

Chapter 25

THE MACROECONOMIC AIMS OF GOVERNMENT

Key terms

1. Economic growth : an increase in the output of an economy and in the long run, an increase in the economy's productive potential.
2. Actual economic growth : an increase in the output of an economy.
3. Potential economic growth : an increase in an economy's production capacity.
4. Aggregate demand : the total demand for a country's product at a given price level.
AD = consumer expenditure + investment + government spending + net export.
5. Aggregate supply : the total amount of goods and services that domestic firms are willing to supply at a given price level.
6. Full employment : the lowest level of unemployment possible.
7. Economically active : being a member of the labour force.
8. Unemployment rate : the percentage of the labour force who are willing and able to work but are without jobs.
9. Inflation rate : the percentage rise in the price level of goods and services over time.
10. Balance of payment : the record of a country's economic transactions with other countries.

1. Macroeconomic aims

Macroeconomic aims	Reasons
1. Economic growth	An increase in national output or an increase in productive potential of an economy over the period of time.
2. Low unemployment	Governments try to achieve as low of the unemployment rate as possible. <ul style="list-style-type: none">• Lower unemployment, higher income and better standard of living
3. Price stability	The price level in the economy is not changing significantly over time. <ul style="list-style-type: none">• Higher inflation means lower purchasing power
4. Balance of payment	Government wants the value of export equal to the value of import in the long run.
5. Redistribution of income	Government try to redistribute income from rich and poor

2. Conflicts between macroeconomic aims

There are many conflicts between macroeconomic aims

For example :

- High economic growth \neq low and stable inflation
- High economic growth \neq environment damage
- High economic growth \neq balance of payment stability