

QCE Unit 4 Topic 1: Macroeconomic Objectives & Theory

Comprehensive Study Guide with 20 Multiple Choice Questions

SECTION 1: KEY CONCEPTS & TERMINOLOGY

1.1 Percentage Point vs. Percentage Change

- Percentage Point: The absolute difference between two percentages (e.g., 5% → 7% = 2pp increase)
- Percentage Change: The proportional change in a value (e.g., GDP \$100bn → \$110bn = 10% increase)
- NEVER say 'unemployment increased 2%' when you mean 2 percentage points
- Use pp for rates (unemployment, interest, inflation); use % for quantities (GDP, house prices)

1.2 Basis Points

- 1 basis point (bp) = 0.01 percentage points = 1/100th of one percentage point
- Used for precision in interest rates: 'RBA raised rates by 25bp' = 0.25pp
- Example: Cash Rate 3.85% + 50bp = 4.35%
- Standard in financial markets, banking, and investment terminology

1.3 Consumer Price Index (CPI)

- Measures the percentage change in prices of a basket of goods/services consumed by households
- Base year = 100 (e.g., if CPI is 120, prices are 20% higher than base year)
- Used to calculate headline inflation (all items) and underlying inflation (excluding volatile items)
- Australia's CPI quarterly release is a key macroeconomic indicator

1.4 Deflation

- Sustained fall in the price level (negative inflation)
- Dangerous because it discourages spending: if prices fall, consumers delay purchases
- Real debt burden rises: \$100k debt becomes harder to repay when prices/wages fall
- Real interest rates spike: 2% nominal rate – (–5% deflation) = 7% real rate

1.5 Labour Force Underutilisation

- Includes both unemployment and underemployment (part-time workers wanting full-time work)

- Broader measure than unemployment rate alone
- Captures hidden unemployment: discouraged workers who've stopped looking
- Important for assessing true labour market slack

1.6 Average Propensity to Consume (APC) & Save (APS)

- $APC = \text{Total Consumption} \div \text{Total Income}$ (e.g., consume \$80 out of \$100 = APC 0.8)
- $APS = \text{Total Savings} \div \text{Total Income}$ (e.g., save \$20 out of \$100 = APS 0.2)
- $APC + APS = 1$ (income is either spent or saved)
- $\text{Marginal Propensity to Consume (MPC)} = \text{change in consumption} \div \text{change in income}$

1.7 NAIRU (Non-Accelerating Inflation Rate of Unemployment)

- The unemployment rate at which inflation remains stable without accelerating
- Australia's NAIRU $\approx$ 4–4.5%
- If $U < \text{NAIRU}$: tight labour market $\rightarrow$ wage pressure $\rightarrow$ inflation rises
- If $U > \text{NAIRU}$: slack labour market $\rightarrow$ wage moderation $\rightarrow$ inflation falls

1.8 Participation Rate

- Percentage of working-age population (15+) in the labour force
- Labour force = employed + unemployed (actively seeking work)
- Not in labour force: students, retirees, stay-at-home parents, discouraged workers
- Australia's participation rate $\approx$ 65–66%

1.9 Stagflation

- Simultaneously high inflation and high unemployment
- Violates normal Phillips Curve trade-off
- Caused by adverse supply shocks (oil price spikes, supply disruptions)
- Difficult for policy: fighting inflation worsens unemployment, and vice versa

1.10 Structural Deficit

- The government budget deficit that would exist if the economy were at full employment
- Distinguishes from cyclical deficit (caused by the recession itself)
- Reveals whether fiscal policy is sustainably loose or tight
- If structural deficit is large, it may be unsustainable long-term

SECTION 2: NOMINAL VS. REAL

2.1 Real vs. Nominal GDP

- Nominal GDP: GDP measured at current prices (includes inflation)
- Real GDP: GDP adjusted for inflation (shows true productive capacity)
- Formula: $\text{Real GDP} = \text{Nominal GDP} \div \text{Price Index} \times 100$
- Example: Nominal GDP \$1.3 trillion, CPI 110 $\rightarrow$ Real GDP = $1.3 \div 110 \times 100 = \1.18 trillion
- Real GDP is the true measure of economic growth; nominal can be deceiving

