

Macroeconomic Objectives

GCE A-LEVEL & IB ECONOMICS

Areas to Cover

Edexcel:

- a) Economic growth
- b) Low unemployment
- c) Low and stable rate of inflation
- d) Balance of payments equilibrium on current account
- e) Balanced government budget
- f) Protection of the environment
- g) Greater income equality

AQA:

- The main objectives of government macroeconomic policy: economic growth, price stability, minimising unemployment and a stable balance of payments on current account.
- The possibility of conflict arising, at least in the short run, when attempting to achieve these objectives.

IB:

- Economic growth
- Low unemployment
- Low and stable rate of inflation
- Sustainable level of government (national) debt (HL only)

(more content under each objective)

- **Macroeconomic Objectives**

- a) Economic growth
- b) Low unemployment (minimising unemployment)
- c) Low and stable rate of inflation (price stability)
- d) Stable balance of payments on current account (equilibrium)
- e) Balanced government budget (sustainable debt levels)

Edexcel:

- f) Protection of the environment
- g) Greater income equality

What is Economic Growth?

To understand this, we must first know how to measure an economy's size.

The size of an economy (**GDP**) is the total value of goods/services it produces.

The economy grows when our economy can produce more goods (increase in **productive capacity**)... or more expensive goods!



Country A



Country B

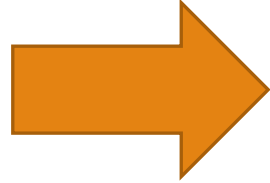


Country C

Economists Love Pies



Economists Love Pies



OMG Economic
growth!!!



More pie for everyone... Though usually the
Richest 1% eats a lot more of the new pie

What is Economic Growth?

The total monetary value of the goods/services we produce also represents our total wealth. This is because we can trade those goods for \$ or other goods!

We can divide GDP by number of citizens to get our 'average salaries'. (**GDP per capita**)

On average, we all get richer, if our GDP increases.

Definition: **Economic growth** is the increase in real GDP over time.



Benefits:

- Higher Incomes & Living Standards
- More Jobs through Investment, Consumption, Production
- Improves government budget

Our Obsession with Economic Growth

ForexLive

German government revises 2020 GDP forecast to -5.8% from -6.3% previously



German econ
'unexpectedly'
3 days ago

BBC News

India GDP shows worst quarterly slump in decades



It contracted by
official data.
4 days ago

The Guardian

US economy suffers worst quarter since the second world war as GDP shrinks by 32.9%



Drop in c
unemplo
1 month a

The Economist

Britain's disastrous GDP figures



WHEN

The Guardian

Global report: Japan hit by biggest GDP fall in 40 years, Australia suffers deadliest day



FT Adviser

UK in deep recession as GDP falls 20.4%

According to data from the Office for National Statistics, published today (August 12), gross domestic product saw a record fall of 20.4 per cent ...
3 weeks ago



Cartoon source from HEDGEYE, by B. Rich

Economic Growth... At What Cost?

What else is important for us to pursue as a society apart from riches?



Cartoon source from Bodheeprep.com

Can Economic Growth be Faked?

Once upon a time, two economists see a pile of dog poop. One economist says to the other: "I will pay you \$1000 to eat it".

The second economist agrees to eat it, finds it disgusting, and says "I will pay you \$1000 to eat it". The first economist agrees and eats it.

Upon reflection, the first economist says to the second: "We both just ate dog poop, and neither of us is better off for it."

The second says to the first - "Look on the bright side: we raised GDP by \$2000."

Unemployment

If you want a job but don't have one, you are unemployed.

Are you unemployed?

You need to be 16 or over in the UK to be in the workforce.

Also you're not '**willing and able to start work**' if you're at school...?

Definition: **Unemployment rate** is calculated by the number of people unemployed divided by the size of the labour force.

Government cannot aim for 0% unemployment (**full employment**)

Lower unemployment rates means...

- Higher incomes & Living Standards
- Higher production & GDP
- Improves government budget



UK Unemployment ☹️

 INDEPENDENT PREMIUM

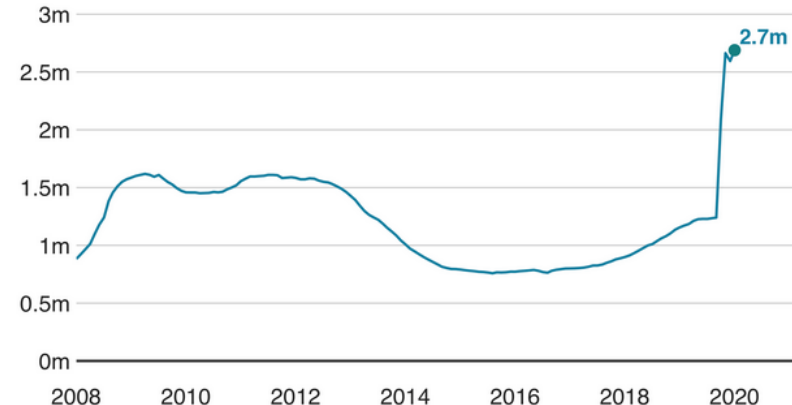
The record drop in UK employment could spell disaster for the graduate job market, unless action is taken

