

Government macroeconomic policy objectives

A2

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What you need to know

At AS Level you met three objectives: price stability, low unemployment and economic growth. At A Level the list grows to seven, and you need to be able to explain each one as a government aim:

1. **Inflation:** a low and stable rate of inflation (price stability), usually a published target.
2. **Balance of payments:** a current account that is sustainable, close to balance over time, without a large persistent deficit (or surplus).
3. **Unemployment:** a low rate of unemployment, close to full employment.
4. **Growth:** steady, sustained growth of real GDP in line with the economy's capacity.
5. **Development:** a rise in living standards and well-being in the wider sense, such as health, education and less poverty, not only in income.
6. **Sustainability:** growth that does not leave future generations worse off, by damaging the environment or using up resources.
7. **Redistribution of income and wealth:** a fairer spread of income and wealth between households.

Exam questions on this topic also ask you to **rank** the objectives (is one the most important?), to say whether they **can all be met at once**, and to judge a country's record from data. The detailed links between the problems (the Phillips curves, inflation and the exchange rate) belong to the next topic, *Links between macroeconomic problems*; here you need the main conflicts well enough to argue about priorities.

Understand it

From three objectives to seven

Every macroeconomic objective is about the **whole economy**, not one market. That is the first test in many multiple-choice questions. Compare:

Macroeconomic objective (the whole economy)	Not a macroeconomic objective
Low, stable inflation; a stable exchange rate	Lower prices for one product
A sustainable current account	A tariff on one import (a tool, not an aim)
Low unemployment	A minimum wage for one group of workers
Sustained growth of real GDP	Regulating monopolies; providing public goods
Development, sustainability, a fairer distribution	Allocative efficiency or Pareto optimality in markets

Watch for **tools** dressed up as aims. Lower taxes, higher interest rates, subsidies and tariffs are ways of reaching objectives; they are not objectives themselves. And **Pareto optimality** (no one can be made better off without someone else being made worse off) is the microeconomic idea of efficient allocation, not a macroeconomic aim.

The four "traditional" objectives, at A Level depth

Inflation. The aim is a low, steady and predictable rate, such as a target of 2% a year. High or unstable inflation makes planning hard, so firms invest less; it redistributes from savers and people on fixed incomes to borrowers; and it makes exports dearer, which hurts the current account and jobs in export industries.

Balance of payments. A government wants the **current account** to be sustainable. A small deficit can be fine for a time (it may reflect imports of machines that raise future output), but a **large, persistent** deficit has to be paid for by borrowing from abroad or selling assets, and can push the exchange rate down. A large persistent surplus is not ideal either: residents consume less than they could, and it can cause friction with trading partners. Related aims are a **stable exchange rate** and, for some governments, sound public finances (a smaller budget deficit).

The balance of payments only matters for an **open** economy. A **closed** economy does not trade with the rest of the world, so it has no exports, imports or balance of payments; its other six objectives still apply.

Unemployment. The aim is low unemployment, not zero: frictional unemployment (people between jobs) always exists, and can even rise a little in a healthy economy as people move to better jobs. Unemployment wastes output, cuts incomes and tax revenue, raises benefit spending and has social costs.

Growth. The aim is **sustained** growth of real GDP that keeps pace with the growth of capacity. Growth raises average living standards, creates jobs and raises tax revenue. If all the aims are met, the one thing that should **not** happen is a fall in the average standard of living.

