

Macroeconomic Objectives and Policies — Worksheet

The six objectives · conflicts between objectives · supply-side policies · fiscal and monetary policy · the central bank

Name: _____

Class: _____

Date: _____

DEFINE economic growth and an inflation target · **CALCULATE** a current account balance, and the effect of a tax cut on aggregate demand · **DRAW** a supply-side policy on an AD and LRAS diagram, and a short-run Phillips curve · **ANALYSE** how a central bank's policies affect aggregate demand and unemployment · **DISCUSS** the effects of regional policy on unemployment · **EVALUATE** the effects of free-market supply-side policies on unemployment and income equality

Sitting 1 — Topic practice

30 marks

MULTIPLE CHOICE Task 1 — Six questions on objectives and policies

6 marks

Choose one answer for each question.

1. The objective for inflation is best described as:

- A as close to zero as possible
- B below the rate in other economies
- C falling every year
- D low and stable

Answer:

2. In a country, the unemployment rate falls because many people without a job stop looking for work. What does this mean for the objective of low unemployment?

- A It is not real progress, because these people left the count without finding jobs
- B It is full progress, because the unemployment rate has fallen
- C It makes no difference, because the count includes everyone without a job
- D It is a rise in unemployment, if the people who stopped looking are counted

Answer:

3. Which of these is NOT one of a government's six macroeconomic objectives?

- A A balanced government budget
- B Greater income equality
- C Balance of payments equilibrium on current account
- D Protection of the environment

Answer:

4. Which of these is NOT a monetary policy instrument?

- A Changing lending criteria
- B Changing the rate of income tax
- C Reserve asset requirements
- D Asset purchases to increase the money supply

Answer:

5. A country has a current account deficit. It has inflation of 6% a year, and its trading partners have inflation of 2% a year. Its exchange rate does not change. What is likely to happen?

- A Exports rise and imports fall, so the current account deficit becomes smaller
- B Trade does not change, because inflation affects only prices at home
- C Exports fall and imports rise, so the current account deficit becomes larger
- D The current account improves, because each export now sells for a higher price

Answer:

6. A deflationary fiscal policy would involve:

- A raising taxes or cutting government spending
- B cutting taxes and raising government spending
- C the central bank lowering its interest rate
- D the central bank raising its interest rate

Answer:

DEFINE Task 2 — The meaning of economic growth

2 marks

Define the term economic growth.

economic growth

EXPLAIN Task 3 — Job losses and the budget in Arvela

4 marks

Arvela enters a downturn, and unemployment rises from 5% to 8%. The government does not change any tax rate, or the benefit it pays to each person without work.

Explain the likely effect of the rise in unemployment on the government's budget balance in Arvela.

CLASSIFY Task 4 — Eight supply-side policies in Fenra

8 marks

Fenra is a country. Each row is a separate policy, and nothing else changes.

Classify each of these supply-side policies in Fenra as a free-market policy or an interventionist policy.

Key: Free-market policy · Interventionist policy

#	Policy in Fenra	Type of supply-side policy
1	The government ends the rule that only two bus companies may serve each city	
2	The government sells its state-owned power company to private owners	

#	Policy in Fenra	Type of supply-side policy
3	The government lowers the weekly benefit for people out of work from \$180 to \$140	
4	A new firm needs fewer permits before it can start trading	
5	The government pays for new technical colleges in every region	
6	Firms receive a subsidy of 20% of the cost of each new machine	
7	The government promises to repay part of a bank loan to a new firm if the firm fails	
8	Firms that open a factory in the poorest region receive a grant	

CALCULATE
Task 5 — More spending or a tax cut in Dovra
4 marks

Dovra's government can spend \$30bn more on new schools, or it can cut income tax by \$30bn. Households in Dovra spend 70 cents of each extra dollar of disposable income and save the rest. Nothing else changes.

Calculate the difference between the first-round rises in aggregate demand from the spending and from the tax cut. Do not use the multiplier.

First-round rise in aggregate demand from the tax cut (\$bn)

Workings

Answer:

Difference between the two first-round rises in aggregate demand (\$bn)

Workings

Answer:

Work out the rise from the tax cut first.

ANALYSE**Task 6 — New money and government bonds in Varsa****6 marks**

In Varsa, inflation is 0.4%, below the central bank's target band of 1% to 3%. The policy interest rate in Varsa is 0.1%. The central bank creates new money and uses it to buy government bonds from banks. A government bond pays a fixed \$6 a year. The purchases push its price up from \$200 to \$240.