Editorial: It won't be easy, but tackling the toughest challenges in education and work will dramatically improve outcomes for the economy as a whole



The claimant count has risen sharply since the coronavirus lockdown

UK claimant count, seasonally adjusted, Jan 2008 to Jul 2020



Source: Department for Work and Pensions

BBC

Funemployment?

urban
DICTIONARY

Type any word...

Investopedia

EDUCATION MARKETS SIMULATOR

SALARIES & COMPENSATION

Salaries & Compensation

GUIDE TO UNEMPLOYMENT

CAREERS > SALARIES & COMPENSATION

Funemployment

By [JULIA KAGAN](#) | Updated Dec 12, 2017

What Is Funemployment?

The term funemployment refers to a period of time when individuals decide to enjoy the free time that comes with being unemployed. The term was coined during the [Great Recession](#) between 2007 and 2009. The term is used to describe those who lost their jobs and were choosing to use their newfound freedom to pursue leisure activities such as traveling, going to the beach, and being physically active until they find a new job.

TOP DEFINITION

funemployment

a [happy time in one's](#) life when one is not [employed](#) and is not wanting to be employed

people [wonder](#) how I pay my [bills](#) when [I'm on](#) funemployment

by [JBMason](#) March 17, 2004

👍 957

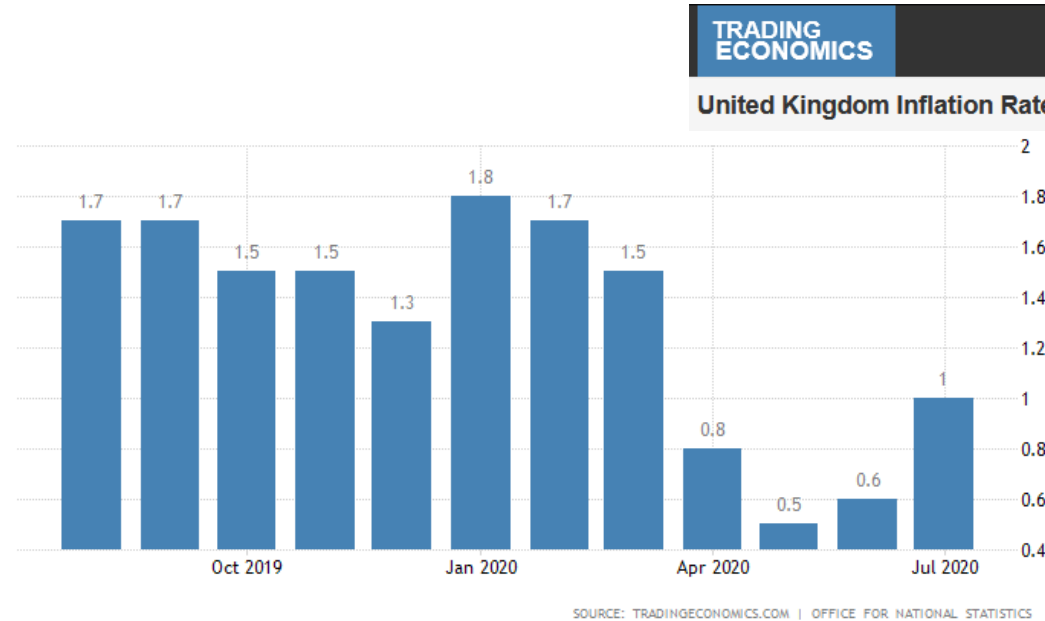
👎 167

🚩 FLAG



Inflation

Did you know you are losing money at this very moment?



Definition: **Inflation** is the increase in general price level over time.

Why? Increased wages due to economic growth, higher demand for goods/services, higher costs to produce goods in the economy...

