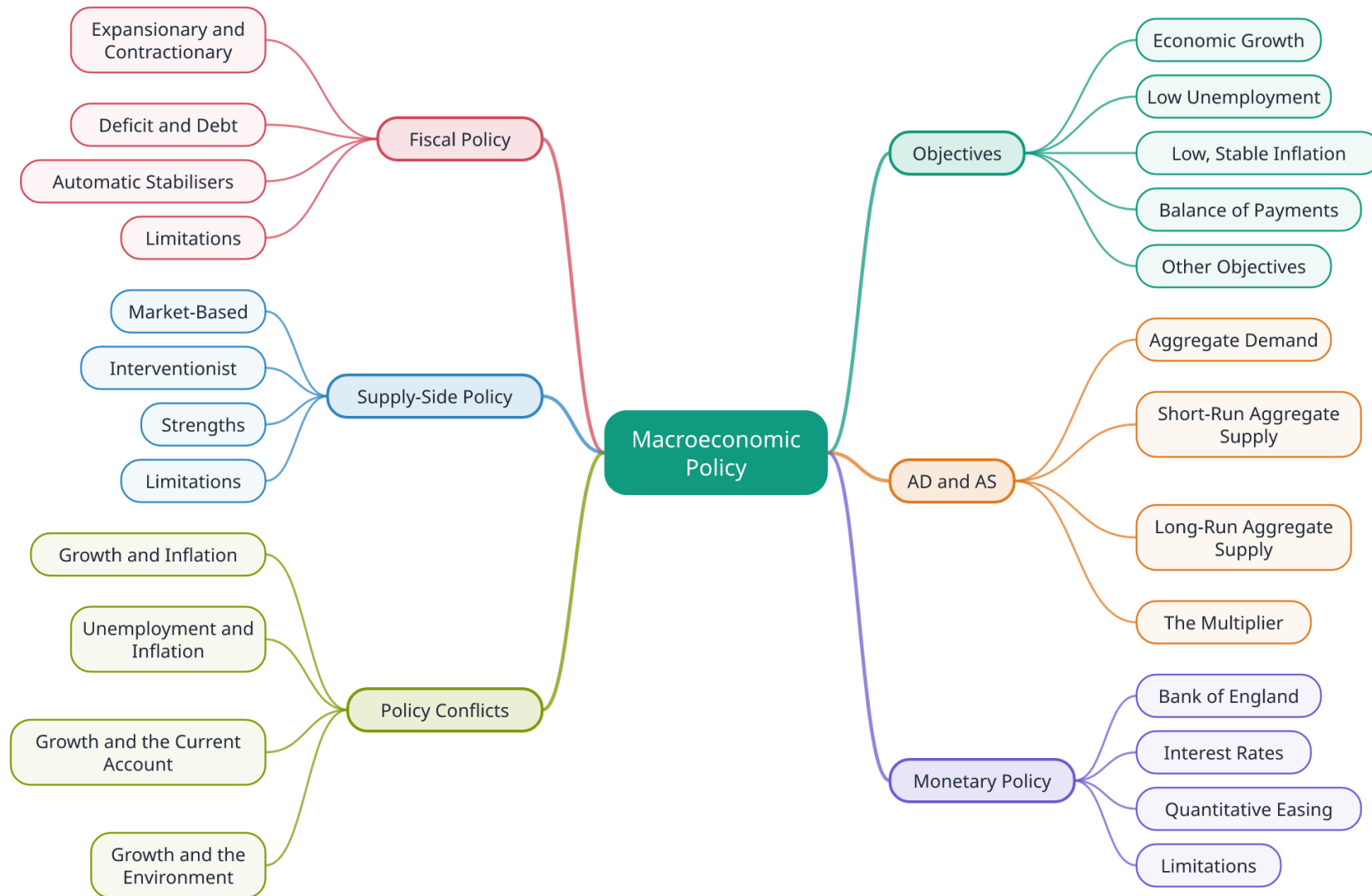


Macroeconomic Policy Mind Map (A Level Economics)

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Macroeconomic Policy mind map explained

Objectives

What governments aim for in the economy as a whole.

