**Economic Growth**

**Starter**: T or F?

1. The UKs inflation target is 2% of RPI (+ or – 1%)
2. Short-run economic growth is caused by a rise in AD and/or SRAS
3. Short-run economic growth causes a rightward shift in the PPF
4. Net exports equals… X (revenue gained from eXports) minus M (revenue spent on iMports)
5. ‘Full employment’ means that everyone has a job
6. A negative output gap means that there must be some FoP that are unemployed
7. Cost-push inflation is caused by a rise in AD
8. Structural unemployment is caused by occupational and structural immobility of labour

**Causes of Economic Growth**

**Activity 1**: Complete the diagrams below to show short-run and long-run economic growth

a) Short-run economic growth is shown by an increase in AD and/or SRAS

1. Increase in AD and extension in SRAS ii) Increase in SRAS and extension in AD

b) Long-run economic growth is shown by an increase in LRAS and PPF

1. Increase in the PPF ii) increase in the LRAS and extension in AD

**Activity 2:** Complete the following to explain the causes of economic growth i.e. factors causing a rightward shift in AD, SRAS and LRAS:

**a) Demand-Side**

e.g. increased consumer confidence

e.g. lower corporation tax

AD = C + I + G + (X – M)

e.g. spending on healthcare

e.g. rising incomes abroad

**b) Supply-side**

Shifts in LRAS and SRAS

**Increased quantity Reduced costs for firms  
 or quality of factors  
 of production**

e.g

e.g.

What type of growth is more desirable? Demand-side growth or supply-side growth? Relate your answer to the government’s 4 macroeconomic objectives.

What is meant by the term demand side and supply side shock? Provide an example of each.

**Activity 3:** Explain the benefits and drawbacks of economic growth to an economy

|  |  |
| --- | --- |
| **Benefits of Economic Growth** | **Drawbacks of Economic Growth** |
|  |  |

**Ext:** For each of the stages of 4 stages of the economic cycle (boom, slowdown, recovery, recession), describe what is happening to the 4 macro objectives (inflation, growth, U and BoP)

Draw and label Economic cycle diagram

|  |  |
| --- | --- |
| **Boom** | **Slowdown** |
| **Recession** | **Recovery** |

**Activity 4**: Using a monetarist/classical ADAS diagram, fill in the missing words in the text below

**Point A:**

The economy is in long run equilibrium as there are no inflationary pressures. Assuming AD increases (perhaps G is increased), AD shifts from AD1 to AD2……..

**Point B:**

The economy is no longer in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

There is a \_\_\_\_\_\_\_\_\_\_\_\_\_ output gap and the economy is booming. Y has increased and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ inflation has occurred. At this point, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ will be very low.

**Point C:**

Wage rates increase, causing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ inflation.

SRAS therefore shifts SRAS1 to SRAS2 and there is \_\_\_\_\_\_\_ output gap. At point C, the economy is back in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Words to use**: *no, equilibrium, positive, negative, cost-push, demand-pull, spare capacity*

**Monetarists Say...**

**Keynesians Say...**

**“It’s about spending and investment!”**

**Accelerator principle:**

**Multiplier Principle:**

**“It’s about the money supply!”**

If the money supply grows faster than

output grows, then consumption \_\_\_\_\_\_\_\_\_\_\_

because people feel \_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_.

The extra consumption causes\_\_\_\_\_\_\_\_\_\_\_\_.

Consumers later reduce \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_again

when they realise they are not really better

off (\_\_\_\_\_\_\_\_\_\_\_ \_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_).

Exports also fall (so AD\_\_\_\_\_\_\_\_\_\_\_\_) because domestic

firms are now less competitive internationally

(because of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_).