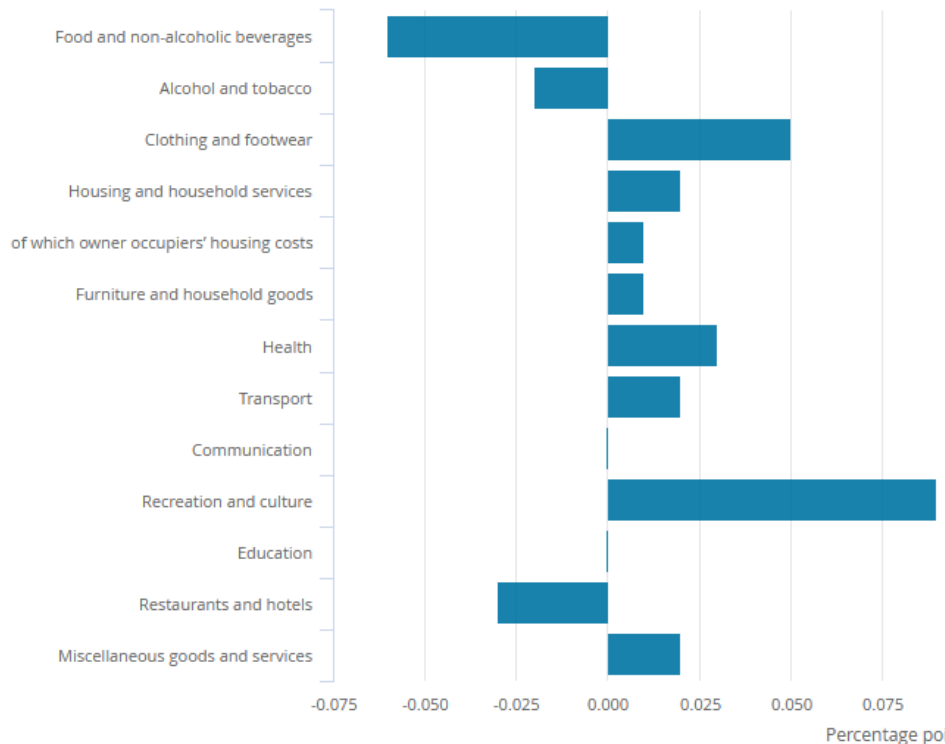
Since you will be able to buy less with your savings next year, your money is losing value (assuming we have inflation this year...)

Inflation

Inflation is measured by the **Consumer Price Index (CPI)**

Figure 3: Increased prices for recreational and cultural goods result in slight rise in headline rate

Contributions to change in the CPIH 12-month inflation rate, UK, between May and June 2020



