ECO.MAC9 Macroeconomic Objectives and Policy Goals

AQA 7136 · Calculators not allowed · about 90 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer all questions. Write full sentences for the longer questions and for any explanation that carries more than 2 marks. Time guidance: 90 minutes total. A non-calculator paper.

1 Define the macroeconomic objective of economic growth as a government target, and state why it matters to households.

(Total for Question 1 is 2 marks)

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2 State the objective of low unemployment for government policy and give one reason why firms prefer low unemployment.

(Total for Question 2 is 2 marks)

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3 Define the government objective of low and stable inflation, referencing the Bank of England CPI target, and explain why stable inflation matters to savers.

(Total for Question 3 is 3 marks)

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4 State the government objective of a satisfactory current account and give one reason why this objective matters for the government.

(Total for Question 4 is 2 marks)

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5 Define the secondary macroeconomic objective of reducing income inequality and state one policy consequence for households if inequality falls.

(Total for Question 5 is 2 marks)

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6 Explain the objective of environmental sustainability as a macro policy goal and give one trade off this objective might create with short term economic growth.

(Total for Question 6 is 3 marks)

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7 Define the objective of balancing the government budget as a macroeconomic goal and state one reason why the government might aim for a smaller deficit or balanced budget.

(Total for Question 7 is 2 marks)

8 Explain briefly why low and stable inflation is important for firms when making investment decisions.

(Total for Question 8 is 2 marks)

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9 State one reason the current account position matters to households, giving one concrete example of an effect on household welfare.

(Total for Question 9 is 2 marks)

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10 Distinguish between actual economic growth and sustainable (long-run) growth as government objectives, and give one reason why a government might prioritise sustainable growth over a short term spike in actual growth.

(Total for Question 10 is 3 marks)

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11 Data-response: The table below gives five headline UK indicators for the latest year. Using this information, explain which macroeconomic objectives in this table appear to be met and which appear to be missed. Table: GDP growth rate = 1.2% (real GDP); Unemployment rate = 4.9%; CPI inflation = 3.1%; Current account balance = -3.0% of GDP; Government budget deficit = -5.5% of GDP. Identify clearly at least four objectives and use the data to support your judgements.

(Total for Question 11 is 9 marks)

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12 List three core macroeconomic objectives a government might prioritise and give one short reason why the government could legitimately prioritise one of them over the others in a given year.

(Total for Question 12 is 3 marks)

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13 Evaluate the view that reducing unemployment should be the government's top macroeconomic priority compared with achieving low and stable inflation and a satisfactory current account. In your answer, consider trade offs between objectives, who gains and who loses from prioritising unemployment, and reach a supported judgement. You should use diagrams where appropriate, describing what you would draw.

(Total for Question 13 is 25 marks)

Mark scheme · ECO.MAC9 Macroeconomic Objectives and Policy Goals

Question 1

- **B1** definition: an increase in real national output or real GDP over time, seen as an objective to raise productive capacity
- **B1** reason for households: can raise incomes and employment opportunities, improving living standards
- **Answer: Economic growth is a rise in real national output or real GDP; it matters to households because it tends to raise incomes and create more job opportunities, improving living standards.**

Question 2

- **B1** objective: maintain a low level of unemployment to maximise use of the labour force and reduce social costs
- **B1** reason for firms: larger pool of labour and higher aggregate demand, supporting sales and reducing recruitment difficulties
- **Answer: Low unemployment means keeping joblessness low so the labour force is well utilised; firms prefer it because it supports higher demand for their products and makes it easier to recruit suitable workers.**

Question 3

- **B1** definition: keeping the rate of inflation low and stable, typically the Bank of England's 2 percent CPI target
- **B1** reason for savers: stable low inflation preserves the real value of savings by preventing rapid erosion of purchasing power
- **B1** development: predictable inflation helps savers plan long term and reduces uncertainty about real returns
- **Answer: Low and stable inflation is aiming for a steady low CPI rate around the Bank of England's 2 percent target; it matters to savers because it helps preserve the real value of savings and makes planning for the future easier.**