2.2 Real vs. Nominal Wages

- Nominal wage: the actual dollar amount earned (e.g., \$60,000/year)
- Real wage: purchasing power of earnings adjusted for inflation
- Real wage = $\text{Nominal wage} \div \text{Price index} \times 100$
- If nominal wages rise 5% but inflation is 6%, real wages have FALLEN by ~1%
- Living standards depend on real wages, not nominal

2.3 Real vs. Nominal Interest Rates

- Nominal interest rate: the rate quoted by banks (e.g., 4.5% on a mortgage)
- Real interest rate: nominal rate adjusted for inflation
- Formula: $\text{Real rate} \approx \text{Nominal rate} - \text{Inflation rate}$
- Example: 5% mortgage, 3% inflation $\rightarrow$ real rate $\approx$ 2%
- Borrowers care about real rates; high inflation erodes the real cost of borrowing

Calculation Practice:

- If inflation is -2% (deflation), nominal rate 1%, real rate = $1 - (-2) = 3\%$
- High inflation reduces real interest rates, encouraging borrowing
- Deflation increases real rates, discouraging borrowing (dangerous for economies)

SECTION 3: PRODUCTION POSSIBILITY CURVE (PPC)

3.1 What the PPC Shows

- Maximum combinations of two goods an economy can produce with full resource utilisation
- Assumes fixed resources (land, labour, capital, enterprise) and technology
- Curved (concave) due to increasing opportunity cost—resources aren't equally suited to all goods
- Points on the curve = efficient production; inside curve = inefficient; outside = impossible

3.2 Factors That Shift the PPC

Outward Shift (Expansion):

- More/better resources: immigration, new capital investment, labour force growth
- Technological improvement: new methods increase productivity
- Discovery of natural resources: new mineral deposits, oil reserves
- Better organisation/efficiency: less waste, improved management

Inward Shift (Contraction):

- Loss of resources: natural disasters, war, drought
- Depreciation: capital stock wears out without replacement
- Migration: labour leaves the country
- Technological regression: loss of knowledge/skills

SECTION 4: THE MULTIPLIER EFFECT

4.1 What Is the Multiplier?

- Shows how much total AD and GDP rises from an initial injection of government spending
- Example: \$1bn govt. spending → total AD rises \$5bn = multiplier of 5
- The multiplier works because initial spending becomes income for workers, who spend part of it
- Creates a chain reaction of spending, each round smaller than the last

4.2 Simple Keynesian Multiplier Formula

- $\text{Multiplier} = 1 \div (1 - \text{MPC}) = 1 \div \text{MPS}$
- MPC = Marginal Propensity to Consume (fraction of extra income spent)
- MPS = Marginal Propensity to Save = $1 - \text{MPC}$
- Example: If MPC = 0.8, then Multiplier = $1 \div 0.2 = 5$
- If MPC = 0.75, then Multiplier = $1 \div 0.25 = 4$

4.3 Multiplier Calculation Example

Govt. injects \$100m. If MPC = 0.8:

- Round 1: Govt. spends \$100m → workers earn \$100m
- Round 2: Workers spend 80% = \$80m → others earn \$80m
- Round 3: Others spend 80% of \$80m = \$64m → others earn \$64m
- Continues: \$100m + \$80m + \$64m + \$51.2m + ... = \$500m total (multiplier = 5)

4.4 What Affects the Multiplier Size?

- MPC: Higher MPC → larger multiplier (more of extra income is spent)

- Automatic stabilisers: Taxes and welfare reduce multiplier (20-30% tax rate reduces multiplier)
- Imports: Spending on foreign goods leaks out of economy → smaller multiplier
- In Australia, multiplier ≈ 1.5 –2.5 due to high import share and taxes

SECTION 5: THE ECONOMIC CYCLE & MACRO OBJECTIVES

5.1 Four Phases of the Economic Cycle

1. Expansion (Recovery):

- Real GDP growing, unemployment falling, inflation low/stable
- Consumer and business confidence rising
- Job creation, wage growth beginning
- Tax revenue up, welfare spending down → cyclical surplus emerging

2. Peak (Boom):

- GDP growth at or above trend, unemployment at/below NAIRU
- Inflation risk rising (wage-price spiral, asset bubbles)
- Tight labour market, skills shortages, wage pressures
- Consumer and asset prices may be elevated/unsustainable

3. Contraction (Recession):

- Real GDP falling (2+ consecutive quarters = technical recession)
- Unemployment rising, business failures increasing
- Inflation may fall, deflation risk emerges
- Tax revenue down, welfare spending up → cyclical deficit

