

Economics
 Macroeconomic and Microeconomic Policies
 Pages 206, 207, 208 and 209

Macroeconomic Policies

- Refers to those policies that aim to stabilise the overall level of economic activity (Aggregate DEMAND).
- Main tools:
 - Fiscal policy (The budget)
 - Monetary policy (Interest rates and RBA intervention)
- Changes in macroeconomic policy settings may occur when the economy's equilibrium level of Y or Q do not coincide with the FULL EMPLOYMENT level of Y :
 - If AD exceeds AS at full N_+ of Y , an inflationary gap may emerge.

Conversely...

- If AD is $<$ AS at full N_+ level of Y , a deflationary gap may occur within the economy.
- Gov. can attempt to close a deflationary gap with expansionary settings in both fiscal and monetary policy:
 - Lowering INT rates - encourages $C + I$ and growth in AD to close the gap.
 - A more expansionary FP - by cutting T /increasing GS - to stimulate AD.

Conversely...

- Gov. can attempt to close an inflationary gap with tighter settings on fiscal/monetary policy:
 - Raising INT rates - Discouraging $C + I +$ growth in AD, closing the InFLn Gap.
 - Adopt a more concretionary stance in the budget - through increasing taxes/spending less reducing AD - reducing the budget deficit.

Microeconomic Policies

- Refers to government policies designed to raise the economy's level of productivity and international competitiveness
- Aiming to improve the efficiency of production, distribution and exchange by:
 - Increasing market competition
 - Increasing the use of technology
- Attacks SUPPLY
- These types of policies are complementary to Macroeconomic strategy.
 - If the GOV can achieve internal + external balance, micro economic policy can operate at the same time to improve the efficiency of resource allocation in the longer term.
- Efficiency gains related to Macroeconomic policy include:
 - Technical/productive efficiency - producing Q at the least combination cost of resources.
 - Allocative efficiency - changing P which reflects the marginal cost of production - Resources are allocated to reflect consumer preference on $G + S$.
 - Dynamic efficiently - firms adapting to changing economic circumstances using the latest technology, meeting a changing consumer preference.
- All of these gains in efficiency leads to a rise in national Y , increased living standards as well as the economy's ability to absorb shocks from external sources.