**Extension Material: Principles of Keynesianism and Monetarism**

**Keynesianism**

**Monetarism**

**Ext 1: Classical equilibrium exercise**

**Negative Output Gap Positive Output Gap**

**Negative Output Gaps**

When aggregate demand is too low (shown by point B on the diagram), the economy is said to be operating with a \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ \_\_\_\_\_. At this point \_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_ is not high enough to ensure that the factors of production including labour are\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_. However for classical economists (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) this situation will correct itself, as unemployed labour will agree to work for \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_rather than remain\_\_\_\_\_\_\_\_\_\_\_\_. This will reduce \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_and the Short Run Aggregate Supply curve will shift to the right. There will be an extension down the aggregate demand curve. The economy will settle at a new equilibrium at point C.

**Activity 1:** Use the diagram above to explain what a positive output gap is. Complete this exercise in the space provided below, using the hints provided to help your explanation.

**Hint:** If you can answer each of these key questions then you should be able to explain how a positive output gap occurs and why this disequilibrium in the macro economy is resolved.

**Key Questions**

1. What has caused the AD curve to shift to the right? At what output level did we assume the economy started?
2. Explain what will happen to the demand for goods and services following the increase in Aggregate demand.
3. How will firm’s get more workers?
4. What is the impact on firm’s costs?
5. What is the long run impact of the initial factor increase in AD? (what has been the impact on output in the economy and price levels)

**Key words in your explanation:** Full employment, firm’s costs, wages levels, long run, output

**UK Economic Growth**

What is meant by the term economic growth?

What is trend growth?

What factors influence how high trend growth is?

What is the current rate of growth for the UK economy?

How does the UK’s economic growth compare to that of its trading partners?

Why is the economic growth of the UK’s trading partners important to the UK?

What has happened to UK economic growth over the last twenty years?

What factors are currently affecting the rate of UK economic growth?

What is forecast to happen to UK economic growth in the next couple of years?

**Growth vs Development**

1. Identify how economic growth is measured
2. How do you measure economic development?
3. Explain the difference between economic growth and development

**What do the following terms refer to**?

* BRICs
* Urbanisation
* Literacy rate
* Absolute poverty
* MINTs
* Asian Tigers
* G7
* GNP
* GDP per capita

Identify Characteristics of LEDCs (**Tip**: How you can measure living standards?)

**THEORY 1: Five Stages of Economic Growth (Rostow, 1960)**

(http://www.tutor2u.net/economics/reference/rostow-five-stages-of-economic-growth-model)

|  |  |
| --- | --- |
| 1. Traditional Society |  |
| 2. Pre-conditions for take-off |  |
| 3. Take-off |  |
| 4. Drive to maturity |  |
| 5. Age of mass consumption |  |

**THEORY 2: Economic Growth Model (Harrod-Domar, 1939)**

**Gross Domestic Product (GDP) v Gross National Product (GNP)**

Explain the difference between GDP and GNP

What are the limitations of GDP and GNP as indicators of Economic Development?

**Human Development Index (HDI)**

What factors are measured in HDI:

What do the HDI scores refer to?

Outline the main barriers to growth and development (you should include at least 6 factors)

Outline the main policies used by the UK government to promote economic growth and development.

One of the drawbacks often associated with growth is that it can result in market failure. Outline why this may occur. What policies could be used to resolve the market failures that might arise?

Tackling an essay on development

“Assess the view that economic growth will always lead to economic development” (25 marks)

intro

Point One

Point Two

Point Three

Conclusion

**Aid Vs Trade**

|  |  |
| --- | --- |
| **Aid** |  |

**What is more beneficial for a developing country… Aid or Trade?**

* The Orthodox View:
* Strategic Trade Theory argument:

**AID**

* Band-Aid:
* Tied Aid:

**Inequality**

**What is inequality?**

**Explain at least five causes of inequality within a country**

**What factors result in inequality and poverty (Between Countries)**

**Measures of inequality**

* **Sketch a Lorenz curve and explain what it shows**

* **What is the Gini co-efficient? What is the significance of the values?**

**Are there any limitations of the use of the Lorenz curve and Gini co-efficient?**