

2.1 – Government and the economy

Subject content	What students need to learn:
2.1.1 Macroeconomic objectives	<p>a) Economic growth:</p> <ul style="list-style-type: none"> • definition of economic growth • measurement using increases in gross domestic product (GDP) • limitations of GDP as a measure of growth • the use of diagrams to show the economic cycle: annotating boom, downturn, recession and recovery • the effect of each stage of the economic cycle on economic growth, inflation and unemployment • the impact of economic growth on: <ul style="list-style-type: none"> ○ employment ○ standards of living ○ poverty ○ productive potential ○ inflation ○ the environment. <p>b) Low and stable inflation:</p> <ul style="list-style-type: none"> • definition of inflation • definition of deflation • measurement using consumer price index (CPI) • types of inflation: <ul style="list-style-type: none"> ○ demand pull ○ cost push. • relationship between inflation and interest rates • impact of inflation on: <ul style="list-style-type: none"> ○ prices ○ wages ○ exports ○ unemployment ○ menu costs ○ shoe leather costs ○ uncertainty ○ business and consumer confidence ○ investment.

Subject content	What students need to learn:
	<p>c) Low unemployment:</p> <ul style="list-style-type: none"> • definition of unemployment • measurement of unemployment using International Labour Organization (ILO) measure • types of unemployment: <ul style="list-style-type: none"> ○ cyclical ○ structural ○ seasonal ○ voluntary ○ frictional. • impact of unemployment on: <ul style="list-style-type: none"> ○ output ○ use of scarce resources ○ poverty ○ government spending on benefits ○ tax revenue ○ consumer confidence ○ business confidence ○ society. <p>d) Surplus or balance on the current account of the balance of payments:</p> <ul style="list-style-type: none"> • definition of current account on the balance of payments • current account deficits and surpluses • trade in goods (visibles) and services (invisibles) • relationship between current account and exchange rates • examples of real-world exchange rates • reasons for deficits and surpluses: <ul style="list-style-type: none"> ○ quality of domestic goods ○ quality of foreign goods ○ price of domestic goods ○ price of foreign goods ○ exchange rates between countries.

Subject content	What students need to learn:
	<ul style="list-style-type: none"> • impact of current account deficit: <ul style="list-style-type: none"> ◦ leakage from the economy ◦ can be inflationary if prices rise abroad ◦ low demand for our exports ◦ problems finding foreign reserves to fund the deficit. <p>e) Protection of the environment:</p> <ul style="list-style-type: none"> • business activity that damages the environment • ways businesses damage the environment: <ul style="list-style-type: none"> ◦ visual pollution, including litter ◦ noise pollution ◦ air pollution ◦ water pollution. • government intervention to protect the environment: <ul style="list-style-type: none"> ◦ taxation ◦ subsidy ◦ regulation ◦ fines ◦ pollution permits ◦ government provision of parks. <p>f) Redistribution of income:</p> <ul style="list-style-type: none"> • definition of income inequality • definition of absolute poverty • definition of relative poverty • reasons to reduce poverty and inequality: <ul style="list-style-type: none"> ◦ meet basic needs ◦ raise standards of living ◦ ethical reasons. • government intervention to reduce inequality and poverty: <ul style="list-style-type: none"> ◦ progressive taxation ◦ redistribution through benefit payments ◦ investment in education and healthcare.

Subject content	What students need to learn:
2.1.2 Government policies	<p>a) Fiscal policy – government revenue and government expenditure:</p> <ul style="list-style-type: none"> • definition of fiscal policy • government revenue – direct and indirect taxes • government expenditure – main areas of focus • fiscal deficits and fiscal surpluses • impact of a fiscal deficit and fiscal surplus • the impact of fiscal policy on macroeconomic objectives. <p>b) Monetary policy – focused on interest rate changes:</p> <ul style="list-style-type: none"> • definition of monetary policy • definition of interest rates • central banks role in setting interest rates • impact of changes in interest rates on macroeconomic objectives: <ul style="list-style-type: none"> ◦ the mechanism by which a change in interest rates affects consumers and businesses ◦ awareness of asset purchasing used by central banks. <p>c) Supply-side policy:</p> <ul style="list-style-type: none"> • definition of supply-side policy • supply-side policy and its impact on productivity and total output • the impact of supply-side policies on macroeconomic objectives: <ul style="list-style-type: none"> ◦ privatisation ◦ deregulation ◦ education and training ◦ policies to boost regions with high unemployment ◦ infrastructure spending ◦ lower business taxes to stimulate investment ◦ lower income tax rates to encourage working. <p>d) Government controls:</p> <ul style="list-style-type: none"> • advantages and disadvantages of: <ul style="list-style-type: none"> ◦ regulation ◦ legislation ◦ fines ◦ pollution permits.

Subject content	What students need to learn:
2.1.3 Relationships between objectives and policies	a) The impact of policies and the trade-off between macroeconomic objectives: <ul style="list-style-type: none"> • unemployment and inflation • economic growth and inflation • economic growth and environmental protection • inflation and the current account on balance of payments.