

# Macro Economic Objectives

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Sunday, 22 November 2015

12:12 pm

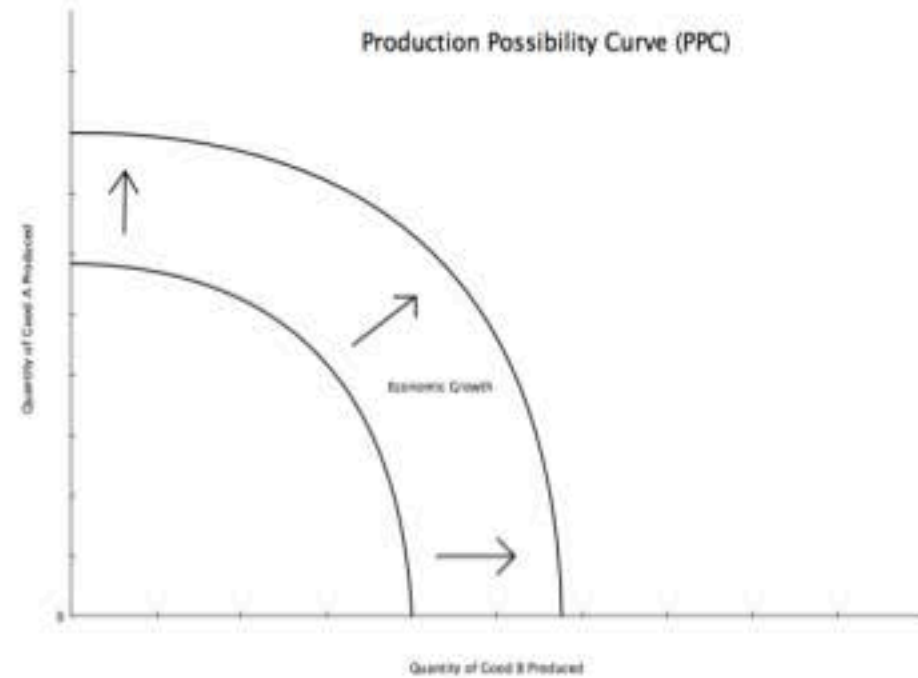
1. Economic Growth
2. Full Employment
3. Low and Stable Rate of Inflation
4. Fair Distribution of Income
5. Stable Balance of International Trade and Payments

# Economic Growth

Sunday, 22 November 2015 12:14 pm

Economic growth is a general and sustained increase in real GDP of an economy over a time period.

Can be due to an **increase** in Aggregate Demand and/or Aggregate Supply

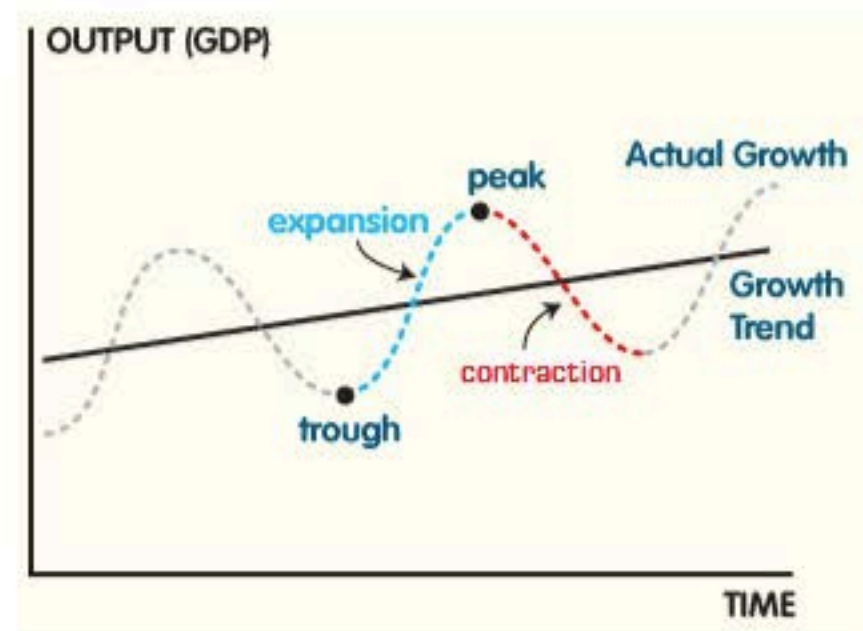


## Advantages

1. Standard of living can increase
2. Wages can increase
3. Employment can increase

## Disadvantages

1. Can lead to unfair distribution of income
2. Can lead to high inflation rates
3. May run out of resources
4. Increase in pollution
5. Can lead to unemployment (capital replace labor)



- Shows**
- ★ Potential Output
  - ★ Cyclical Unemployment
  - ★ Economic growth

# Low and Stable Inflation

Sunday, 22 November 2015 2:17 pm

**Inflation** is a general and sustained rise in the level of prices of goods and services

**Disinflation** is when the rate of inflation reduces, however this means that inflation still exists

**Deflation** is negative inflation

## Consumer Price Index - Measuring Inflation

The CPI is used to measure inflation in an economy. It calculates the average percentage change in the price of all goods and services.