The three A Level additions

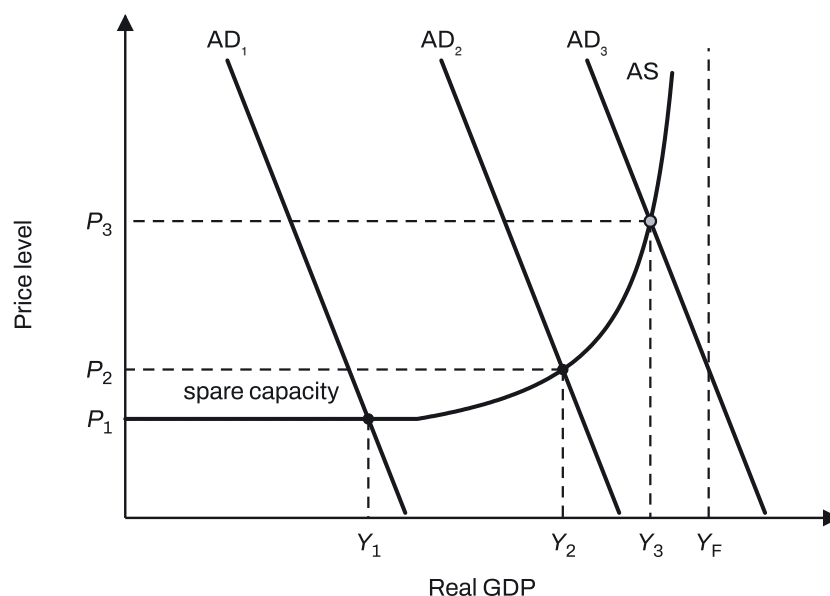
Development. Growth is a rise in output; development is a rise in people's **quality of life**. A country can grow while most people stay poor, ill or unschooled, so governments of developing countries in particular set aims for health, education, clean water and poverty. Development is measured by indicators such as the Human Development Index (HDI: life expectancy, education and income per head) rather than by GDP alone.

Sustainability. Growth is sustainable when it meets today's needs without reducing what future generations can have. Growth that cuts down forests, exhausts fish stocks or pollutes the air raises GDP now but lowers the economy's capacity, and people's well-being, later. A government aiming for sustainability favours renewable energy, conservation and cleaner technology, and taxes or regulates pollution.

Redistribution of income and wealth. Markets reward people according to what they own and the scarcity of their skills, so income and wealth can become very unequal. A government may aim to narrow the gap on grounds of fairness (equity), to cut poverty, or because extreme inequality can weaken demand and social stability. Its tools are progressive taxes, transfer payments and free state provision of education and health. Success shows as a fall in the Gini coefficient. Whether a fairer distribution is worth some cost in efficiency is a **normative** judgement.

Can all the objectives be met at once?

Sometimes yes, often not. The usual way to analyse this is with aggregate demand (AD) and aggregate supply (AS).



With spare capacity, the objectives go together. Raising AD from AD_1 to AD_2 lifts real GDP from 250 to 450 (up 80%), so firms hire workers: growth and employment both improve, while the price level rises only from 100 to 120 (20%). Idle workers and machines can be brought into use without much pressure on costs.

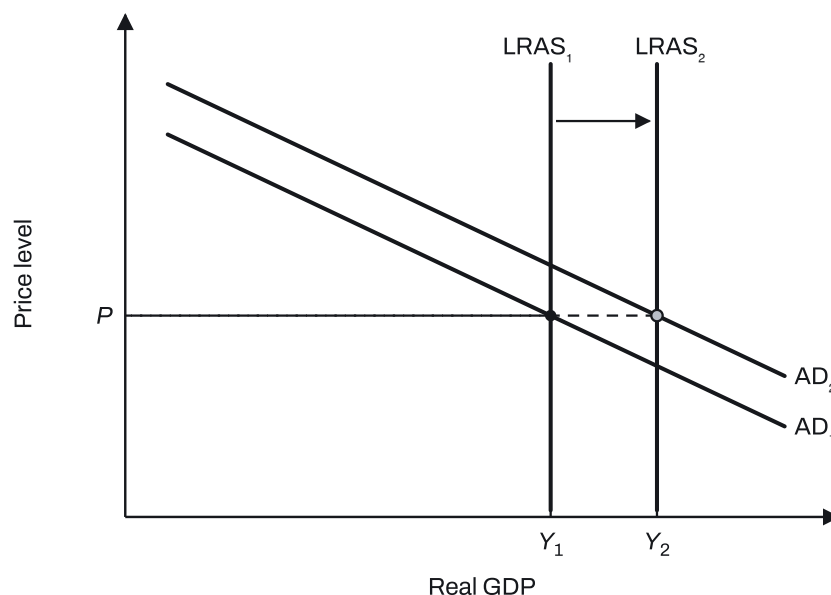
Near full capacity, they conflict. A further rise from AD_2 to AD_3 lifts real GDP only from 450 to 540 (20%) but the price level from 120 to 180 (50%). Firms compete for scarce workers and materials, so costs and prices rise. Pushing unemployment down below this point is bought with inflation: the short-run **trade-off between unemployment and inflation** shown by the Phillips curve.