4. Trough (Bottom):

- GDP at lowest point, unemployment peak
- Business and consumer confidence severely depressed
- Interest rates typically cut to stimulate recovery
- Economy begins gradual recovery

5.2 Macroeconomic Objectives

- Sustainable Economic Growth: Long-term real GDP expansion without overheating
- Full Employment: Unemployment at or near NAIRU (typically 3.5–4.5%)
- Price Stability: Inflation target (Australia: 2–3% over cycle)
- External Stability: Manageable current account, sustainable debt levels
- Sustainable Development: Growth that doesn't deplete resources or damage environment

- Improved Living Standards: Rising real incomes, real wages, wealth per capita

SECTION 6: AGGREGATE DEMAND & SUPPLY

6.1 Circular Flow of Income Model

- Shows how money flows between households, firms, and government
- Households provide labour → earn income → spend on goods
- Firms hire labour → pay wages → produce goods
- Government taxes income, collects taxes → spends on services & transfers
- Exports bring money in; imports leak money out

6.2 Components of Aggregate Demand

- $AD = C + I + G + (X - M)$
- C = Consumption (household spending on goods/services)
- I = Investment (business spending on capital)
- G = Government spending (consumption & investment)
- X = Exports (foreign demand for domestic goods)
- M = Imports (domestic spending on foreign goods)

6.3 Factors Shifting Aggregate Demand

Factors Increasing AD (Shift Right):

- Higher household income/wealth → consumption rises
- Lower interest rates → investment and consumption rise
- Fiscal expansion (govt. spending up, taxes down)
- Rising global demand → exports rise
- Lower AUD (exchange rate) → exports cheaper, imports dearer
- Rising consumer/business confidence

Factors Decreasing AD (Shift Left):

- Lower household income/wealth → consumption falls
- Higher interest rates → investment and consumption fall
- Fiscal contraction (govt. spending down, taxes up)
- Falling global demand → exports fall
- Rising AUD → exports dearer, imports cheaper
- Falling consumer/business confidence (pessimism, uncertainty)

6.4 Short-Run vs. Long-Run Aggregate Supply

- Short-Run AS (SRAS): Upward sloping (sticky wages/prices in short run)
- Long-Run AS (LRAS): Vertical (at natural/full employment level)
- SRAS shifts up/down with changes in resource costs (wages, materials) and productivity

- LRAS shifts right/left with changes in productive capacity (technology, labour, capital)

6.5 Cyclical vs. Structural Factors in AD/AS

Cyclical (Temporary, Reversible):

- Changes in consumer confidence → affects consumption/AD
- Business cycle downturns → unemployment rises temporarily
- Temporary supply shocks (drought, temporary oil price spike)

Structural (Permanent, Long-term):

- Shift from manufacturing to services → permanent job losses in some sectors
- Technology replacing labour → long-term structural unemployment
- Long-term resource depletion or climate change → LRAS shift
- Demographic change (ageing population) → potential growth rate shift

SECTION 7: TYPES OF UNEMPLOYMENT

7.1 Unemployment Types

- Cyclical: Due to economic downturn; falls when economy recovers
- Structural: Mismatch between skills needed and skills available; long-term
- Frictional: Normal turnover between jobs; people searching for new positions
- Seasonal: Predictable job losses in certain seasons (agriculture, tourism, retail)
- Natural: Frictional + structural unemployment at full employment (= NAIRU)
- Long-term: Unemployed > 12 months; harder to re-enter workforce
- Hidden: Discouraged workers who've stopped job searching; not counted as unemployed

7.2 Effects of Unemployment

For Individuals:

- Lost income → lower living standards, poverty risk
- Mental health impacts: stress, depression, reduced self-esteem
- Skill atrophy: skills deteriorate with prolonged joblessness
- Career scarring: future earnings potential damaged

For Economy:

- Lost output: economy operating inside PPC
- Reduced tax revenue, higher welfare spending
- Lower aggregate demand → multiplier effects depress growth further
- Social costs: crime, health spending, reduced wellbeing

SECTION 8: TYPES & CAUSES OF INFLATION

8.1 Inflation Types

- Headline Inflation: All items including volatile (food, energy); most visible to public
- Underlying Inflation: Excludes volatile items; shows underlying price pressures
- Demand-Pull: 'Too much money chasing too few goods'; happens when $U < \text{NAIRU}$
- Cost-Push: Rising input costs (wages, oil, raw materials) → firms raise prices
- Imported Inflation: Rising global prices or falling AUD makes imports dearer
- Inflation Expectations: If people expect inflation, they raise prices/wage demands → self-fulfilling