Source: Office for National Statistics – Consumer price inflation

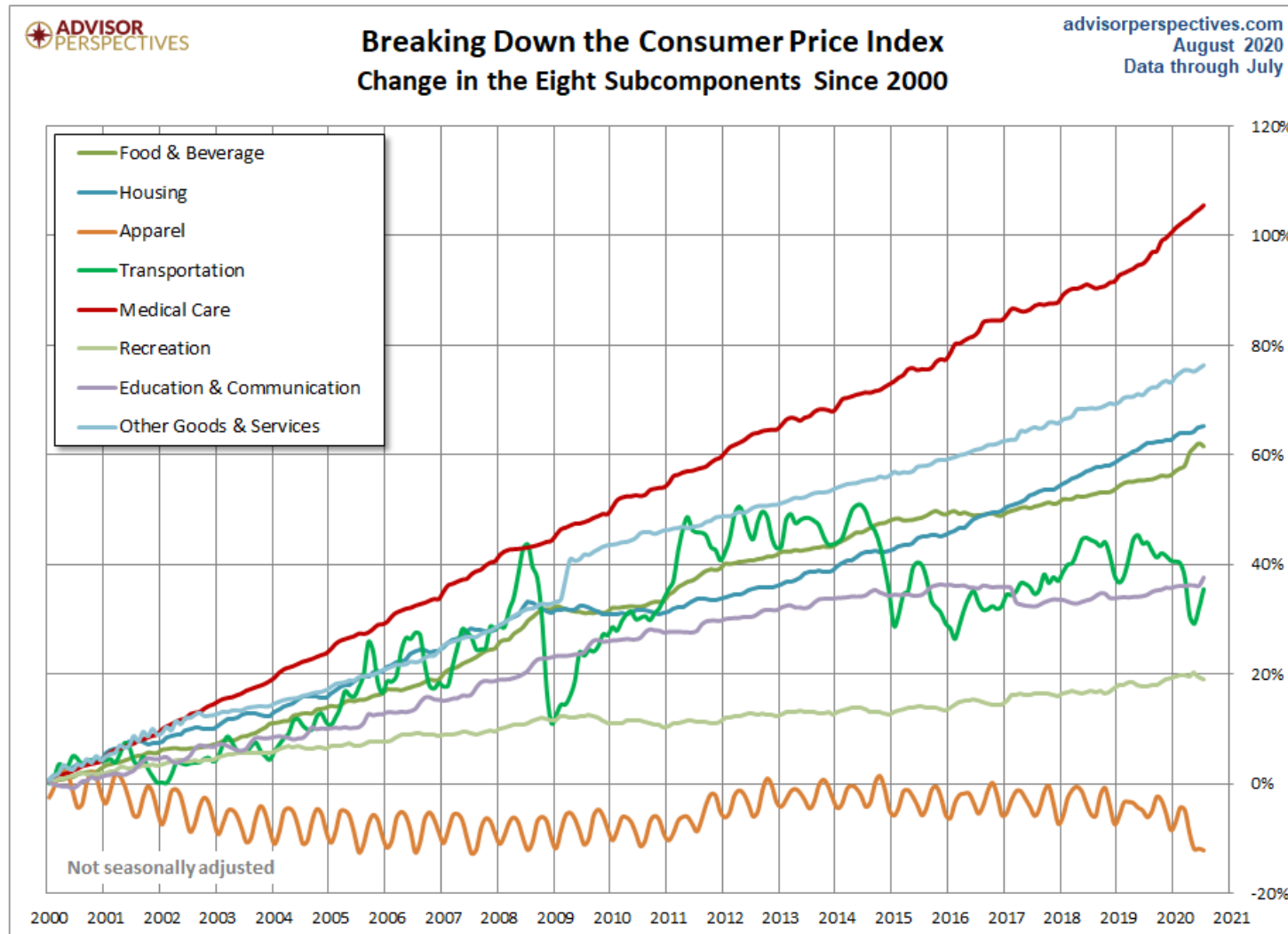


Amazon Alexa, children's books and herbal tea are added to basket used to calculate inflation as hi-fis, envelopes and dry dog food are dropped



Inflation

Inflation is measured by the **Consumer Price Index** (CPI)



Inflation

The government would want inflation to be around 2%... Caused by steady economic growth.

This means:

- Relatively stable prices
- Clear price signals
- Investment/Business confidence

The Bank of England helps achieve this through interest rates and monetary policy.



Definitions:

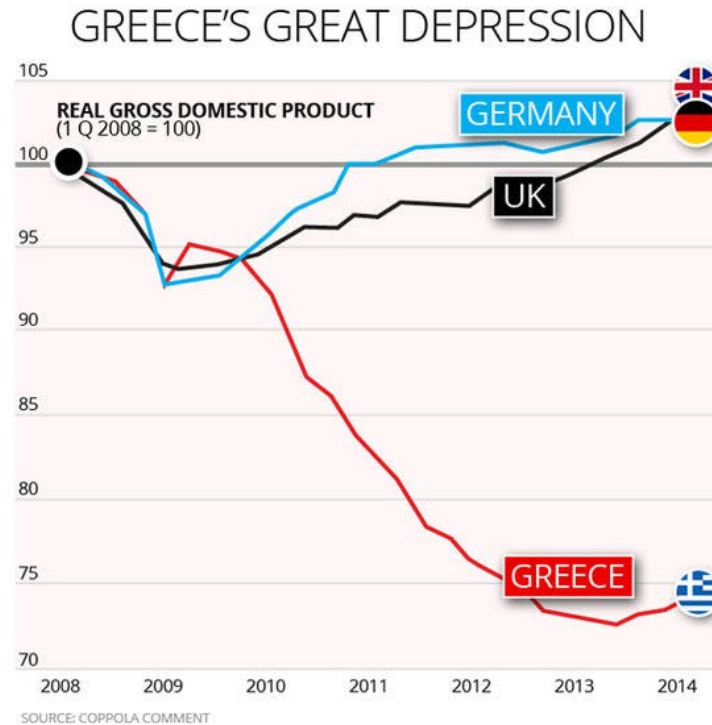
Deflation is when general price level falls over time.

Disinflation is when the rate of inflation decreases. (e.g. 2% to 1%)

Government Budget

Did you know... Governments can go bankrupt?

