

2.3 Macroeconomic objectives

Sub-topic	SL/HL core	HL
Low unemployment		
The meaning of unemployment	<ul style="list-style-type: none"> Define the term unemployment. Explain how the unemployment rate is calculated. Explain the difficulties in measuring unemployment, including the existence of hidden unemployment, the existence of underemployment, and the fact that it is an average and therefore ignores regional, ethnic, age and gender disparities. 	<ul style="list-style-type: none"> Calculate the unemployment rate from a set of data.
Consequences of unemployment	<ul style="list-style-type: none"> Discuss possible economic consequences of unemployment, including a loss of GDP, loss of tax revenue, increased cost of unemployment benefits, loss of income for individuals, and greater disparities in the distribution of income. Discuss possible personal and social consequences of unemployment, including increased crime rates, increased stress levels, increased indebtedness, homelessness and family breakdown. 	
Types and causes of unemployment	<ul style="list-style-type: none"> Describe, using examples, the meaning of frictional, structural, seasonal and cyclical (demand-deficient) unemployment. Distinguish between the causes of frictional, structural, seasonal and cyclical (demand-deficient) unemployment. 	

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	<ul style="list-style-type: none"> • Explain, using a diagram, that cyclical unemployment is caused by a fall in aggregate demand. • Explain, using a diagram, that structural unemployment is caused by changes in the demand for particular labour skills, changes in the geographical location of industries, and labour market rigidities. • Evaluate government policies to deal with the different types of unemployment. 	
Low and stable rate of inflation		
The meaning of inflation, disinflation and deflation	<ul style="list-style-type: none"> • Distinguish between inflation, disinflation and deflation. • Explain that inflation and deflation are typically measured by calculating a consumer price index (CPI), which measures the change in prices of a basket of goods and services consumed by the average household. • Explain that different income earners may experience a different rate of inflation when their pattern of consumption is not accurately reflected by the CPI. • Explain that inflation figures may not accurately reflect changes in consumption patterns and the quality of the products purchased. • Explain that economists measure a core/underlying rate of inflation to eliminate the effect of sudden swings in the prices of food and oil, for example. • Explain that a producer price index measuring changes in the prices of factors of production may be useful in predicting future inflation. 	<ul style="list-style-type: none"> • Construct a weighted price index, using a set of data provided. • Calculate the inflation rate from a set of data.

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Consequences of inflation	<ul style="list-style-type: none"> Discuss the possible consequences of a high inflation rate, including greater uncertainty, redistributive effects, less saving, and the damage to export competitiveness. 	
Consequences of deflation	<ul style="list-style-type: none"> Discuss the possible consequences of deflation, including high levels of cyclical unemployment and bankruptcies. 	
Types and causes of inflation	<ul style="list-style-type: none"> Explain, using a diagram, that demand-pull inflation is caused by changes in the determinants of AD, resulting in an increase in AD. Explain, using a diagram, that cost-push inflation is caused by an increase in the costs of factors of production, resulting in a decrease in SRAS. Evaluate government policies to deal with the different types of inflation. 	
Possible relationships between unemployment and inflation		<ul style="list-style-type: none"> Discuss, using a short-run Phillips curve diagram, the view that there is a possible trade-off between the unemployment rate and the inflation rate in the short run. Explain, using a diagram, that the short-run Phillips curve may shift outwards, resulting in stagflation (caused by a decrease in SRAS due to factors including supply shocks).

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		<ul style="list-style-type: none"> Discuss, using a diagram, the view that there is a long-run Phillips curve that is vertical at the natural rate of unemployment and therefore there is no trade-off between the unemployment rate and the inflation rate in the long run. Explain that the natural rate of unemployment is the rate of unemployment that exists when the economy is producing at the full employment level of output.
Economic growth		
The meaning of economic growth	<ul style="list-style-type: none"> Define economic growth as an increase in real GDP. 	<ul style="list-style-type: none"> Calculate the rate of economic growth from a set of data.
Causes of economic growth	<ul style="list-style-type: none"> Describe, using a production possibilities curve (PPC) diagram, economic growth as an increase in actual output caused by factors including a reduction in unemployment and increases in productive efficiency, leading to a movement of a point inside the PPC to a point closer to the PPC. Describe, using a PPC diagram, economic growth as an increase in production possibilities caused by factors including increases in the quantity and quality of resources, leading to outward PPC shifts. Describe, using an LRAS diagram, economic growth as an increase in potential output caused by factors including increases in the quantity and quality of resources, leading to a rightward shift of the LRAS curve. 	

