4.4 Economic growth

Name: _____ Class: _____ Date: _____ **Total: 25 marks**

KEY WORDS economic growth • potential growth • actual growth • business cycle • actual versus potential

Objective

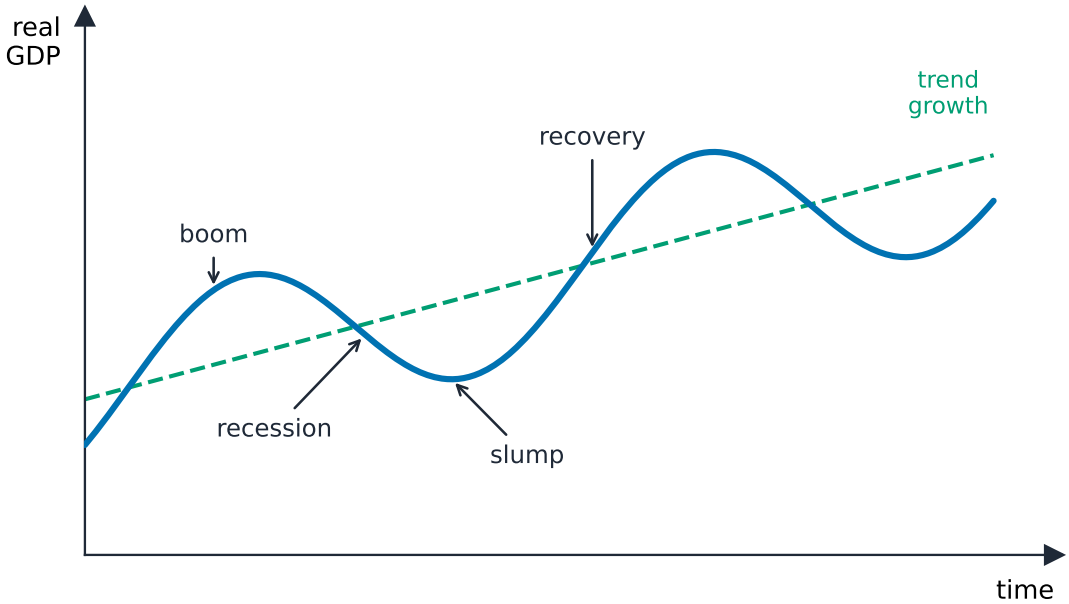
Build the skills to answer exam questions on **economic growth** – **actual versus potential** growth, the causes of growth, the **business cycle**, and the costs and benefits of growth.

You must be able to:

- distinguish actual from potential growth
- explain the causes of economic growth
- analyse the costs and benefits of growth

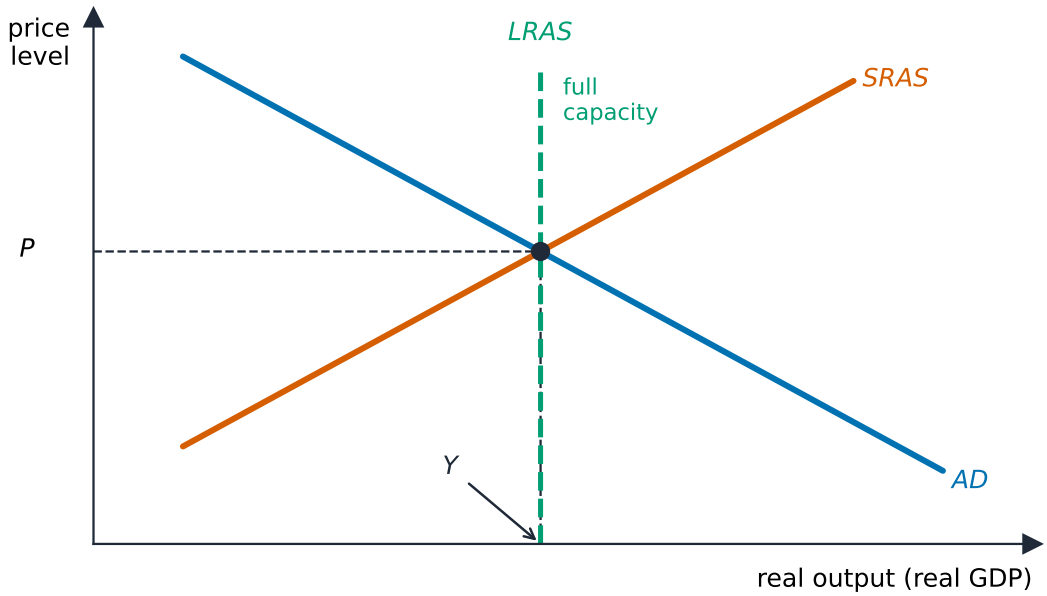
1 Key knowledge and worked examples

Growth and the business cycle



Output does not grow smoothly – it cycles around a rising trend

- **Actual growth** : the rise in output that really happens. **Potential growth** : a rise in capacity (LRAS shifts out).



On AD–AS: actual growth = AD shifting right; potential growth = LRAS shifting right

- **Causes:** more/better factors – a bigger or more skilled workforce, investment, new technology, higher **productivity** .
- **Cycle: boom** → **recession** → **slump** → **recovery** .

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

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]

3 Exam-style questions

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]

3.3 Discuss whether economic growth always improves living standards. [12]