

Learning Objectives

Chapter 39

In this chapter you will

- Consider whether policymakers should try to stabilize the economy
- Consider whether monetary policy should be made by rule rather than by discretion
- Consider whether the government should balance its budget
- Consider whether the tax laws should be reformed to encourage saving
- Consider whether the UK should join the European monetary union

You should be able to

- Give an example of a macroeconomic policy response that "leans against the wind"
- Explain what is meant by the "time inconsistency of policy"
- Explain the benefits of reducing the budget deficit
- Explain why a consumption tax encourages saving but enhances economic inequality
- Discuss the five tests laid down by the UK government and which the government has said must be passed before the UK joins EMU