Question 4

- **B1** objective: a sustainable balance on the current account, avoiding large persistent deficits or surpluses
- **B1** reason for government: avoids excessive external debt and exchange rate pressures, protecting macroeconomic stability
- **Answer: A satisfactory current account means a sustainable balance of exports and imports to avoid persistent large deficits or surpluses; it matters to government because it helps prevent build up of external debt and reduces exchange rate vulnerability.**

Question 5

- **B1** definition: reducing the gap in income or wealth between richest and poorest groups in society
- **B1** policy consequence for households: improved access to services and higher disposable income for lower income households, reducing poverty
- **Answer: Reducing income inequality means narrowing the income and wealth gap between rich and poor; if inequality falls, lower income households typically gain higher disposable income and better access to services, reducing poverty and raising living standards.**

Question 6

- **B1** definition: aiming to manage economic activity so that natural resources and environmental quality are preserved for the long term, including reducing emissions and pollution
- **B1** trade off: stricter environmental regulation or limits on resource extraction can raise production costs and slow short term output growth
- **B1** development: this trade off may be justified by long term benefits such as sustainable resource use and avoided future costs from environmental damage
- **Answer: Environmental sustainability aims to preserve natural resources and limit environmental damage; it may conflict with short term growth because regulation and green investment can raise costs and reduce output in the near term, though it may bring long term benefits.**

Question 7

- **B1** definition: managing public finances so that government spending is covered by revenues, reducing persistent budget deficits over the medium term
- **B1** reason: to avoid rising public debt and interest costs, preserving fiscal sustainability and maintaining investor confidence

Question 8

- **B1** predictable low inflation reduces uncertainty about future costs and real returns, making it easier for firms to plan and evaluate long-term investments
- **B1** this stability lowers the risk premium required and can increase the level of business investment
- **Answer: Low and stable inflation reduces uncertainty about future costs and real returns, helping firms plan long-term investment and lowering the risk premium they require.**

Question 9

- **B1** reason: current account deficits can lead to depreciation pressure on the currency and higher import prices
- **B1** example: if the currency falls, households may pay more for imported food and energy, reducing real disposable income
- **Answer: A poor current account can put downward pressure on the currency and raise import prices; for example, if the currency weakens households may face higher bills for imported food and energy, reducing real disposable income.**

Question 10

- **B1** definition: actual growth is the short-term increase in real GDP, often year to year
- **B1** definition: sustainable growth is growth that can be maintained without causing inflationary pressure or depleting resources, consistent with long-run potential output
- **B1** reason: sustainable growth avoids boom and bust, protects future living standards and prevents overheating that would create inflation or environmental harm
- **Answer: Actual growth is the short-term rise in real GDP; sustainable growth is growth that can be maintained without overheating or depleting resources. Governments may prefer sustainable growth because it preserves future living standards and avoids inflationary or environmental costs of a short-lived boom.**

Question 11

- **Level 1** (1-3): Simple identification of one or two objectives with minimal use of the data, limited explanation and little linkage to who benefits or loses.
- **Level 2** (4-6): Identifies several objectives and uses the data to support clear judgements about which are being met or missed, with some explanation of consequences for households, firms or government.
- **Level 3** (7-9): A thorough answer that identifies multiple objectives, evaluates the data against policy targets (for example Bank of England 2 percent CPI target, sustainable growth expectations, acceptable unemployment), and explains the implications for households, firms and government with some judgement about priorities or trade offs.
- **Indicative content:**
  - CPI inflation at 3.1% is above the Bank of England 2% target, so the objective of low and stable inflation is missed; this could erode real incomes and may prompt tighter monetary policy.
  - Real GDP growth at 1.2% is positive but modest; whether this meets the economic growth objective depends on potential growth rates, but likely represents slow growth rather than strong growth, which may be judged as underperforming.
  - Unemployment at 4.9% is moderately low by historical UK standards, suggesting the low unemployment objective is broadly met, though there may be concerns about underemployment or regional variation.
  - Current account at -3.0% of GDP is a deficit; a small to moderate deficit may be acceptable, but -3.0% could be seen as a risk if persistent, so the satisfactory current account objective may be missed or vulnerable.
  - Government budget deficit at -5.5% of GDP is large, indicating the fiscal balance objective is not met; this raises concerns about rising debt and may constrain future policy choices.
  - Explain effects: higher inflation harms savers and fixed-income households; slow growth limits real income improvements; unemployment near 5% may be acceptable for firms seeking labour but could still affect welfare recipients; a budget deficit limits government ability to invest in public goods or reduce taxes.

