**2.8. Macroeconomic Objectives and Policies**

1. Macroeconomic Objectives

a) Economic growth.

b) Low and stable rate of inflation.

c) Low unemployment.

d) Balance of payments equilibrium on current account.

e) Balanced government budget.

f) Greater income equality.

2. Possible Conflicts between Macroeconomic Objectives

a) Inflation and unemployment, including the short-run Phillips curve.

b) Economic growth and protection of the environment.

c) Inflation and equilibrium on the current account of the balance of payments.

d) Economic growth and income equality.

3. Macroeconomic Supply-side policies

a) Supply-side policies designed to increase productivity, competition and incentives.

b) Free market policies:

• deregulation of product and labour markets

• privatisation

• reduction in taxation

• changing the levels of welfare payments

• cutting the costs of bureaucracy for firms.

c) Interventionist policies:

• investment in education, training and skills

• incentives to encourage investment: tax incentive or subsidies

• infrastructure investment

• finance for business start-ups

• regional policy.

d) Strengths and weaknesses of different supply-side policies.

4. Macroeconomic Demand-Side Policies

a) Demand-side policies:

• the distinction between fiscal and monetary policy

• the distinction between reflationary and deflationary policies.

b) Fiscal policy instruments:

• government spending and taxation.

c) Monetary policy instruments:

• interest rates

• asset purchases to increase money supply (quantitative easing)

• changes in lending criteria

• reserve asset (liquidity) requirements.

d) The role of central banks in the conduct of monetary policy:

• implementation of monetary policy

• achieving an inflation target

• as banker to the government

• as banker to the banks – lender of last resort.

e) Strengths and weaknesses of different demand-side policies.