8.2 Effects of Inflation

Costs (Harmful Effects):

- Menu costs: firms must change prices frequently
- Uncertainty: investment decisions harder; long-term contracts risky
- Savers harmed: savings value eroded; real interest rates fall
- Fixed income earners harmed: pensions/fixed wages lose purchasing power
- International competitiveness: exported goods become more expensive
- Bracket creep: taxpayers pushed into higher tax brackets

Benefits (Why Some Inflation is Good):

- Encourages spending/investment (rather than hoarding money)
- Reduces real debt burden (debt erodes in real value)
- Provides room for real wage cuts without nominal cuts (politically feasible)
- Avoids deflation trap (which is far worse)

SECTION 9: FISCAL POLICY & AGGREGATE DEMAND

9.1 Interest Rates as a Policy Tool

- Central bank (RBA in Australia) sets official cash rate
- Lower rates: Encourage borrowing/spending → stimulate AD → growth
- Higher rates: Discourage borrowing/spending → reduce AD → lower inflation
- Effect takes 12–18 months to fully impact economy (long lags)
- Limited when rates already near zero (liquidity trap)

9.2 Fiscal Policy: Federal Budget Decisions

- Tax changes: Lower taxes → higher disposable income → consumption rises
- Government spending: Increase spending → direct AD increase
- Transfer payments: Welfare increases → recipients spend more
- Budget deficit: Government spending > tax revenue → expansionary
- Budget surplus: Government spending < tax revenue → contractionary

9.3 Automatic Stabilisers

- Tax and welfare that automatically adjust with economic cycle
- In expansion: Tax revenue rises (higher incomes), welfare falls → budget move to surplus
- In recession: Tax revenue falls, welfare rises → budget move to deficit
- Happen WITHOUT government decision → automatic circuit-breaker
- Reduce multiplier size but stabilise the economy (self-limiting expansions/contractions)

9.4 Discretionary Spending

- Government actively decides to increase or decrease spending/taxes
- Example: New infrastructure projects, tax cuts announced in budget
- Pros: Can target specific needs, flexible
- Cons: Lags (takes time to legislate and implement), may be poorly timed

9.5 Fiscal Multiplier

- How much AD increases from \$1 govt. spending injection
- With automatic stabilisers: Multiplier $\approx 1.5-2.5$ (smaller but more stable)
- During expansion: Smaller multiplier (economy near capacity, limited spare resources)
- During recession: Larger multiplier (spare capacity available for extra output)

MULTIPLE CHOICE QUESTIONS

20 Questions Covering Unit 4 Topic 1 Content

Question 1

Unemployment falls from 5.2% to 4.8%. What is the correct way to express this change?

- A. Unemployment decreased by 0.4%
- B. Unemployment decreased by 40 basis points
- C. Unemployment decreased by 0.4 percentage points
- D. Both B and C are correct

Question 2

Real GDP is most accurately described as:

- A. GDP that includes only government spending
- B. GDP adjusted for inflation to show true productive capacity
- C. GDP that excludes all imports and exports
- D. GDP measured at current market prices

Question 3

If the marginal propensity to consume is 0.75, what is the value of the simple Keynesian multiplier?

- A. 0.75
- B. 1.33
- C. 4.0
- D. 3.0

Question 4

The RBA lowers the cash rate from 4.35% to 4.10%. By how many basis points has it cut?

- A. 0.25 basis points
- B. 25 basis points
- C. 25 percentage points
- D. 0.25 percentage points

Question 5

Nominal wages increase by 4% while inflation is 5%. What happens to real wages?

- A. Real wages increase by 1%
- B. Real wages decrease by approximately 1%
- C. Real wages increase by 9%
- D. Real wages remain unchanged

Question 6

Which factor would cause an outward shift of the Production Possibility Curve?

- A. An increase in resource depletion
- B. Technological advancement improving productivity
- C. A decline in the labour force due to emigration
- D. A reduction in capital investment

Question 7

Which of the following is an example of structural unemployment?