Question 12

- **B1** one core objective named, e.g. economic growth
- **B1** second objective named, e.g. low and stable inflation
- **B1** third objective named or a short reason why one might be prioritised, e.g. prioritise inflation control when inflation is well above target to protect purchasing power
- **Answer: E.g. economic growth, low and stable inflation, low unemployment. A government could prioritise controlling inflation if inflation is well above target because high inflation erodes real incomes and creates economic uncertainty.**

Question 13

- **Level 1** (1-5): Basic points about the benefits of reducing unemployment or controlling inflation/current account, limited linkage to welfare or trade offs, minimal or no use of diagrammatic reasoning and no sustained judgement.
- **Level 2** (6-10): Clear explanations of benefits of reducing unemployment and of controlling inflation and the current account, identification of trade offs, some development of who gains and loses, and partial attempt at a supported judgement. Diagrams described with limited labelling.
- **Level 3** (11-15): Well developed analysis of the reasons to prioritise unemployment reduction and the arguments for prioritising low inflation and a satisfactory current account. Balanced evaluation of trade offs, distributional effects and practical constraints, a clear description of appropriate diagrams (for example AD/AS showing demand stimulus reducing unemployment but raising inflation), and a reasoned, supported judgement.
- **Level 4** (16-20): Coherent and comprehensive analysis including multiple lines of argument for and against prioritising unemployment, strong consideration of time horizons, policy instruments and their side effects, precise diagram description and interpretation, and a well-argued judgement that recognises contextual dependency.
- **Level 5** (21-25): Excellent evaluation with sustained, insightful analysis of trade offs and policy interactions, high-quality diagrammatic reasoning, nuanced discussion of winners and losers and institutional constraints, and a clear, balanced conclusion that shows strong awareness of practical policy choices and contingencies.
- **Indicative content:**
  - Arguments for prioritising unemployment: direct effects on household welfare, poverty and social exclusion; long term costs from skill loss and hysteresis; political and social stability considerations; firms may benefit from higher demand.
  - Arguments against prioritising unemployment above inflation: reducing unemployment via demand stimulus can cause demand-pull inflation if near capacity, harming savers and fixed-income households and potentially requiring monetary tightening later; credibility of inflation target matters for long-run expectations.
  - Current account considerations: persistent deficits can cause vulnerability to external shocks and exchange rate crises, possibly leading to rapid unemployment rises later; improving the current account may require competitiveness improvements which are long term and supply-side focused.
  - Trade offs: expansionary fiscal or monetary policy can reduce unemployment but raise inflation and widen the current account; supply-side policies can reduce unemployment without inflation but take time and cost money; short-run versus long-run trade offs and time lags are important.
  - Distributional effects: unemployment reduction benefits lower income households disproportionately, while inflation harms savers or those on fixed incomes; those who hold assets may gain from inflation if debts are eroded.
  - Diagrams: describe drawing AD/AS with AD shifting right to reduce unemployment but raise price level, labelling axes, initial and new equilibrium. Alternatively show a Phillips-curve style diagram qualitatively to illustrate short-run trade off between inflation and unemployment, noting limitations of the Phillips curve.
  - Context and practical constraints: central bank independence, fiscal space, existing inflation expectations, structural labour market issues, and political feasibility.
  - Judgement: depends on context, but a balanced answer might argue that reducing unemployment is a high priority especially in a deep slump, while in an overheating economy controlling inflation and ensuring external stability should take precedence; sustainable policy mixes that combine short-term demand support with supply-side reforms are often best.