Analyse how the central bank's asset purchases are likely to affect aggregate demand in Varsa.

Knowledge — what asset purchases are, and what the return on a bond means (2)

Application — use the figures for Varsa (2)

Analysis — your chain of reasoning (2)

Sitting 2 — Mock section**74 marks****DRAW****Task 7 — A supply-side policy in Rivana****4 marks**

The government of Rivana removes rules that keep new firms out of many markets. More firms enter, productivity rises, and Rivana's productive capacity increases. Aggregate demand does not change.

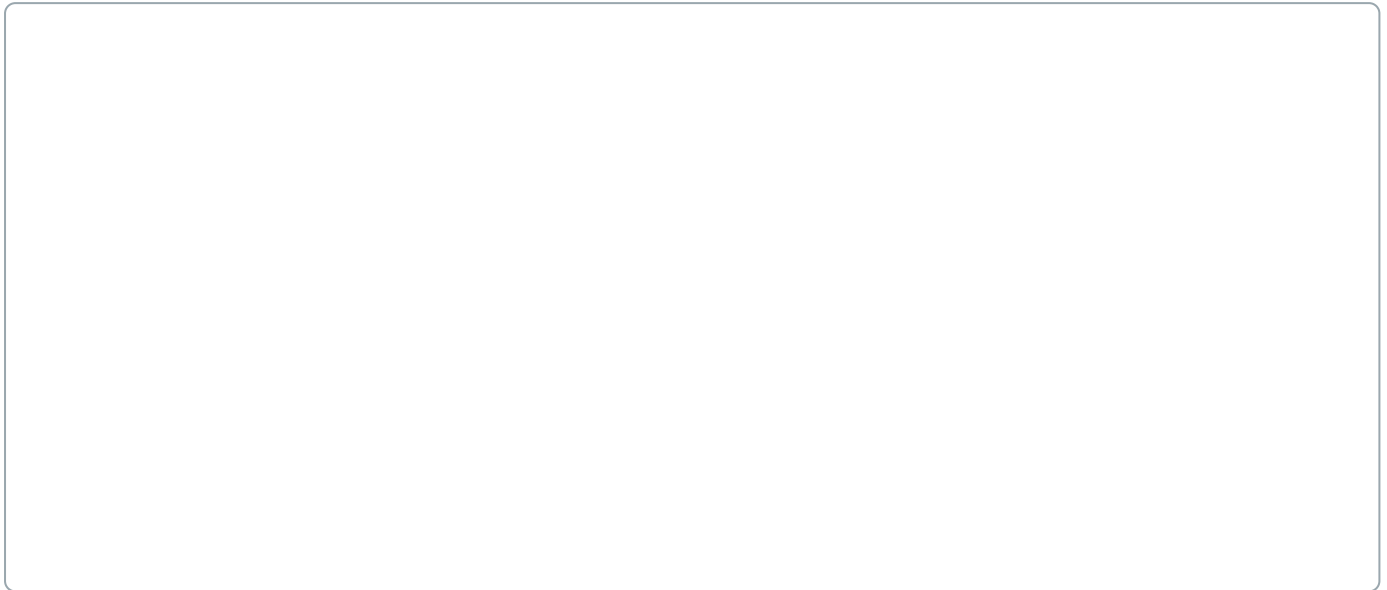
Draw an AD and LRAS diagram to show the likely effect of this policy on Rivana's real output and price level.

DRAW Task 8 — A short-run Phillips curve for Lomar

4 marks

In Lomar, unemployment is 8% and inflation is 2%. The government raises its spending, a reflationary policy. Unemployment falls to 6%, and inflation rises to 4%.

Draw a short-run Phillips curve diagram to show this change in Lomar.

**CALCULATE Task 9 — The current account of Brenia**

4 marks

The table shows Brenia's current account and its GDP in 2025.

Brenia's current account and GDP, 2025

Item	\$bn
Trade in goods (exports minus imports)	−62
Trade in services (exports minus imports)	12
Net primary income	−14
Net secondary income	4
GDP	600

Calculate Brenia's current account balance and the balance as a percentage of GDP.