The main conflicts to be able to explain:

Pursuing...	can harm...	because...
Faster growth, lower unemployment (more AD)	Low inflation	near capacity, more spending mostly raises prices (diagram 1)
Faster growth, lower unemployment	The current account	higher incomes buy more imports; inflation makes exports less competitive
Low inflation (higher interest rates, tight fiscal policy)	Growth and jobs	dearer borrowing cuts consumption and investment, so AD and output fall
A smaller current account deficit (cutting spending)	Growth and jobs	less spending means fewer imports but also less domestic output
A smaller current account deficit (a lower exchange rate)	Low inflation	imports, including raw materials, cost more
Fast growth	Sustainability	more output can mean more pollution and faster use of resources
Redistribution (high marginal taxes, generous benefits)	Growth	it may weaken incentives to work, save and invest

And the links that **help**:

- Growth creates jobs, raises tax revenue that pays for redistribution and development, and raises living standards.
- Low, stable inflation keeps exports competitive (current account) and encourages investment (growth).
- **Supply-side policy** can serve several objectives at once, because it raises capacity rather than spending:



When better training, infrastructure and technology shift LRAS from 400 to 500, real GDP can rise by 25% while AD grows in step and the price level stays at 120: growth, jobs and price stability together. If the new technology is cleaner and the training reaches low-paid workers, it helps sustainability and redistribution too.

The catch is **time**: supply-side policies take years, and cost money now.

Choosing priorities

Because the objectives conflict, a government has to rank them, and the ranking is a **value judgement**. What it chooses depends on:

- **The current problem.** A government with 3% inflation and 10% unemployment puts jobs first; one with 15% inflation puts prices first. A government that **raises its inflation target** (say from 3% to 5%) is accepting more inflation so that it can keep AD higher and **reduce unemployment**.
- **The type of economy.** In a developing economy, growth, development and poverty usually come first (low incomes, poor health and schooling, large informal employment). Developed economies often stress price stability and sustainability.
- **Openness.** For a closed economy the balance of payments is not an issue.
- **Links between the objectives.** An objective is more important if missing it damages the others. That is the case usually made for **controlling inflation first**: high inflation discourages investment (growth), makes exports dearer (current account, exchange rate) and costs jobs in exporting firms. The case for **growth first** is that it eases unemployment and pays for development and redistribution. Neither holds in every case.

Matching a policy action to its objective

Action	Objective it most likely serves
The central bank raises interest rates	Stable prices (lower inflation)
The inflation target is raised	Lower unemployment
A rise in VAT (a general sales tax)	A smaller budget deficit: it raises revenue, but it raises prices at once and falls hardest on the poor, so it is not for low inflation or equality
A rise in income tax on high earners, more transfer payments	Redistribution of income
A carbon tax, subsidies for renewables	Sustainability
Spending on schools, clinics, clean water	Development

Judging a country's record from data

Data questions give several countries' growth, inflation, unemployment and current account figures and ask which is "closest to achieving the aims", or what can be concluded.

- **Rank each country on each objective** (1 = best), using the aims the question states:

- growth: highest is best;
- inflation: nearest the target if one is given; **if no target is given, the lowest positive rate is best**;
- unemployment: lowest is best;
- current account: nearest balance if the question states that aim; **if it only asks about the "principal aims", a surplus counts as favourable**, so the biggest surplus is best.

Add the ranks; the lowest total is closest to the aims. Do not pick the country that is best on just one column.

