**First Year Economics Revision Booklet**

**The National Economy**

How would we measure the performance of an economy? These are the **macroeconomic indicators** that assess the extent to which the government is achieving its **macroeconomic objectives**.

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Sketch and fully label a diagram of the **economic cycle**. You should be able to link the various stages of the economic cycle to the economic indicators. Make sure you have labelled the **output gaps** what is meant by the term an **output gap**? How is economic growth measured? What do we mean when we talk about **real** rather than **nominal**?

Sketch a diagram to show the circular flow of income. Your diagram must show all the **injections** and **leakages**.

What is the formula for **Aggregate Demand**?

**AD =**

Sketch an **AD** curve. Make sure you label your axis accurately. What shifts the **AD** curve inwards or outwards?

Sketch an **SRAS** curve. What shifts the **SRAS** curve inwards or outwards?

Sketch an **LRAS** curve. What does it represent?

**Inflation** measures an increase in the average price level of goods and services across an economy. Economists talk about two types of inflation **demand pull** and **cost push** inflation. Sketch diagrams to illustrate **demand pull** and **cost push** inflation. You should also be able to explain **deflation** and be able to illustrate this on a graph. How is **inflation** measured?

**Unemployment** is a stock concept and is measured by the **claimant count** and **labour force survey**. When the labour force survey is used the unemployment total is significantly larger than the claimant count total. There are different causes of unemployment and therefore you must be able to **explain cyclical, structural, seasonal and frictional** unemployment. Us an AD/AS diagram to illustrate unemployment. How would you illustrate it using a PPF?

For each of the forms of unemployment you must be able to identify policies to deal with it.

**Balance of Payments** measures our relationship with the rest of the world exports-Imports (X-M of the AD formula). Where X>M we have what is known as **a Balance of Payments Surplus**. Where M>X we have what is known as a **Balance of Payments Deficit**. You need to be aware that the **Balance of Payments Current Account** comprises **trade in goods, trade in services, investment income and transfers**. Use an AD/AS diagram to show the effect on the economy of an increasing Balance of Payments Deficit.

To understand the Balance of Payments you will need to be aware of the impact of exchange rates on our trade with the rest of the world. To do this just **remember SPICED (Strong Pound Imports Cheap, Exports Dear)**. Our exporters like it when the pound is weak because they will be able to sell more overseas. However, if the value of the pound rises our goods become more expensive on international markets making them less attractive to overseas consumers and the value of our exports falls contributing to a widening trade gap and an increasing Balance of Payments Deficit.

**Government macroeconomic policy** is used to help ensure that the government achieves its macroeconomics objectives. However you do need to be aware that it is possible for conflicts to arise at least in the short run when trying to achieve these objectives. i.e improvements in growth may result in rising inflation. Draw a diagram to illustrate this.

**Government Policy** can be divided into two types

**Demand Side – these policies seek to stabilise the economy in the short term by smoothing out the business cycle.**

* **Fiscal Policy** – explain what it is. Explain what a **budget deficit** and a **budget surplus** are. Use AD/AS diagrams to illustrate how fiscal policy can be used to help the government achieve its macroeconomic objectives.

What might be the disadvantage of running a **budget deficit**?

* **Monetary Policy** – explain what it is. Who is responsible for implementing it? Distinguish between **contractionary** and **expansionary monetary policy** and use AD/AS diagrams to illustrate

For each of the above policies you need to be aware of the benefits and drawbacks of the policies.

**Supply Side**. Explain what it is. Distinguish between **free market** and **interventionis**t and use examples to illustrate.

You need to be able to demonstrate the benefits and drawbacks **of supply side policies**.

Why might **supply side policies** create less inflationary pressure?

It is worth remembering that often the government will need to use a combination of policies to manage the economy at any one time.

**Other useful ECON 2 concepts**

Sketch and label a macro PPF. Use it to illustrate short run and long run economic growth.

Index numbers are often used to present macroeconomic data. You must make sure that you are able to interpret index numbers. A base year is set with a value of 100 therefore if the index rises to 120 then there has been a 20% rise.

What are the **multiplier** and the **accelerato**r.

What is the link between the **multiplier** and **fiscal policy**?

As macroeconomics is the study of the whole economy and is a very topical issue at the moment with a lot of coverage on the news and in the newspapers you can enhance your understanding of concepts covered by making sure that you watch the news and read the newspaper.