

Exercise walk-through

4.4

Economic growth

A-Level Economics

Distinguish actual output from productive capacity

Economic growth is an increase in real output over time. **Actual growth** is the observed increase; **potential growth** expands what the economy can sustainably produce.

Apply the distinction to two changes

Idle factories restart and produce more with the existing workforce and machines. Separately, better machinery raises possible production, but firms have not yet received more orders. Which change shows actual growth? Which shows potential growth?

Distinguish actual output from productive capacity

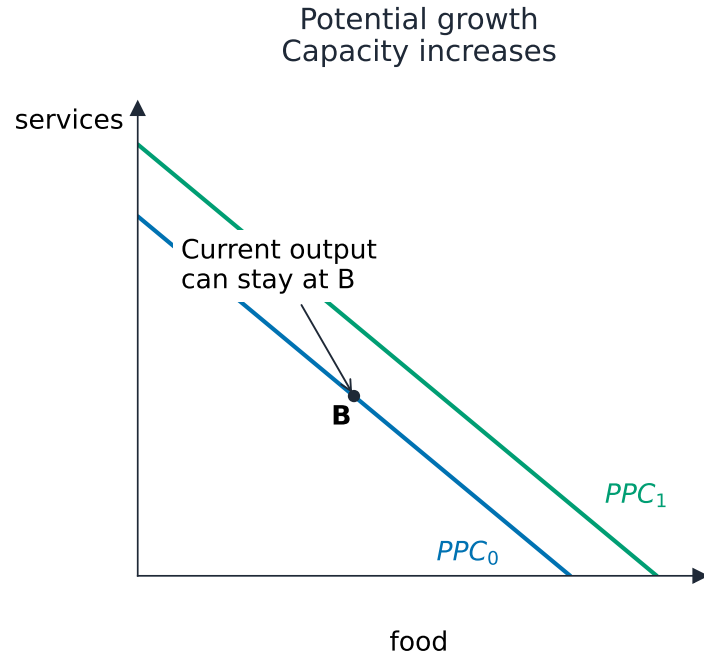
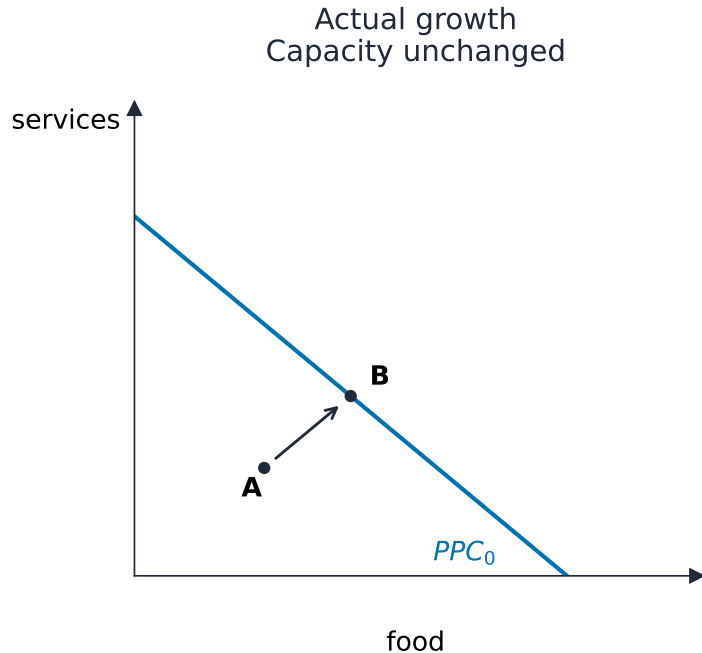
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Apply the distinction to two changes

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Restarting raises actual output by using spare capacity. Better machinery can expand capacity and shift LRAS right. Capacity can grow before actual output does; actual output can rise without capacity expanding.

Use the PPC to separate the two kinds of growth



Production possibility curve

(PPC): feasible output combinations.

A to B uses capacity; expanding the PPC does not itself raise current output.

Explain how a growth cause changes production

Compare resources and productivity

One economy gains more working-age residents. Another trains existing workers to reduce defects. Explain how each could increase productive capacity, and why neither guarantees higher real output per person.

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One economy gains more working-age residents. Another trains existing workers to reduce defects. Explain how each could increase productive capacity, and why neither guarantees higher real output per person.

More available workers can increase labour input; training can raise useful output per worker. Capacity also depends on suitable capital, energy and jobs that use these skills.

Output must rise faster than population for real output per person to rise. Check whether new capacity is used and how its gains are distributed.

Exercises 2.1-2.3

2.1 Define the term *economic growth*.

[2]

2.2 State the difference between *actual* and *potential* growth.

[2]

2.3 State the four phases of the business cycle.

[2]

Exercises 2.1-2.3

2.1 Define the term *economic growth*. [2]

2.1

- an increase in a country's real output (real GDP) over time (2 for a clear definition; 1 for a partial idea)

2.2 State the difference between *actual* and *potential* growth. [2]

2.2

- actual growth is the real rise in output that occurs; potential growth is a rise in the economy's productive capacity (the LRAS shifting out) (2 for a clear difference; 1 for a partial idea)

2.3 State the four phases of the business cycle. [2]

2.3

- boom, recession, slump, recovery (2 for all four; 1 for a partial list)

Exercises 3.1-3.2

3.1 Potential economic growth is shown by:

[1]

☐

A a movement from inside the PPC towards it

B an outward shift of the LRAS curve

C a rise in the price level

D a leftward shift of AD

3.2 Explain two causes of potential economic growth.

[6]

Exercises 3.1-3.2

3.1 Potential economic growth is shown by: [1]

- ☐ A a movement from inside the PPC towards it
☐ B an outward shift of the LRAS curve
☐ C a rise in the price level
☐ D a leftward shift of AD

3.1 B

- Potential growth is an outward shift of LRAS

3.2 Explain two causes of potential economic growth. [6]

3.2

- [6] For **each** of two causes: AO1 1 + AO3 up to 2 – e.g. *investment*: more capital per worker
- higher productivity
- greater capacity. *Education/training*: a more skilled workforce
- higher output per worker
- LRAS shifts out. Maximum 3 each

Exercise 3.3

3.3 Discuss whether economic growth always improves living standards.

[12]

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3.3

- [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** growth raises incomes, jobs, tax revenue and can cut poverty. **Against:** it may cause inflation, pollution and resource depletion, and can widen inequality if the gains are unevenly shared. Judgement: growth usually improves living standards, but whether it *always* does depends on its type (sustainable vs polluting) and how the gains are distributed