- **Living standards** depend on real GDP **per head**: growth of real GDP minus population growth, roughly. Exactly, $\left(\frac{1+g}{1+n} - 1\right) \times 100$ with g and n as decimals.
- **"What can be concluded?"** Check each statement against **every** country it covers. One country that breaks the pattern makes the statement false.

Key facts and formulas

There is no formula list in the 9708 exam, so every row is "Learn it".

Formula	Status
The seven macroeconomic objectives: low stable inflation, a sustainable balance of payments, low unemployment, sustained growth, development, sustainability, a fairer distribution of income and wealth	Learn it
Growth of real GDP per head = $\left(\frac{1+g}{1+n} - 1\right) \times 100 \approx \text{real GDP growth} - \text{population growth (\%)}$	Learn it
Current account balance as % of GDP = $\frac{\text{current account balance}}{\text{GDP}} \times 100$	Learn it
With spare capacity, a rise in AD raises output and employment with little inflation; near full capacity it mostly raises prices	Learn it
Expansionary policy: more growth and jobs, but risks inflation and a bigger current account deficit	Learn it
Contractionary policy: lower inflation and a smaller current account deficit, but less growth and fewer jobs	Learn it
Supply-side policy shifts LRAS right: growth, jobs and stable prices together, but slowly	Learn it

How to do it

We tagged 18 questions for this topic from 2021 to 2025 (15 different; 3 are repeats across paper variants): 12 Paper 3 multiple choice and 6 Paper 4 questions (four 2021–2022 essays and two copies of one data-response question). One essay, **9708/42/F/M/21 Q7**, has two parts of different types, so the counts add up to

19.

Question type	Questions
Multiple choice: what is, or is not, a macroeconomic objective	6
Multiple choice: which objective a policy action is aimed at	4
Essay: is one objective the most important?	3
Multiple choice: judge countries' records from data	2
Essay: can the objectives be met together?	2
Data response: identify and explain two objectives (4 marks)	2

Paper 4 essays are 20 marks since 2023 (in 2021–2022 they were 12- and 13-mark parts). The essay plans below fit either.

1. Multiple choice: what is, or is not, a macroeconomic objective (6 questions)

1. **Recall the seven:** inflation, balance of payments, unemployment, growth, development, sustainability, redistribution (plus a stable exchange rate).
2. **Reject micro aims and tools:** anything about one market or firm (monopoly regulation, a subsidy for one industry, trade-union power, public goods, a minimum wage for one group), any tool (lower taxes on consumer goods), and **Pareto optimality** or allocative efficiency.
3. **Check the setting:** in a **closed** economy, the balance of payments objective does not apply.
4. **"If all the aims are achieved, what is least likely?"** Growth means living standards rise, so a **fall in the average standard of living** is least likely. A small rise in inflation, a fall in the exchange rate or a rise in frictional unemployment can all happen alongside the aims.
5. **Unusual wording:** "a fall in the general price level" is still about the whole economy's prices, so it counts as a macro aim when every other option is micro or a tool.

2. Multiple choice: which objective a policy action is aimed at (4 questions)

1. **Work out what the action does to AD, prices or government finances** (the table in "Matching a policy action").
2. **Higher interest rates** in a closed economy: stable prices (not the current account, since there is none).
3. **A higher inflation target:** the government accepts more inflation to keep demand up, so it is aiming at **lower unemployment**.
4. **A higher VAT rate:** it raises the price level at once and is regressive, so it is not for inflation or equality; it brings in revenue, so its aim is a **smaller budget deficit**.

3. Essay: is one objective the most important? (3 questions)

For example: "the control of inflation should be the most important aim", "economic growth should be the most important aim", or whether unemployment should be the main objective in a developing country. Mark schemes want the objectives named, the costs of missing each, the links between them and a conclusion.

