Macroeconomic Objectives: objectives that relate to an entire economy including high economic growth, low inflation, low unemployment, stable BOP and stable Exchange rate.

Macroeconomic Policy refers to any strategy / initiative that the government takes to achieve its macroeconomic objectives.

There are 3 macroeconomic policies that we will discuss which are as follows;

1. ***Fiscal Policy:*** refers to the government budget in which the government decides how much revenue it will collect from different sources of taxation and how it will spend it like provision of public goods, for example education, health care, etc.
2. ***Monetary Policy:*** deals with the country's money supply and interest rates. Monetary policy is independently managed by the country's central bank without any interference from the government.
3. ***Supply Side Policies:*** are government initiatives / strategies used to enhance a country's production potential. This is when a country's PPC curve shifts outwards.

Following could be some effective supply-side policies:

a. ***Investment in human capital:*** human capital refers to the quality of human resource available in a country. Human capital is directly affected by 2 things namely quality of education / training and quality of health care.
b. ***Providing subsidies to important / strategic industries:*** providing subsidies to important sectors which are contributing more to the country's GDP / exports could really enhance its economic growth.
c. ***Ensuring Investment conducive environment:*** through giving businesses tax holidays (these are tax exemptions for new businesses), establishing industrial zones (these are areas of a country that are reserved for businesses' production facilities and they provide access to utilities like electricity, gas at subsidized rates), simplifying the international trade and transactions process.
d. ***Investment in research and development:*** giving incentives to business to do research and development like making more strict intellectual property laws including patents, copyrights.

Fiscal and Monetary policies are demand side policies as they affect aggregate demand of the country.

Fiscal Policy: there are 2 possible scenarios for fiscal policy namely expansionary and contractionary.

Expansionary policy is basically when a country wishes to boost its economic activity. Therefore, it involves lower taxes and higher government expenditure.

Contractionary policy aims at reducing economic activity which involves increasing taxes and reducing government spending.

Expansionary monetary policy would mean lowering the interest rates which will boost borrowing and so will increase economic activity.

And vice versa contractionary monetary policy interest rates will be increased which will overall suppress economic activity.

4 China's terms of trade index fell from 102.1 in March 2018 to 99.7 in April 2018.

(a) State how the terms of trade are measured, and explain **three** possible causes of the fall in China's terms of trade shown above. [8]

(b) Discuss whether a rise in the terms of trade or a fall in the terms of trade is more likely to be of benefit for an economy. [12]

a) Terms of trade (ToT) is a formula that calculates the relation between the prices of a country's exports and its imports.

ToT = Index of export prices / Index of import prices

When a country's export prices rise in relation to its import prices it is known as improvement in ToT and vice versa when import prices are rising faster than export prices that is known as deterioration in ToT.

1. The prices of products that China is importing are rising fast: for instance the price of fuel might be rising which is an inelastic good and so China needs to import it no matter what.
2. Weaker exchange rate: with weaker ER the China needs to pay more in local currency to buy the same price product from a foreign country. Causing China to pay more for its imports and it will receive less dollars / foreign currency in exchange for its exports hence reducing the price of its exports.
3. Over time China's exports might have become less competitive (could be because of local rate of inflation higher than other countries exporting same product) in relation to other countries exporting the same things.

Improvement of ToT	*Deterioration in ToT*
It is beneficial because for the same quantity of exports a country can finance more imports.	With more advance technology a country might be able to produce its exports much more cheaply and therefore that would deteriorate the country's ToT but that is not necessarily a bad thing since you would get to produce more output at lower cost.
With cheaper imports our consumers would have more purchasing power of imports which would improve their living standards.	With deterioration of ToT the country would still need to import necessary products like Oil, military goods, food items which have inelastic demand and therefore it would cause more deficit on BOP and therefore would result in depletion of foreign currency reserves.
With stronger ER a country export prices would rise as you would get more dollars for the same product and you would need less units of local currency to import the same product so your import prices fall and therefore overall your ToT would rise. However this change in ER would mean that in LR the country exports become less competitive and imports would be cheaper and therefore in LR the country trade in goods and trade in services balance can go in deficit.	