



10: Macroeconomic objectives and policies

1 (a) Germany had a fiscal deficit of €112 286 in 2010 but a budget surplus of €49 788 in 2019. Therefore the change was €162 074 between 2010 and 2019. [5]

(b) **KN:** 2 marks; **AP:** 2 marks; **AN:** 2 marks; **EV:** 2 marks

In 2010, the public finances would have represented an injection into the circular flow (because public expenditure was greater than tax revenues). However, in 2019 the public finances would have represented a leakage from the circular flow (because tax revenues were greater than public expenditure).

However, this could have been offset by changes in other injections and leakages. [8]

(c) **KAA:** 6 marks; **EV:** 4 marks

Analysis: Would cause a rightward shift in AS curve because the tax cut would reduce costs to businesses. Businesses will benefit from increased sales and so their revenues and profits should increase.

Evaluation: However, this cut in VAT is only for a limited period of time so the benefit to business may be short term only. Indeed when VAT increases again in 2021 sales may fall considerably if consumers bring forward expenditure to avoid the tax rise. [10]

(d) **KAA:** 8 marks;; **EV:** 4 marks

Analysis: Investment refers to an increase in capital stock. Investment is a component of AD and so will cause a rightward shift in the AD curve. Investment is also an injection into the circular flow and so the impact on AD will be enhanced via the multiplier effect causing real output to increase. In the long –run the increased investment will cause a rightward shift in the LRAS curve further increasing real output. These effects may be illustrated with an AD/AS diagram.

Evaluation: €50 billion is a significant sum so the impact on the economy is likely to be significant. However, the overall impact of this investment will depend on factors such as which areas of the economy the money is invested; how efficiently it is used; the value of the multiplier. [12]

(e) **KAA:** 16 marks; **EV:** 9 marks

Analysis: The reduction in VAT represents a reduction in leakages so there will be an increase in GDP. A lower VAT rate will lead to an increase in real incomes because prices of most goods and services will fall. In turn this should lead to an increase in consumption, a rise in AD, and to an increase in real output.

The €300 hand-out for each child in a family would increase household disposable income.

Given that this is the most important factor influencing consumption, it is likely that consumption will rise so causing AD to increase. This would cause a rise in real output and in



the price level (it would be desirable to illustrate this with an AD/AS diagram showing a rightward shift in the AD curve.) In turn, this is likely to cause an increase in employment. With higher incomes demand for imports would rise so causing a deterioration in the trade balance.

Evaluation: The overall impact on the economy would depend on the marginal propensity to consume – the higher its value, the higher the value of the multiplier and the greater will be the effect on the economy. [15]

2 Analysis: Nine marks are available for KAA.

Youth unemployment refers to people under 24 willing and able to work, i.e. not in full-time

education. Supply-side measures to reduce youth unemployment include increased spending on education and training; governments could offer apprenticeships or give tax breaks to firms that offer training; decreased regulation e.g. reduction in employment protection; decreased in national minimum wages in these countries.

All these should cause a rightward shift in the LRAS – it is advisable to include an AD/AS diagram to illustrate the impact of supply-side policies.

Evaluation: 6 marks are available for evaluation. The points you might make include:

If the cause of youth unemployment is lack of aggregate demand (recession) then supply-side policies will not be very useful for addressing the problem.

Supply-side policies might take a long time to work. For example, education and training costs at primary schools will take a decade to have an impact. Some might not work at all. There is no evidence that cutting minimum wages increases employment.

Government spending on education might not necessarily lead to more employable school leavers. It depends on what is going to be learnt and how the extra investment address the skills that firms need. [25]