1. **Define** the objective in the question and name the others (at least three more, with what "low" or "sustainable" means). (AO1)
2. **Case for**: what goes wrong when this objective is missed, as developed chains into the **other** objectives. For inflation: dearer exports → current account worsens and the exchange rate comes under pressure → export industries cut jobs; uncertainty → less investment → slower growth. (AO2)
3. **Case against**: do the same for **two or three other objectives**, showing they matter as much (growth funds development and redistribution; unemployment wastes output and causes poverty). Use diagram 1 to show the conflict when the government pushes one objective. (AO2)
4. **Evaluate**: it depends on the current situation (which objective is furthest from its target), the type of economy (developing countries put growth, development and jobs first) and the time scale. (AO3)
5. **Conclude** in the question's own words, for example: "control of inflation is the most important aim when inflation is high, because it is the precondition for the others; at 2% it is not". (AO3)

Top-level answers analyse **two or three** other objectives against the one in the question, depending on what the question's mark scheme asks; analysing only one alternative keeps an answer near the bottom of the mark range.

4. Multiple choice: judge countries' records from data (2 questions)

1. For "closest to the aims", **rank** every country on every column and add the ranks (see "Judging a country's record"). Use the target and current-account aim the question gives; with none given, rank lower positive inflation and a bigger current-account surplus as better. Different readings can give different answers, so follow these rules exactly.
2. For "what can be concluded", test each statement on every country it names. For example, "countries with low growth had high unemployment" is true only if **every** low-growth country in the table has high unemployment.

5. Essay: can the objectives be met together? (2 questions)

For example: whether a government can achieve all its key aims at the same time, or whether a persistent current account deficit can be cured without sacrificing other aims.

1. **Name the objectives** (and for the second kind, define a persistent current account deficit and the policies to cure it: cutting spending, switching spending to home goods, controls on imports). (AO1)
2. **Analyse at least two conflicts** as full chains with AD/AS, for example growth/unemployment against inflation (diagram 1, near capacity), and growth against the current account (higher incomes → more imports). For the deficit: higher interest rates cut imports but also investment, growth and jobs; a lower exchange rate helps exports but raises import prices and inflation. (AO2)

3. **The other side:** with spare capacity the aims move together (diagram 1, AD_1 to AD_2); supply-side policy can deliver several at once (diagram 2); low inflation helps the current account. (AO2)
4. **Evaluate and conclude:** all at once is possible only with spare capacity in the short run or through supply-side growth in the long run, so in practice governments rank and trade off. (AO3)

Mark schemes put **two analysed conflicts** at the top level and one at the level below, with a conclusion needed for the highest marks.

6. Data response: identify and explain two objectives (2 questions)

1. **Identify** two objectives (1 mark each): for example low inflation and low unemployment.
2. **Explain** each in one sentence (1 mark each): what it means and why it is wanted, linked to the extract if possible (for example, low unemployment raises incomes and well-being).

Worked examples

Example 1

Which of the following is a macroeconomic policy objective?

A a lower rate of tax on company profits **B** a fall in the proportion of households living in poverty **C** allocative efficiency in the market for water **D** a ban on imports of second-hand cars

[1]

A and D are **tools** (a tax cut, a trade restriction), not aims; C is a microeconomic idea about one market. B is about the whole economy's distribution of income and its people's living standards (redistribution and development): **B** (1).

Example 2

The table shows data for four countries last year.

country	real GDP growth (%)	population growth (%)	inflation (%)	unemployment (%)	current account (% of GDP)
W	4.0	3.0	2.5	6.0	-1.0
X	2.5	0.4	1.8	5.0	+0.5
Y	5.0	1.5	7.2	4.5	-6.0
Z	1.2	-0.3	0.2	9.5	+4.0

Each government aims for rising living standards, inflation of 2%, low unemployment and a current account close to balance. Which country came closest to meeting these objectives?

A W B X C Y D Z**[1]**

Living standards need real GDP **per head**: W $\left(\frac{1.040}{1.030} - 1\right) \times 100 = 0.97\%$, X 2.09%, Y 3.45%, Z 1.50%. Ranks (1 = best):

	GDP per head	inflation (distance from 2%)	unemployment	current account (distance from 0)	total
W	4	2 (0.5)	3	2 (1.0)	11
X	2	1 (0.2)	2	1 (0.5)	6
Y	1	4 (5.2)	1	4 (6.0)	10
Z	3	3 (1.8)	4	3 (4.0)	13

X has the lowest total: **B** (1). Y grows fastest but at the cost of high inflation and a large deficit, which is exactly the conflict this topic is about.

