

# Discuss how far recent uk economic policy essay



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Discuss how far recent UK economic policy has been successful in achieving the macroeconomic objectives BY rave\_100 Discuss how far recent I-J economic policy has been successful in achieving the macroeconomic objectives. The four main macroeconomic objectives are: full employment, price stability (low and stable inflation), sustainable economic growth, and a healthy Balance of Payments. A diagram showing unemployment and Jobsharers allowance in the I-J: On the diagram shown above, unemployment within recent years (2008-2013) is seen to be increasing.

In 2011 unemployment peaked at 2.6 million which around the time the chancellor George Osborne said "... The government was continuing efforts to help create new jobs" followed by "Policies like enterprise zones... Are going to make a real difference". The policy in question is a supply side policy, Enterprise zones which are geographical areas seen as impoverished in which incentives such as tax concessions are offered to encourage investment and provide jobs for residents to help support genuine growth and create new businesses.

Enterprise zones are effective because lower taxes and less regulation will increase jobs and incomes in the zones by attracting capital, labor, and economic activity. To make an Enterprise zone successful it must be accompanied with targeted investments in skills and infrastructure, to ensure that they lead to lasting improvements in competitiveness otherwise they do very little to promote lasting economic prosperity.

How successful enterprise zones are depends on the extent of government spending for example, transportation problems: The area may have poor

access to roads, rail, and other means to transport goods and services which is a barrier, preventing increases in economic activity. Also spending cuts, a fiscal policy which are Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending.

During 2011 the I-J government announced big cuts to public spending which resulted in the loss of 10, 000 public sector jobs in a year. This shows how a tight fiscal policy can have adverse effects on full employment. A diagram showing inflation expressed as a percentage in the UK The consumer price index (CPI) in 2010 was 3. 1% in August 4. 4% February 2011. The government's objective for inflation is to be kept low to a figure of 2+%. Inflation is the reason to increasing price levels or to be specific the continuous and sustained rise in the average price level.

As stated before the CPI, which is also an accurate estimate (MAC) of the Bank of England is responsible for achieving price stability in the I-J. In the I-J the most common tool used to control inflation are increases or decreases in short term interest rates, which is a form of monetary policy. Changes in interest rates are effective in altering inflation to achieve the target rate because there are two types of inflation, which are demand pull and cost push inflation. When there is large/strong consumer demand for a particular good or service, the price will inevitably increase.

When this happens across the entire economy for all goods, it is known as demand pull inflation. This increase may be due to the MAC, decreasing interest rates which reduces the cost for borrowing and the incentive to

save, so consumers borrow/take out more loans and also save less, to purchase consumer goods, and businesses gain confidence to invest in the creation of capital goods and so will employ workers to handle/man machinery and so results in a reduction in unemployment.

On the other hand, higher costs of production factors decreases the amount of total production in the economy, because there are fewer goods being produced, demand for these goods remains consistent and so the prices of finished goods increase (inflation). The Bank of England forecast a sharp fall in inflation during 2012. This is because in 2011, inflation was caused by temporary cost-push factors, which loss effects during the course of 2012.

These cost-push factors include: One-off tax rises (such as VAT) , effect of devaluation and higher import prices & rising commodity and food prices. In 2012, the rate of inflation fell rapidly as seen in the inflation diagram. How Europe economy effects the I-J The Rezone looks more vulnerable than ever before. In this climate of debt default, investors have shown preference for government bonds outside the Rezone, where there is less risk of liquidity shortages.

The Eurozone's troubles have led to weakening of the Euro and making Sterling relatively more attractive. This appreciation in the sterling pound will reflect upon the price competitiveness on exports which will decrease therefore lowering demand for our goods domestically and abroad by foreigners which will decrease our net exports (a component of AD) and so shifts the AD curve inwards from AD-AD resulting in a decrease in

inflationary pressure but at the expense of economic growth as the AD curve recedes.

Further consequences are that the current account deficit increases therefore weakening the balance of payments. Also due to the negative growth in AD businesses and consumers may lose confidence in the economy, therefore demand for goods and services decrease and businesses do not invest in capital or labor so contributes to a higher rate of unemployment/redundancy.

So the UK government uses a combination of fiscal, monetary and supply side policies to achieve their macroeconomic objectives but above their main objectives they are also trying to significantly reduce the UK's deficit also known as the " Deficit reduction plan".. This objective interest rates will be kept low as to not jeopardize the nation's finances in conjunction with public spending cuts, welfare spending cuts and tax rises.

Though these policies do not seem to be very effective as the UK is looking at " its third recession since 2008" as well as the " debt is set to carry on rising for another three years". In retrospect to 2011-2012 the debt has decrease but not as the strategy where the deficit is currently " £. 3 billion lower In conclusion, the UK government has only successfully achieved the macroeconomic objective of price stability (low and stable inflation) as more recently the ICP was measured at 2. 4% in April which is close to the target rate and considering what the inflation rate during