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	<ul style="list-style-type: none"> • Explain the importance of investment for economic growth, referring to investment in physical capital, human capital and natural capital. • Explain the importance of improved productivity for economic growth. 	
Consequences of economic growth	<ul style="list-style-type: none"> • Discuss the possible consequences of economic growth, including the possible impacts on living standards, unemployment, inflation, the distribution of income, the current account of the balance of payments, and sustainability. 	
Equity in the distribution of income		
The meaning of equity in the distribution of income	<ul style="list-style-type: none"> • Explain the difference between equity in the distribution of income and equality in the distribution of income. • Explain that due to unequal ownership of factors of production, the market system may not result in an equitable distribution of income. 	
Indicators of income equality/inequality	<ul style="list-style-type: none"> • Analyse data on relative income shares of given percentages of the population, including deciles and quintiles. • Draw a Lorenz curve and explain its significance. • Explain how the Gini coefficient is derived and interpreted. 	

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Poverty	<ul style="list-style-type: none"> • Distinguish between absolute poverty and relative poverty. • Explain possible causes of poverty, including low incomes, unemployment and lack of human capital. • Explain possible consequences of poverty, including low living standards, and lack of access to health care and education. 	
The role of taxation in promoting equity	<ul style="list-style-type: none"> • Distinguish between direct and indirect taxes, providing examples of each, and explain that direct taxes may be used as a mechanism to redistribute income. • Distinguish between progressive, regressive and proportional taxation, providing examples of each. 	<ul style="list-style-type: none"> • Calculate the marginal rate of tax and the average rate of tax from a set of data.
Other measures to promote equity	<ul style="list-style-type: none"> • Explain that governments undertake expenditures to provide directly, or to subsidize, a variety of socially desirable goods and services (including health care services, education, and infrastructure that includes sanitation and clean water supplies), thereby making them available to those on low incomes. • Explain the term transfer payments, and provide examples, including old age pensions, unemployment benefits and child allowances. 	
The relationship between equity and efficiency	<ul style="list-style-type: none"> • Evaluate government policies to promote equity (taxation, government expenditure and transfer payments) in terms of their potential positive or negative effects on efficiency in the allocation of resources. 	

Theory of knowledge: potential connections

What criteria can be used to order macroeconomic objectives in terms of priority? Are such criteria external to economics (that is, normative)?

Is economic growth always beneficial? What could be meant by the word “beneficial”?

Is there always a cost to economic growth?

The notion of fairness can be approached from a number of perspectives—equality of opportunity, maximizing the income of the least well-off group, and absolute equality of income. Which of these notions seems to be most attractive? Why? Examine what each of these perspectives suggests is a fair distribution of income.

Equality of opportunity implies correcting for social advantage (for example, government might devote more resources to the education of a child brought up in less prosperous circumstances than one brought up in a comfortable home whose parents are university lecturers). How far should the state go in making such corrections? Should all parents be forced to read to their children so that no child should be at a disadvantage? Should the state attempt to correct for the uneven distribution of natural abilities such as IQ (intelligence quotient) by devoting proportionally more resources to children of less than average IQ.

2.4 Fiscal policy

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The government budget		
Sources of government revenue	<ul style="list-style-type: none"> Explain that the government earns revenue primarily from taxes (direct and indirect), as well as from the sale of goods and services and the sale of state-owned (government-owned) enterprises. 	
Types of government expenditures	<ul style="list-style-type: none"> Explain that government spending can be classified into current expenditures, capital expenditures and transfer payments, providing examples of each. 	
The budget outcome	<ul style="list-style-type: none"> Distinguish between a budget deficit, a budget surplus and a balanced budget. Explain the relationship between budget deficits/surpluses and the public (government) debt. 	