Example 3

In Country K last year, real GDP grew by 6.0% and the population by 2.5%. The share of national income received by the richest 10% of households rose from 34% to 39%, and carbon emissions rose by 9%.

Using the data, assess whether the government was successful in meeting its macroeconomic objectives. **[6]**

Real GDP per head grew by $\left(\frac{1.060}{1.025} - 1\right) \times 100 = 3.41\%$, so average living standards rose: success on growth (1), developed with the figure (1). But the richest 10% now receive 39% of income instead of 34%, so the gains went mainly to the rich and income became more unequal: failure on redistribution (1), and many households may have seen little rise in living standards, which weakens development (1). Emissions rose faster than output, by $\left(\frac{1.09}{1.06} - 1\right) \times 100 = 2.83\%$ per unit of GDP, so growth was less sustainable (1). Judgement: successful on growth but not on redistribution or sustainability, so only partly successful; we also lack data on inflation and unemployment (1). **6/6**

Example 4

Assess whether a government can achieve low unemployment, stable prices, sustainable growth and a satisfactory current account at the same time. **[20]**

Model answer (paragraph plan):

- Definitions:** each objective in a sentence (inflation low and stable around a target; unemployment near the frictional minimum; growth of real GDP in line with capacity that does not harm future generations; a current account close to balance over time). (AO1)
- When they go together,** with diagram 1: in a recession there is spare capacity, so a rise in AD from AD₁ to AD₂ lifts output by 80% and creates jobs while prices rise only 20%; low inflation also keeps exports competitive. (AO2)

3. **Conflict 1, unemployment and growth against inflation:** near capacity, AD_2 to AD_3 adds only 20% to output but 50% to prices, as firms bid for scarce labour; the short-run Phillips curve trade-off. (AO2)
4. **Conflict 2, growth against the current account:** rising incomes raise spending on imports, and rising prices make exports less competitive, so the deficit widens; curing it by cutting spending costs growth and jobs, and by a lower exchange rate adds to inflation. (AO2)
5. **Conflict 3, growth against sustainability:** more output from fossil fuels means more pollution and resource use. (AO2)
6. **Supply-side growth,** diagram 2: training, infrastructure and cleaner technology shift LRAS right, so output can rise 25% at a stable price level, with more jobs, more competitive exports and less pollution per unit of output. (AO2)
7. **Evaluation:** it depends on how much spare capacity there is, the time scale (supply-side policy takes years and costs money now; demand policy is quick but hits capacity), the cause of each problem, and the economy's openness and stage of development. (AO3)
8. **Conclusion:** briefly, yes, with spare capacity; over the long run only through supply-side growth; near full capacity the government must rank its objectives, which is a normative choice. (AO3)

Table A top level (14): accurate definitions, both diagrams explained in the text, three developed conflicts.

Table B top level (6): judgements on what the answer depends on and a conclusion that answers "at the same time". **20/20.**

Common mistakes

- **Listing aims instead of analysing conflicts.** A list of objectives earns little on its own (November 2022, Paper 42 Q6(b)). Pick at least two pairs, such as jobs against inflation and growth against the current account, and work through each pair with a chain and a diagram.
- **Jumping steps in a chain.** When arguing that one objective matters most (November 2021, Paper 41 Q5(b)), write out every link: for instance, why rising prices make a country's goods less competitive abroad, what that does to export sales, and only then to jobs. Then weigh that objective against the others and finish with a clear verdict.
- **Treating the objectives as separate.** In a "most important objective" essay (March 2021, Paper 42 Q7(a)), show how the objectives interact: the same rise in output that creates jobs may push prices up. Interactions like this are what let you judge one objective against another.
- **One-sided "Discuss" answers and unused diagrams.** In November 2022 (Paper 42) many answers to "Discuss" questions were one-sided or left the conclusion to the examiner, and some diagrams were inaccurate, badly labelled or never referred to in the text.
- **Picking the country best on one column.** In a data question, the fastest-growing country often has high inflation or a large deficit. Rank every column.
- **Forgetting population.** Living standards depend on real GDP per head, not total GDP.
- **Calling a tool an objective.** Lower taxes, interest-rate changes and tariffs are means; inflation, jobs, growth and the rest are ends.

