




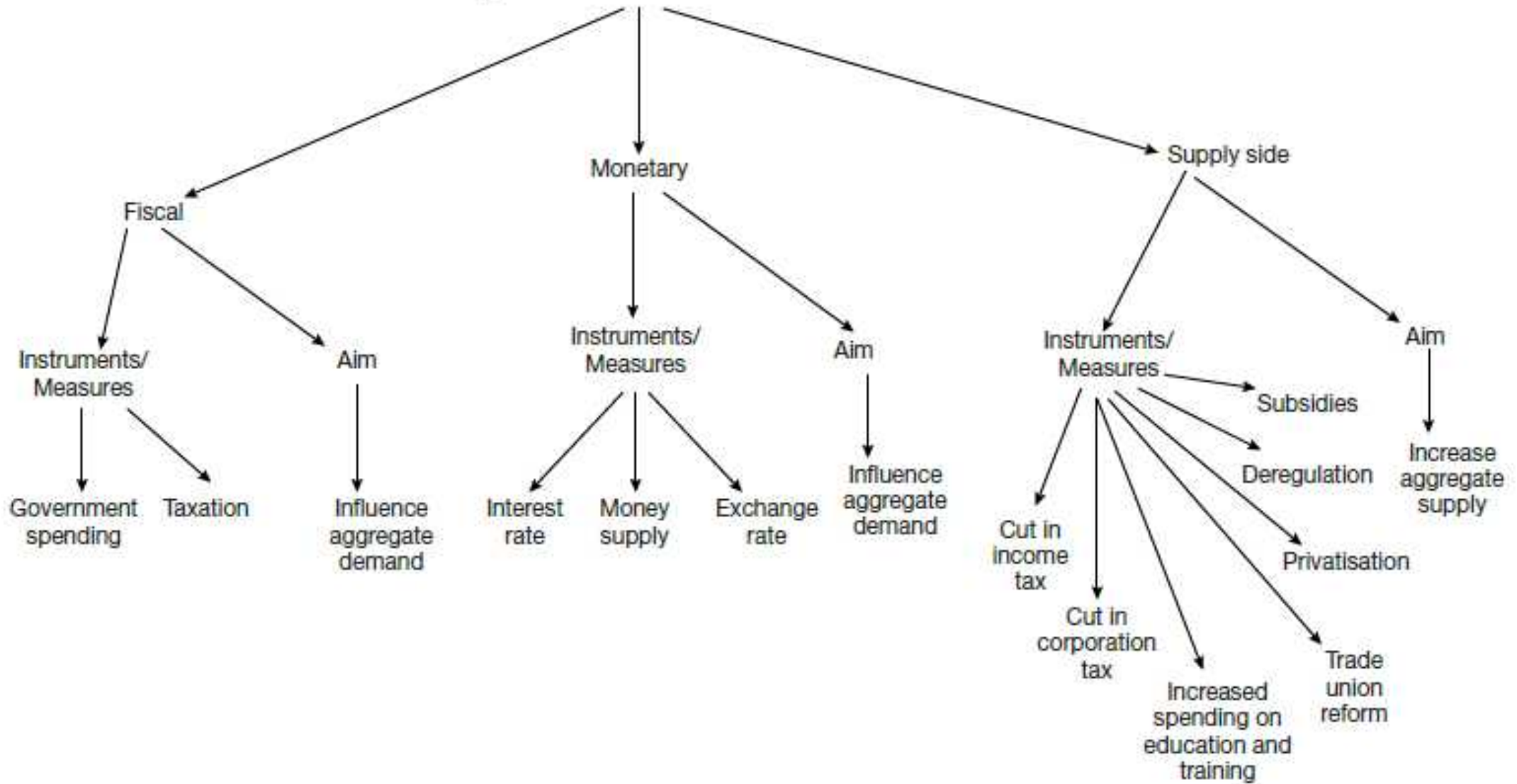
The aims of  
macroeconomic policy

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- Full employment
  - Low and stable inflation
  - Balance of payments equilibrium
  - Steady and sustained economic growth
  - Avoidance of exchange rate fluctuations
  - Sustainable economic development



# Types of policy

# Types of Macroeconomic Policies



# FISCAL POLICY

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the use of taxation and government spending to influence aggregate demand

Reflationary/Expansionary

- Reducing government spending
- Raising tax rates

Deflationary/Contractionary

- Increasing government spending
- Cutting tax rates

Discretionary fiscal policy

Deliberate changes in government spending and taxation

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## AUTOMATIC STABILISERS

Changes in government spending and taxation that occur to reduce fluctuations in aggregate demand without any alteration in government policy