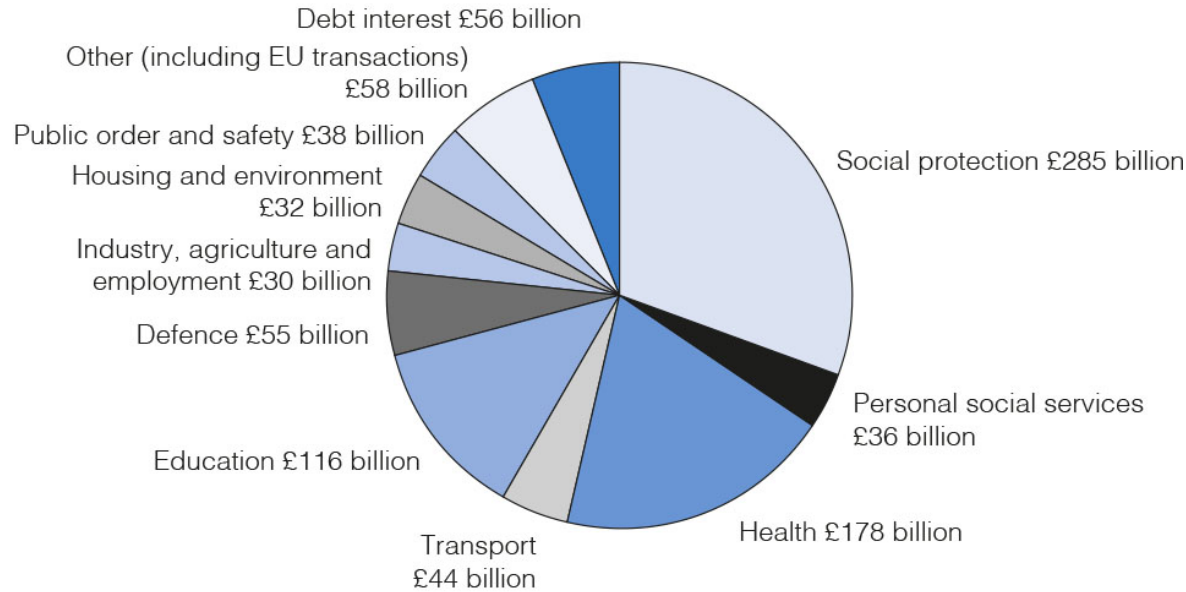
Greece was veering towards bankruptcy in 2010, following the 2008 financial crisis when they overstated how much they borrowed.



Governments make money through taxes, and spends money on... pretty much everything. When they don't make enough through taxes, they borrow from financial markets and institutions (**budget deficit**)

Government Budget

What do we spend on and how much do each of us owe?



UK National Debt
At £2.4 Trillion 🤨

Figures may not sum due to rounding.
Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics.

Source: Office for Budget Responsibility and HM Treasury



National Debt Clock .co.uk

Each of us owes around...

£38,518

Each taxpayer owes around...

£66,251



The UK national debt grows at a rate of £5,170 per second!

£ 2,398,206,572,552

Government Budget

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Health

Business

Your Money

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Companies

Economy

UK government spending on virus measures pushes debt to £2 trillion

© 21 August 2020

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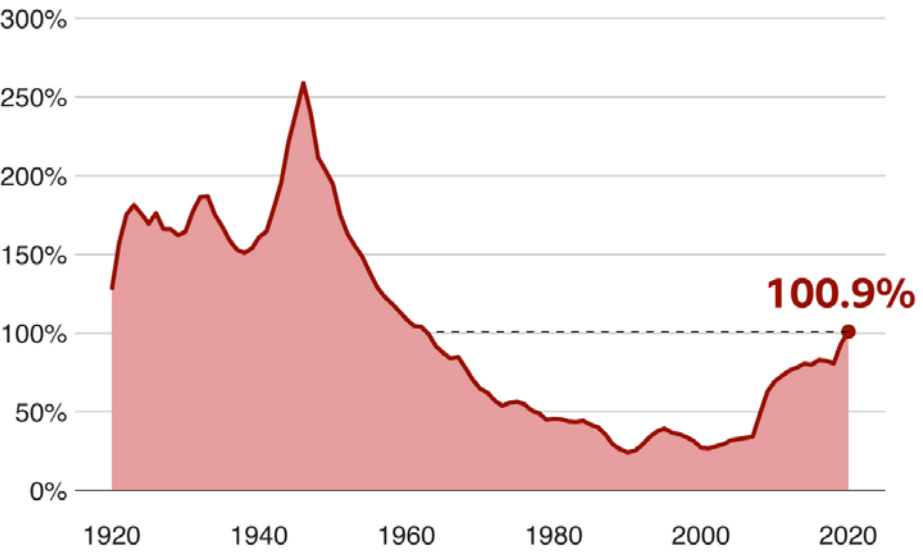
Share