- **Applying the balance of payments to a closed economy.** It has no trade, so there is no balance of payments to target.

How to get the marks

- **Multiple choice:** first ask "is this about the whole economy, and is it an aim rather than a tool?"; for a policy action, trace its effect on AD, prices or the budget; for data, rank every column.
- **Definitions** earn the first marks: name each objective precisely ("low and stable inflation", "sustained growth of real GDP", "a sustainable current account") and define development and sustainability as distinct from growth.
- **Analyse** means developed chains: action or failure → mechanism → effect on another objective, each step written out. Two developed conflicts are the minimum for the top level of a "can they all be achieved" question; three objectives analysed against the one named for a "most important" question.
- **Diagrams:** AD/AS with axes **price level** and **real GDP** (or real output); show the curves before and after, and explain in the text what the diagram shows. Diagram 1 (spare capacity versus full capacity) is the one examiners look for in conflict questions.
- **Assess, discuss, to what extent:** both sides, then a judgement on what the answer **depends on** (spare capacity, time scale, the type of economy, the size of each problem) and a final sentence that answers the question in its own words.
- **Essays** (20 marks since 2023): Table A (14) rewards knowledge, diagrams and analysis; Table B (6) rewards evaluation and a justified conclusion. In 2021–2022, 12- and 13-mark parts were marked in levels, with a conclusion needed for the top marks.
- **Data-response parts:** use the extract's numbers in each point and end with a short judgement where the question says "assess" or "consider".

Quick check

1. A government runs a closed economy. Which of the seven objectives does not apply to it, and why?
2. Real GDP grew by 3.5% and the population by 2.0%. By how much did real GDP per head grow (2 d.p.)? What does the shortcut give?
3. In diagram 1, find the percentage rise in real GDP and in the price level when AD rises from AD_1 to AD_2 , and again from AD_2 to AD_3 . What do the figures show about the objectives?
4. A central bank raises its inflation target from 2% to 4%. Which objective is the government putting first, and how does the change help it?
5. Explain one way economic growth can conflict with sustainability, and one way the two can go together. **[4]**

Answers

1. The **balance of payments** (and the exchange rate): a closed economy has no exports or imports, so it has no current account to balance. The other six still apply.
2. $\left(\frac{1.035}{1.020} - 1\right) \times 100 = 1.47\%$. The shortcut gives $3.5 - 2.0 = 1.5\%$.
3. AD_1 to AD_2 : real GDP $\frac{450-250}{250} \times 100 = 80\%$, prices $\frac{120-100}{100} \times 100 = 20\%$. AD_2 to AD_3 : real GDP $\frac{540-450}{450} \times 100 = 20\%$, prices $\frac{180-120}{120} \times 100 = 50\%$. With spare capacity, growth and jobs come with little inflation; near full capacity, the same kind of rise in demand brings mostly inflation, so the objectives conflict.
4. **Lower unemployment** (and growth). A higher target lets the central bank keep interest rates lower, so consumption, investment and AD stay higher, and firms hire more workers, at the cost of somewhat higher inflation.
5. Conflict: growth based on burning fossil fuels or clearing forests raises output now but pollutes and uses up resources, lowering future capacity (1) (1). Together: growth driven by cleaner technology or better skills raises output with less pollution per unit, and the extra tax revenue can pay for conservation (1) (1).

Past questions to try

- **9708/32/F/M/24 Q21**: the objective that does not apply in a closed economy.
- **9708/32/M/J/23 Q25**: what a rise in VAT says about the government's main aim.
- **9708/32/F/M/22 Q30**: what can be concluded from four countries' indicators.
- **9708/42/F/M/21 Q7**: whether growth should be the most important aim, and the cost of curing a current account deficit.