Economic Growth

Sustained growth in real GDP. Actual growth uses spare capacity; potential growth increases the economy's productive capacity.

Low Unemployment

Types include cyclical (demand-deficient), structural, frictional and seasonal unemployment.

Low, Stable Inflation

The UK target is 2% inflation, measured by the Consumer Prices Index (CPI).

Balance of Payments

A sustainable current account position, avoiding large long-term deficits.

Other Objectives

A fairer distribution of income, protecting the environment, and balancing the government's budget.

AD and AS

The framework for analysing every policy.

Aggregate Demand

$AD = C + I + G + (X - M)$: consumption, investment, government spending and net exports.

Short-Run Aggregate Supply

Shifts with changes in costs of production, such as wages, raw material prices and taxes on firms.

Long-Run Aggregate Supply

The economy's productive capacity. Classical economists draw it vertical; Keynesians draw it flat at low output, then vertical at full capacity.

The Multiplier

An initial injection leads to a bigger final rise in national income, because one person's spending becomes another's income.

Monetary Policy

Changing interest rates and the money supply to manage demand.

Bank of England

Independent since 1997. Its Monetary Policy Committee sets Bank Rate to meet the 2% inflation target.

Interest Rates

Higher rates make borrowing dearer and saving more attractive, reducing consumption and investment and lowering inflation. They also tend to raise the exchange rate.

Quantitative Easing

The Bank creates money to buy assets such as government bonds, lowering long-term interest rates. First used in the UK in 2009.

Limitations

Time lags of up to two years, uncertain effects on confidence, and a floor near zero for interest rates.

Fiscal Policy

Changing government spending and taxation.

Expansionary and Contractionary

Raising spending or cutting taxes boosts aggregate demand; cutting spending or raising taxes reduces it.

Deficit and Debt

A budget deficit is when spending exceeds tax revenue in a year. The national debt is the total accumulated borrowing.

Automatic Stabilisers

In a downturn, tax revenue falls and benefit spending rises automatically, cushioning the fall in demand.

Limitations

Time lags, the risk of crowding out private investment, and the cost of rising debt. The UK followed austerity policies from 2010 to cut the deficit.

Supply-Side Policy

Increasing the economy's productive capacity, shifting long-run aggregate supply to the right.

Market-Based

Cutting income and corporation tax, deregulation, privatisation and labour market reforms that increase incentives and competition.

Interventionist

Government spending on education and training, infrastructure, and research and development.

Strengths

They can raise growth without increasing inflation, and improve competitiveness.

Limitations

Long time lags, high costs, and market-based policies may increase inequality.

Policy Conflicts

Achieving one objective can make another harder.

Growth and Inflation

Rapid growth in demand can push up inflation as the economy nears full capacity.

Unemployment and Inflation

The short-run Phillips curve suggests a trade-off: lower unemployment may come with higher inflation.

Growth and the Current Account

Rising incomes increase spending on imports, which can worsen the current account.

Growth and the Environment

Higher output can mean more pollution and resource use.

How to revise with this mind map

1. Draw an AD/AS diagram for every policy, showing which curve shifts and what happens to the price level and real output.
2. Know the transmission mechanism for interest rates: how a change in Bank Rate affects consumption, investment, the exchange rate and finally inflation.
3. Evaluate every policy: time lags, the size of the multiplier, the state of the economy, and side effects on other objectives.
4. Use recent UK examples, such as quantitative easing since 2009 or austerity from 2010, and current figures for inflation and interest rates.
5. Make it yours. Build your own macro policy map in Mindmapi from your notes, and ask the AI for the latest UK figures on any branch. Its answers can search the web and are saved into that branch's notes.