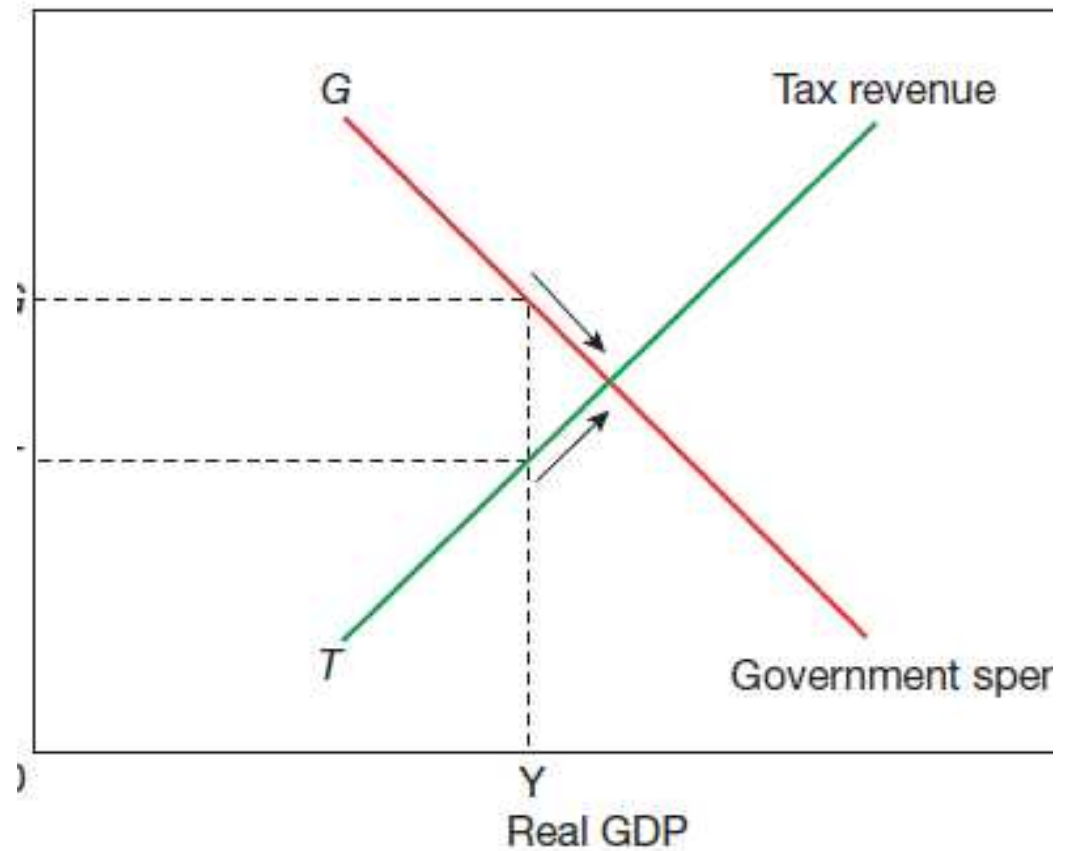


Figure 5.1 The automatic stabilisation process

## THE BUDGET POSITION

Budget surplus	tax revenue > government spending
Budget deficit	tax revenue < government spending
Balanced budget	tax revenue = government spending

### KEY TERMS

**Cyclical budget deficit:** a budget deficit caused by changes in economic activity.

**Structural budget deficit:** a budget deficit caused by an imbalance between government spending and taxation.

- In budget statement, finance minister outlines government spending and taxation plan for the next year.
- Governments seek to achieve **balanced budget** over time.
- Government is unlikely to be concerned with **cyclical deficit**.
- Economy will move towards a balance as economic activity increase during cyclical deficit.
- Government will be concerned with **structural deficit**.
- Structural deficit will not as GDP increases.

# MONETARY POLICY

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the use of interest rates,  
direct control of the  
money supply and the  
exchange rate to influence  
aggregate demand

Reflationary/Expansionary

- Cut in interest rate
- Increase in money supply
- Reduce foreign exchange rate

Deflationary/Contractionary

- Rise in interest rates
  - Decrease in money supply
  - Increase foreign exchange rate
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# SUPPLY SIDE POLICY

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measures designed to  
increase aggregate supply

- Cutting corporation tax → encourage investment
  - Cutting income tax → better productivity
  - Reducing welfare payments → more employment
  - Increasing spending on education and training → better skills/more flexible
  - Increasing spending on infrastructure → reduce firm's transport cost
  - Trade union reform → increase workers flexibility/mobility
  - Privatization/Deregulation/Subsidies
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