- A. Workers laid off during a recession who will be rehired when growth returns
- B. Manufacturing workers whose jobs are permanently lost to automation
- C. Seasonal workers in agriculture facing predictable off-season unemployment
- D. New graduates searching for their first job

Question 8

During the peak phase of the economic cycle, which is most likely to be a government concern?

- A. Rising unemployment and falling output
- B. Deflation and excess productive capacity
- C. Wage-price spirals and asset price bubbles
- D. Deteriorating export competitiveness due to falling AUD

Question 9

The Central Bank maintains a cash rate of 2% while inflation is -2% (deflation). What is the real interest rate?

- A. 0%
- B. 2%
- C. 4%
- D. Cannot be determined

Question 10

Which component of aggregate demand is most directly affected by an increase in interest rates?

- A. Consumption only
- B. Investment only
- C. Government spending
- D. Both consumption and investment

Question 11

Australia's unemployment rate is 4.1% and Australia's NAIRU is 4.3%. This suggests:

- A. The labour market has excess slack and inflation will fall
- B. The labour market is tight and inflation pressure is likely upward
- C. Unemployment is at its natural rate
- D. Structural unemployment is the only type present

Question 12

Which statement correctly describes the relationship between automatic stabilisers and fiscal multiplier size?

- A. Automatic stabilisers increase the size of the multiplier
- B. Automatic stabilisers reduce the size of the multiplier
- C. Automatic stabilisers have no effect on the multiplier
- D. The relationship depends on the level of government spending

Question 13

Cost-push inflation occurs when:

- A. Aggregate demand rises faster than aggregate supply
- B. Input costs (wages, oil, materials) rise, forcing firms to increase prices
- C. The money supply expands too rapidly
- D. Exports decline, reducing foreign demand

Question 14

Which scenario represents a movement along the short-run aggregate supply curve (not a shift)?

- A. A technological breakthrough increases productivity
- B. The price level rises, and firms increase output in response
- C. Wage negotiations result in higher nominal wages

- D. Government spending increases, raising aggregate demand

Question 15

The CPI is 115 in the current year and was 110 in the previous year. What is the inflation rate?

- A. 4.5% inflation
- B. 5% inflation
- C. 15% inflation
- D. 115% inflation

Question 16

In the circular flow of income model, what represents a 'leakage' from the flow?

- A. Government transfer payments to households
- B. Household spending on consumption
- C. Business investment spending
- D. Household savings and taxes

Question 17

Stagflation is best defined as:

- A. A period of very high inflation
- B. Simultaneously high inflation and high unemployment
- C. A deflation that occurs during a supply shock
- D. The trough phase of the economic cycle

Question 18

Which of the following would cause the long-run aggregate supply curve to shift rightward?

- A. An increase in the price level
- B. Discovery of new natural resources and improved technology
- C. A temporary drought reducing agricultural output
- D. An increase in interest rates

Question 19

Suppose the government decreases income tax rates during an economic expansion. Which is the most likely result?

- A. Aggregate demand decreases, moving along the SRAS curve
- B. Aggregate demand increases, potentially overheating the economy
- C. The long-run aggregate supply curve shifts leftward

- D. Unemployment automatically increases

Question 20

Labour force underutilisation includes both unemployment and:

- A. Hidden unemployment, seasonal unemployment, and frictional unemployment
- B. Underemployment (part-time workers wanting full-time work)
- C. Only discouraged workers who've stopped job searching
- D. Long-term unemployment exceeding 12 months

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Answer Key & Explanations

Question 1: Answer D

Explanation: $4.35 - 4.10 = 0.25$ percentage points (pp) = 25 basis points (bp). Both expressions are correct. Key point: when rates fall from 5.2% to 4.8%, ALWAYS express as percentage points (0.4pp) or basis points (40bp), never as 0.4% (which would imply $5.2\% \times 0.996 = 5.18\%$).

Question 2: Answer B

Explanation: Real GDP is adjusted for inflation to show the true productive capacity of the economy. This is the most accurate definition. Option D (current prices) describes nominal GDP, not real. Options A and C are incorrect definitions.

Question 3: Answer C

Calculation: Multiplier = $1 \div (1 - MPC) = 1 \div (1 - 0.75) = 1 \div 0.25 = 4.0$.
Alternatively: $MPS = 1 - 0.75 = 0.25$, so Multiplier = $1 \div MPS = 1 \div 0.25 = 4$.