Current account balance (\$bn)

Workings

Answer:

Current account balance as a percentage of GDP (%)

Workings

Answer:

EXPLAIN Task 10 — Growth and the environment in Selmo

4 marks

Real GDP in Selmo grew by 6% last year. Most of the extra output came from new steel works that burn coal. Many families live near the new steel works.

Explain one likely conflict between economic growth and the environment in Selmo.

EXPLAIN Task 11 — A cut in the interest rate in Tarvo

4 marks

Tarvo's central bank cuts its policy interest rate from 3% to 2% to raise aggregate demand. Most firms in Tarvo expect their sales to fall next year.

Explain one reason why the cut in the interest rate may not raise investment in Tarvo.

Source: The economy of Nemara

- 1 Nemara is a middle-income country with an open economy. Its central bank has an inflation target of 2%, and it aims to keep inflation between 1% and 3%. In 2025, inflation in Nemara rose to 4.5%, and unemployment fell to 4%. In March 2025, the central bank raised its policy interest rate from 3% to 5%. Savers from abroad then moved money into Nemara, and the value of its currency rose. Prices in Nemara's main trading partners rise by about 2% a year.
- 2 Real GDP grew by 5% in 2025. Most of the growth came from new technology firms in the capital city. These firms need software engineers, and few workers in Nemara have these skills. In 2025, the pay of software engineers rose by 15%. Average pay rose by 5%.

- 3 In the north of Nemara, many coal mines have closed, and unemployment there is 11%. Most of the unemployed workers there used to work in the mines. Many workers in the north own their homes and cannot easily move to jobs in the capital. The government plans to give grants to firms that open new factories in the north. It also plans a new road from the north to the main port. Some firms say that they would move factories from the south to the north. The government's budget deficit is already 5% of GDP.

Figure 1: Economic data for Nemara, 2024 and 2025

Measure	2024	2025
Real GDP growth	3%	5%
Inflation	2.6%	4.5%
Unemployment (share of the labour force)	6%	4%
Current account balance (share of GDP)	-2%	-3.5%
Budget balance (share of GDP)	-4%	-5%
Share of income received by the richest fifth of households	44%	47%

DEFINE Task 12 — The meaning of an inflation target

2 marks

Define the term 'inflation target' (paragraph 1).

inflation target

EXPLAIN Task 13 — Growth and the income gap

4 marks

With reference to Figure 1, explain one likely conflict between economic growth and greater income equality in Nemara.

ANALYSE Task 14 — Interest rates and jobs in Nemara

6 marks

With reference to paragraph 1, analyse the likely effect of the higher policy interest rate on unemployment in Nemara.

Knowledge — borrowing, saving and the parts of AD (2)

Application — use the figures in paragraph 1 (2)

Analysis — your chain of reasoning (2)

EXAMINE Task 15 — Interest rates and the current account

8 marks

With reference to the source, examine the likely effect of the higher policy interest rate on Nemara's current account.

Knowledge — two ways the interest rate can change exports or imports (2)

Application — use two figures or facts from the source (2)

Analysis — one chain that widens the deficit and one that narrows it (2)

Evaluation — say what the answer depends on (2)

DISCUSS Task 16 — The plan for the north

14 marks

With reference to the source, discuss the likely effects of the government's plan for the north on unemployment in Nemara.

Knowledge — explain regional policy and one other economic idea that you use (2)

Application — use two facts or figures from the source (2)

Analysis — two chains of reasoning (4)

Evaluation — weigh the effects and say what they depend on (6)

EVALUATE Task 17 — Tax and benefit cuts in Kessa

20 marks

"The government of Kessa plans to lower its highest rate of income tax from 45% to 35%. It also plans to lower the weekly benefit for people out of work from \$200 to \$160." Unemployment in Kessa is 12%. Firms in Kessa say that they have many jobs they cannot fill, and some of these jobs need skills that many unemployed workers do not have. The richest fifth of households in Kessa receive 46% of all income. Evaluate the likely effects of these two policies on unemployment and income equality in Kessa.

Knowledge — define two economic terms that you use, and explain one other idea (3)

Application — use the facts about Kessa (3)

Analysis — one chain for unemployment and one for income equality (6)

[illegible]

Write the one sentence that answers Task 17's question.



Answers and mark scheme: [revvylearn.com/w/e2-macroeconomic-objectives-policies/answers](https://www.revvylearn.com/w/e2-macroeconomic-objectives-policies/answers)

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