

FACTFILE: GCE BUSINESS STUDIES

UNIT A2 2: THE COMPETITIVE BUSINESS ENVIRONMENT GOVERNMENT POLICY OBJECTIVES



Government Policy Objectives

Government Policy Objectives typically include:

- Economic Growth
- Sustainable Development
- Inflation
- Employment
- Balance of Payments.

Each policy may be defined as follows:

Economic Growth

Referred to as an increase in the amount of goods and services produced per head of the population over a period of time.

Sustainable Development

Referred to economic development that is conducted without depletion of natural resources.

Inflation

Referred to as the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. In the UK, the Bank of England attempts to limit the rate of inflation, aimed at avoiding deflation, in order to keep the economy running smoothly.

Employment

Referred to as the total number of people in work (perhaps economically active).

Balance of Payments

Referred to as the difference in total value between payments into and out of a country over a period.



Achieving Key Government Policy Objectives

A number of factors which appear to influence the ability of a government to achieve key government policy objectives.

These include:

- Macroeconomic policy impacts;
- Laws and legal system influences;
- Productivity of factors of production;
- Technological developments;
- Availability of factors of production;
- Amount of international trade between UK and other countries;
- Geography.

Conflicts between Objectives:

It is possible that conflict will exist between various government policy objectives and trade-offs may exist.

Examples:

- In an attempt to keep inflation rates low, the government uses tools such as high interest rates which can deter economic growth;
- There is a trend rate of growth in the UK economy of 2 - 3 % annually, which is judged to be sufficiently low to avoid increases in the rate of inflation;
- Healthy Growth and low inflation – when economies grow too quickly demand exceeds supply leading to a rise in prices. This may be controlled by increases in interest rates, which reduces consumer spending and confidence hence reducing levels of business output.

Economic Growth and Balance of Payments Equilibrium

- When the economy grows quickly consumption is high and British consumers have a tendency to spend their money on imports;
- Increased spending on imports tend to lead to a larger balance of payments deficit.

Low Unemployment & Low Inflation:

An inverse relationship between unemployment and inflation tends to exist. Low levels of unemployment tend to exist when the economy is growing and output is rising – which may lead to increased levels of inflation as a result of increased costs/prices.

When the government decreases interest rates or increases public expenditure to decrease unemployment this will push wages higher therefore increasing prices and causing inflation.

However, measures to control inflation e.g. high interest rates and decreases public spending increase unemployment rates.

Other Conflicts which exist in the context of Government Policy Objectives

Healthy growth and the environment:

The greater the rate of economic growth, the greater the level of production, hence a possible increase in the levels of pollution (noise, odours, environmental).

Healthy growth and equality

When an economy (such as the UK's) grows it is often the wealthier members of society that benefit and the poorest members of society that suffer, creating more inequality in the country.



Summary:

Government Policy Objectives typically include:

- Economic Growth
- Sustainable Development
- Inflation
- Employment
- Balance of Payments.

The extent to which each is achieved depends on the national government selected at the General Election in the UK. Conservatives tend to prioritise economic growth, low levels of taxation and capitalism as important elements of policy, whereas Labour tend to cite high levels of employment, taxation and socialism as a priority.



? Revision Questions

1 Explain what is meant by the term 'government policy objective'.

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2 With reference to the local (or UK) economy, explain each of the following terms:

- a) Employment
- b) Economic Growth
- c) Balance of Payments
- d) Inflation

a.....
b.....
c.....
d.....

3 Evaluate the impact of government policy objectives on the following types of businesses:

- a) Sole trader bakery business;
- b) Multi-national enterprise such as a national airline.

a.....
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b.....
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4 With reference to a business such as Mash Direct Limited (See Specimen Assessment Materials, A2 2, Examination Paper), evaluate the ways in which the business might respond to various government policy objectives, as it participates in global trading activities.

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