap, thus narrowing the deficit and boosting economic growth



How could the government intervene to reduce the current account deficit?



How could the government intervene to reduce the current account deficit?

By adopting protectionist measures, whereby tariffs against imports increase and British firms are subsidised to improve their competitiveness



# List 4 factors affecting aggregate supply



## List 4 factors affecting aggregate supply

1. Cost of employment
2. Cost of raw materials
3. Government regulation
4. Migration



Which way would the SRAS curve shift given an increase in taxes?





Which way would the SRAS curve shift given an increase in taxes?

Shift to the left (i.e. a decrease in supply)



Which way would the SRAS curve shift given a decrease in the cost of raw materials?



Which way would the SRAS curve shift given a decrease in the cost of raw materials?

Shift to the right (i.e. an increase in supply)



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?

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 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 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



Give 2 examples of interventionist supply-side policies



Give 2 examples of interventionist supply-side policies

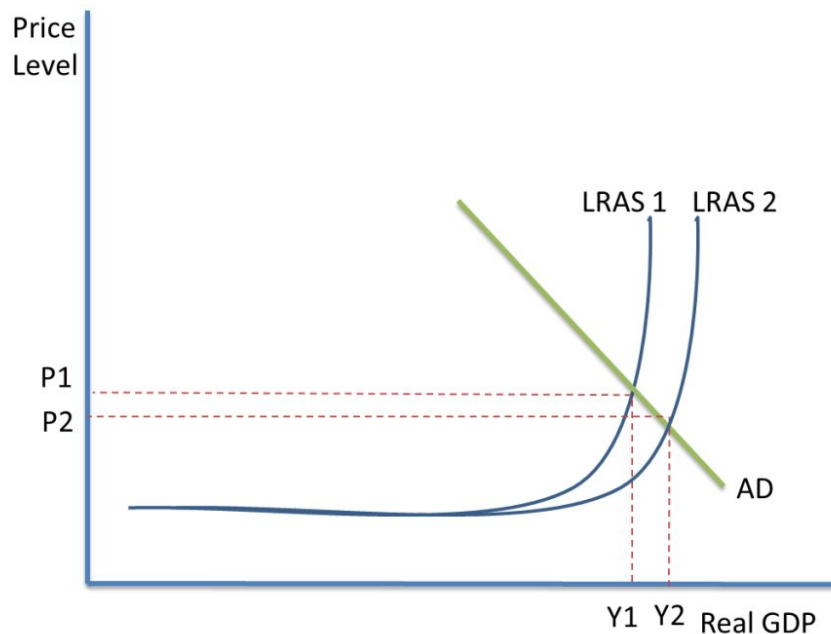
1. Reforming the labour market
2. Improving infrastructure



Draw a graph representing a Keynesian version of an outward shift in LRAS



# Draw a graph representing a Keynesian version of an outward shift in LRAS



Draw a graph representing a classical version of an outward shift in LRAS



# Draw a graph representing a classical version of an outward shift in LRAS