Coronavirus pandemic



Debt exceeds GDP for the first time since 1963

Debt as percentage of GDP



Source: ONS, Office for Budget Responsibility

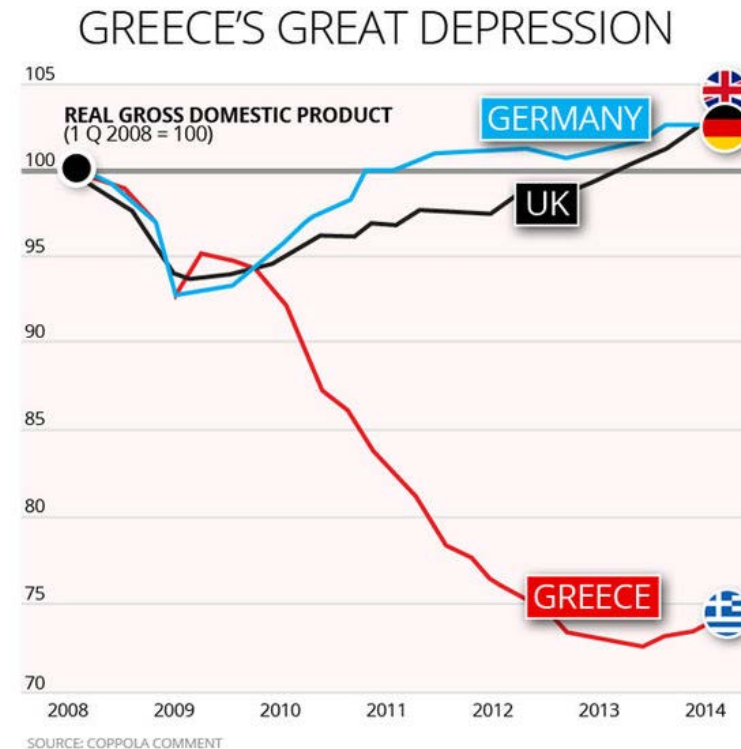
Government Budget

Borrowing is not a problem... if we can pay it back.

Governments spend more during recessions as part of **fiscal policy**, to help stimulate the economy. They can also do it relatively cheaply at very low interest rates.

But too much borrowing may cause markets to doubt the government's ability to pay back debt... this means:

- Higher cost of borrowing, or even inability to borrow for future recessions
- Interest payment on debt eating into the government budget
- Affects investor/business confidence, hence economic growth



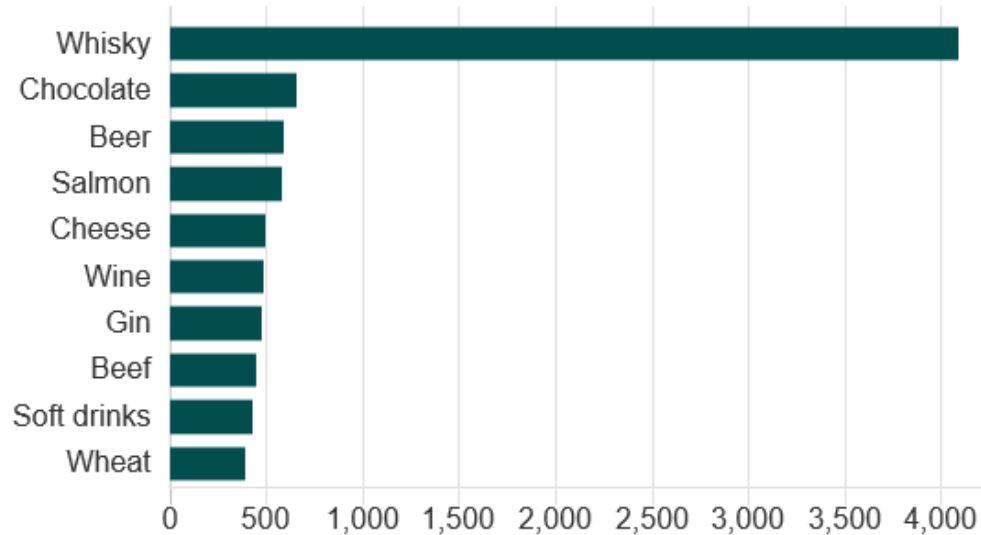
In general, governments should save up when the economy is doing well, and spend the surplus during hard times - which is easier said than done politically... spending wins votes!

Stable Current Account

Every year, we import and exports all sorts of products. That is recorded within the **Current Account**, which is a component of the Balance of Payments.