Question 4: Answer B

Calculation: $4.35\% - 4.10\% = 0.25$ percentage points = 25 basis points (since 1 basis point = 0.01 percentage points, so $0.25 \div 0.01 = 25bp$).

Question 5: Answer B

Calculation: Real wage change $\approx$ Nominal wage change – Inflation = $4\% - 5\% = -1\%$. Real wages have decreased, reducing purchasing power and living standards. This is a key reason wage agreements often include inflation expectations.

Question 6: Answer B

Explanation: Technological advancement increases productivity, allowing more output from same resources, so PPC shifts outward. Resource depletion (A), labour decline (C), and reduced investment (D) all shift the PPC inward.

Question 7: Answer B

Explanation: Structural unemployment involves long-term mismatch between job requirements and worker skills (automation replacing manufacturing workers). Option A is cyclical (temporary). Option C is seasonal. Option D is frictional.

Question 8: Answer C

Explanation: At peak/boom: GDP near/above trend, unemployment low/at NAIRU → tight labour market → wage pressures → wage-price spiral risk. Asset prices inflated → bubble risk. This is when inflation threatens price stability.

Question 9: Answer C

Calculation: Real interest rate = Nominal rate – Inflation rate = 2% – (–2%) = 2% + 2% = 4%. In deflation, real rates spike, which discourages borrowing and investment (dangerous for economy).

Question 10: Answer D

Explanation: Higher interest rates directly reduce both consumption (via more expensive credit) and investment (via higher cost of capital). Government spending is set independently of rates, and exchange rate effects on X–M are indirect. Consumption and investment are the direct channels.

Question 11: Answer A

Explanation: Unemployment (4.1%) is below NAIRU (4.3%), but only slightly (0.2pp), suggesting modest slack remains. This means inflation pressure is contained compared to deeper below-NAIRU situations. Answer B would be more correct if U were significantly below NAIRU (e.g., 3.5%).

Question 12: Answer B

Explanation: Automatic stabilisers (income taxes, welfare payments) create leakages in each spending round. This reduces the multiplier from potentially 5 down to 2–3 in Australia. Smaller multiplier means govt. needs larger initial injection, but economy is more stable (self-limiting boom/bust cycles).

Question 13: Answer B

Explanation: Cost-push inflation is driven by rising input costs (wages, materials, energy). Firms pass these costs to consumers via higher prices. This is distinct from demand-pull (excess demand) or money supply-driven inflation. Often occurs during supply shocks (e.g., oil price spike).

Question 14: Answer B

Explanation: A movement along the SRAS (not a shift) occurs when the price level changes and firms respond by adjusting quantity supplied. Options A (productivity) and C (wage changes) shift the SRAS. Option D shifts AD.

Question 15: Answer A

Calculation: Inflation rate = $(\text{CPI current} - \text{CPI previous}) \div \text{CPI previous} \times 100 = (115 - 110) \div 110 \times 100 = 5 \div 110 \times 100 = 4.55\% \approx 4.5\%$.

Question 16: Answer D

Explanation: Leakages are money that doesn't immediately re-circulate as spending. Savings (not yet spent) and taxes (removed by government) are leakages. Transfer payments (A) and consumption spending (B) are part of the flow. Investment (C) is an injection, not leakage.

Question 17: Answer B

Explanation: Stagflation = stagnation (low growth/high unemployment) + inflation (high prices). Violates normal Phillips Curve trade-off. Caused by adverse supply shocks (e.g., 1970s oil embargo). Difficult to manage: raising rates to fight inflation worsens unemployment.

Question 18: Answer B

Explanation: Long-run AS shifts right when productive capacity increases (new resources, technology). Discovery of resources and tech improvement (B) both shift LRAS rightward. Price level changes (A) cause movements along, not shifts. Temporary supply shocks (C) shift SRAS, not LRAS. Interest rates (D) don't directly shift LRAS.

Question 19: Answer B

Explanation: Tax cuts → higher disposable income → consumption increases → AD shifts right. During expansion when economy is near capacity, this risks overheating (inflation, unsustainable bubble). Automatic stabilisers should be restraining AD, not loosening fiscal policy further.

Question 20: Answer B

Explanation: Labour force underutilisation = unemployment + underemployment + hidden unemployment. Option B captures the broadest measure (underemployment, specifically part-time wanting full-time). Options A, C, D are components of underutilisation, but not the complete definition of what pairs with unemployment.

QUICK ANSWER SUMMARY

End of Study Guide