2.12 Conflicts and Trade-Offs Between Macroeconomic Objectives: 30-minute Pack

AQA 7136 · Calculators not allowed · about 30 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Time suggested: 30 minutes.

1 Explain the growth-versus-current-account conflict that arises from 'import-sucked-in' effects when domestic growth strengthens.

(Total for Question 1 is 3 marks)

2 State one potential conflict between achieving a balanced current account and pursuing an export-led growth strategy, and explain the reason in one sentence.

(Total for Question 2 is 3 marks)

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3 Explain the monetarist critique that the long-run Phillips curve is vertical at the natural rate of unemployment (NAIRU), in the context of expectations of inflation.

(Total for Question 3 is 3 marks)

4 Evaluate the view that it is possible for a government to achieve all of its macroeconomic objectives simultaneously, considering objectives such as low inflation, low unemployment, strong economic growth, a balanced current account and environmental sustainability. In your answer include analysis of trade-offs, the role of expectations, supply-side policies, and any relevant time horizons. Use diagrams where helpful and reach a supported judgement.

(Total for Question 4 is 15 marks)

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Mark scheme · 2.12 Conflicts and Trade-Offs Between Macroeconomic Objectives: 30-minute Pack

Question 1

identifies that stronger growth raises domestic income and spending, including on imports	**M1**
explains mechanism: higher imports reduce net exports, worsening the current account while growth increases GDP	**A1**
links to conflict: a policy boosting growth can therefore worsen the trade balance via import leakage	**A1**

Answer: Higher domestic growth increases incomes and spending on imported goods, reducing net exports and potentially deteriorating the current account, so growth can conflict with external balance.

Question 2

states a conflict, e.g. export-led growth can lead to overreliance on external demand and vulnerability to foreign shocks	**M1**
explains consequence: a boom in exports may improve the trade balance but can cause exchange rate appreciation, making other tradable sectors less competitive, or create terms of trade volatility	**A1**
links to balanced current account: rapid export growth can mask deficits in other components (income account, services) or produce cyclical swings that make a balance harder to sustain	**A1**

Answer: Export-led growth can cause exchange rate appreciation and dependence on external demand, which may create volatility and undermine a stable, balanced current account.

Question 3

states that in the long run inflation expectations adjust so there is no trade-off between inflation and unemployment	**M1**
explains that workers and firms incorporate expected inflation into wage and price setting, returning unemployment to the natural rate	**A1**
concludes that the long-run Phillips curve is vertical, so attempts to keep unemployment below NAIRU cause accelerating inflation	**A1**

Answer: As inflation expectations adapt, wages and prices adjust so unemployment returns to the natural rate; therefore the long-run Phillips curve is vertical and there is no permanent inflation-unemployment trade-off.

Question 4

Level 1 Basic statements about possible conflicts or complements between macro objectives are offered with limited development. Answers may show little use of theory, no diagrams, and conclusions are undeveloped or missing.	**1-5**
Level 2 Clear explanation of at least two trade-offs or interactions, for example between growth and inflation, growth and the current account, or growth and the environment. May include reference to the short-run Phillips curve, expectations and the difference between short-run and long-run policy effects. Some evaluation is present and partial judgement offered.	**6-10**
Level 3 Comprehensive analysis of multiple trade-offs, including the monetarist critique of a permanent inflation-unemployment trade-off, role of expectations, and how supply-side policies can shift possibilities. Draws on diagrams where appropriate, considers time horizons and distributional issues, weights arguments, and reaches a well-supported and balanced judgement on whether all objectives can be achieved together.	**11-15**

Indicative content:

- Recognise the existence of genuine trade-offs: e.g. short-run Phillips curve trade-off between inflation and unemployment; demand-led growth can worsen the current account via import leakage; growth can increase pollution unless green measures accompany it.
- Monetarist critique: in the long run the Phillips curve is vertical, so attempting to keep unemployment permanently below NAIRU leads to accelerating inflation; expectations matter for the persistence of trade-offs.
- Time horizons: some objectives may be jointly achievable in the short run if spare capacity exists, but conflicts re-emerge as the economy approaches potential; supply-side policies can change the trade-off by shifting LRAS and the LRPC.
- Role of supply-side policies: investment in infrastructure, education and technology can expand productive capacity, reduce structural unemployment and allow higher growth without inflation, though with long implementation lags and potential financing costs.
- Policy mix and sequencing: monetary and fiscal policy can stabilise demand in the short run while supply-side reforms aim to improve long-run outcomes; active macroprudential or industrial policies can mitigate exchange rate or current account effects.
- Constraints and practical limits: political economy, financing requirements, international shocks, and distributional consequences can prevent simultaneous attainment; environmental objectives may require growth to be restructured rather than maximised.
- Evaluation: consider magnitude and speed of policies, trade-off intensity, whether a government accepts some relaxation of one objective to meet others, and conclude with a balanced judgement on feasibility, likely partial attainment, or need for prioritisation.

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