Britain's most popular food and drink exports

£m, 2016



Source: Food and Drink Federation, HMRC



BBC

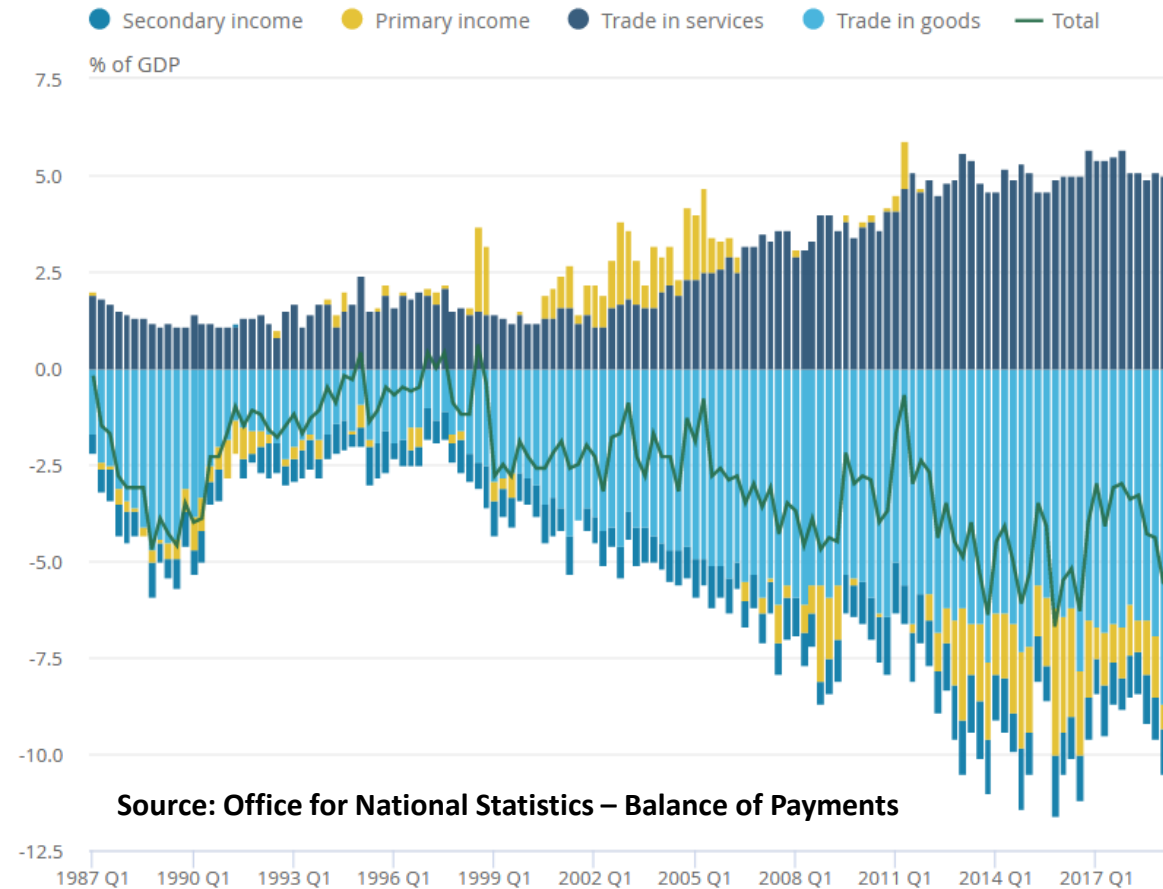
<https://www.theguardian.com/politics/ng-interactive/2019/aug/13/how-a-no-deal-brexit-threatens-your-weekly-food-shop>

Stable Current Account

Current account **surplus**: Total value of exports > total value of imports

Current account **deficit**: Total value of exports < total value of imports

For the UK, we are unfortunately in deficit... FeelsBadMan



Stable Current Account

Why is this important?

Current account **surplus**: Income is flowing into the country (**injection**)

Current account **deficit**: Income is flowing out of the country (**withdrawal**)

In other terms, a current account surplus means there is higher **international demand** for the goods we produce (exports > imports). This helps create jobs, fund businesses, pays export taxes and exacerbates economic growth.

On the other hand, a current account deficit means we are purchasing more of other countries' goods and services. Incomes from our production/work is being spent elsewhere, flowing out of our own economy.