### How to calculate CPI

1. A base year is selected.
2. A basket of goods for this year is selected. These are goods and services that consumers spend money on.
3. Each item in the basket is weighted. This represents the proportion of income spent on each item by households.
4. The average price is given the value '100'
5. The same basket of goods and weighting is used for the following year, and if there was a 4% increase in average price, the second year would have a value of 104.

### Equation

$$CPI \text{ in year } 1 = \frac{\text{weighted average price year } 1}{\text{weighted average price base year}}$$

## Inflation

### Advantages

1. Inflation often means that economic growth is happening in an economy
2. This can mean that employment will increase

### Disadvantages

1. Reduces the purchasing power of consumers.
2. Saving is discouraged because real value of saving is decreased
3. High costs of production for firms
4. Uncertainty - hard to plan ahead
5. Bad for people who have fixed incomes

## Deflation

### Advantages

1. Short term benefit of having higher purchasing power

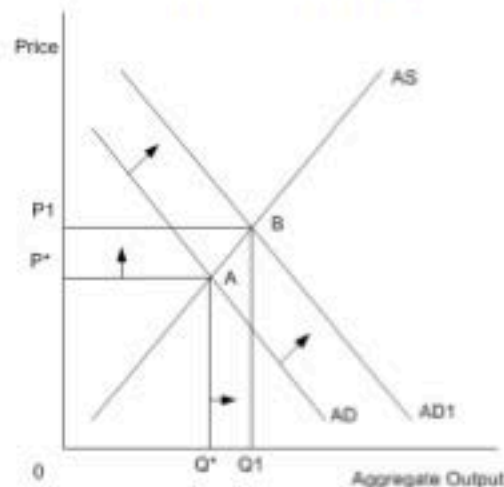
### Disadvantages

1. Leads to economic **stagnation**
2. Low customer confidence - lower spending
3. Wages decrease
4. High unemployment
5. Low spending causes a recession

## Causes of Inflation

### Demand-pull Inflation

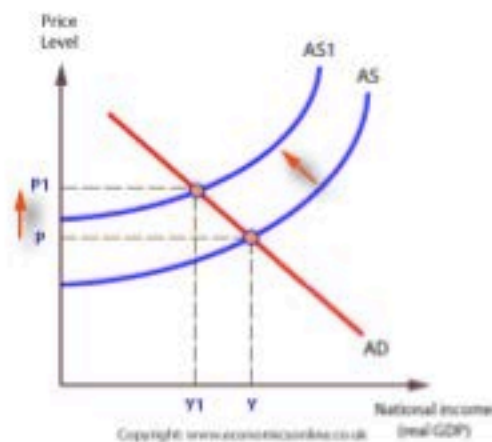
Caused by a sudden increase in aggregate demand.



This is when AS is unable to keep up with the increase in AD so prices will increase.

### Cost-push Inflation

When supply quickly decreases. Also known as a supply shock.



When the cost of production increases dramatically, AS decreases. Firms may raise their prices to account for the increase in cost of resources. This can happen due to natural disasters that damage resources.

# Full Employment

Sunday, 22 November 2015 2:17 pm

The labor force is the working population. The number of economically active citizens.

Unemployment occurs when people who are willing and able to work are not employed.

The unemployment rate is the percentage of people in the labor force who are unemployed.

$$\text{Unemployment rate} = \frac{\text{no. unemployed}}{\text{total labor force} + \text{unemployed}} \times 100$$

## Types of unemployment

### Seasonal

When some people are only employed in certain seasons, they don't have skills to be employed in other seasons.

Ski instructors

### Frictional

When people are in between jobs, the time period when they are searching for new jobs.

When someone dislikes their job // university graduates

Frictional unemployment always exists

### Cyclical

When the economy is in a recession and there is too little demand for the workers in an industry.

During downturn in an economy

### Structural

When there is a mix match of skills, or the skills are no longer required by the economy

Technology replacing labor

Can cause regional unemployment

## Costs of Unemployment

1. Government spending on welfare increases

# Fair Distribution of Income

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Sunday, 22 November 2015

2:17 pm

## Government policies

1. Fiscal policy: Making taxes more progressive, increasing direct tax on the wealthy

### Advantages

1. Increase social wellbeing
2. Overall standard of living

### Disadvantages

1. Reduce incentive to work