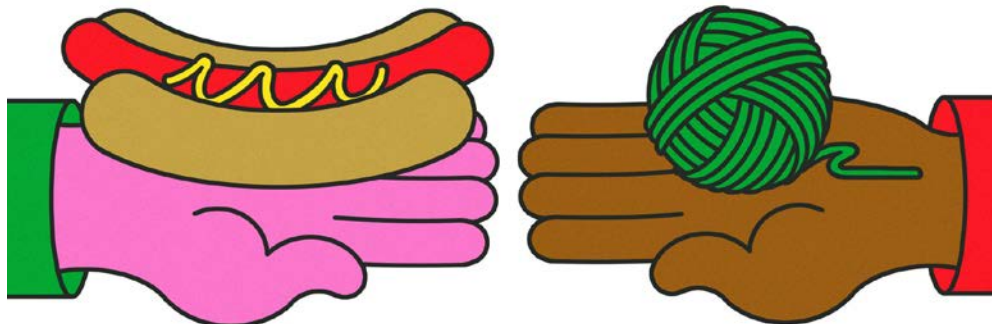


Image from NYT

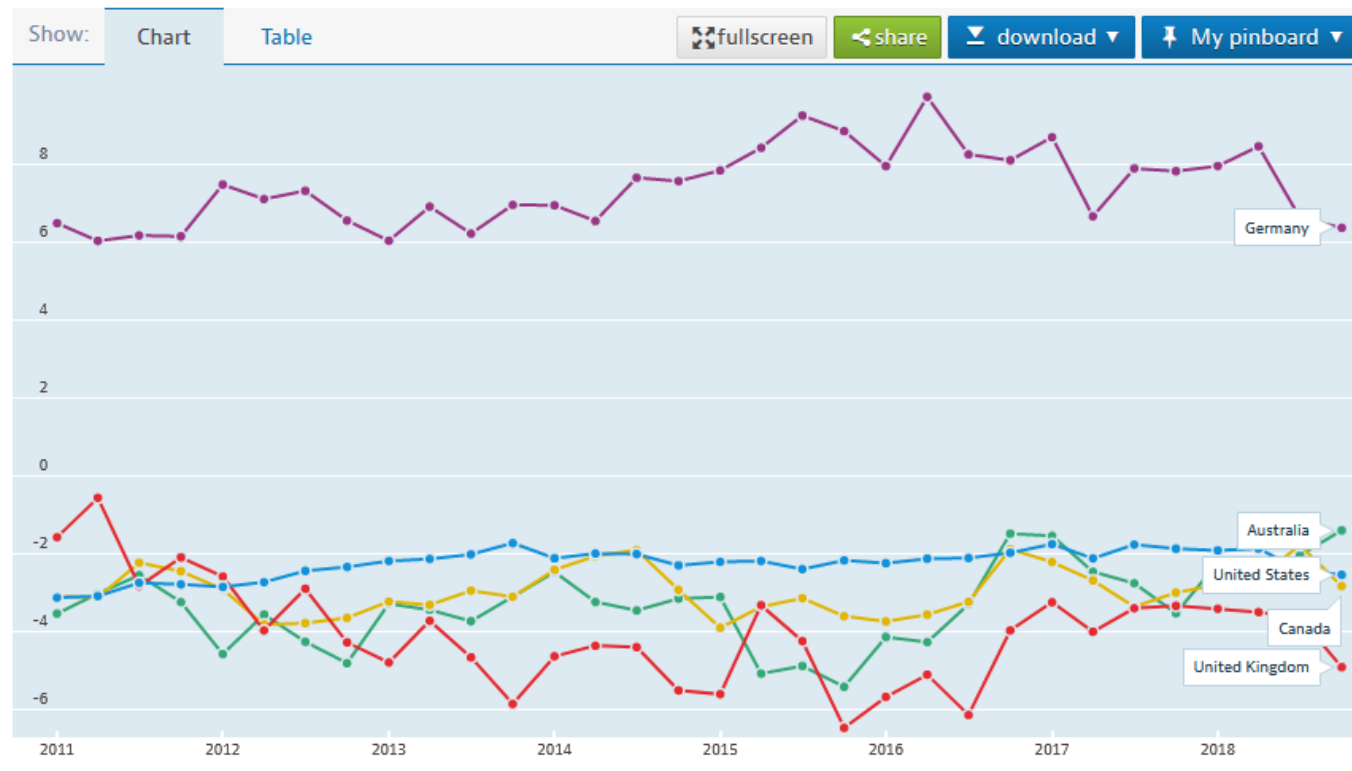
Stable Current Account

However, its not all bad...

Although the current account can indicate how competitive our economy is internationally (showing which country's goods are better/cheaper thus more frequently purchased), it may also just be a reflection of **living standards**.

Current account balance Total, % of GDP, Q1 2011 – Q4 2018

Source: Balance of payments BPM6




Stable Current Account

Policy paper

UK-Australia free trade agreement: the UK's strategic approach

Updated 17 July 2020

 Financial Times

UK and Japan close in on post-Brexit trade deal

However the UK government forecasts the deal would only boost ... Both sides hope a deal will provide the impetus for Britain to join the trans-Pacific free trade agreement grouping of 11 countries, including Japan, 1 month ago



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Australians call for freedom of movement as part of post-Brexit trade deal

Agreement could be stepping stone to 'Canzuk Union' between Canada, Australia, New Zealand and UK