Exercise walk-through

Economic growth and sustainability ▪ 9.2

eXercise

You must be able to

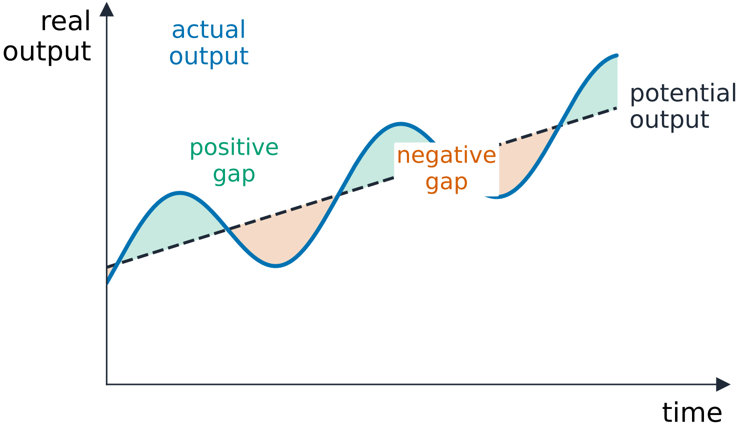
- distinguish actual from potential growth and define the output gap
- explain a positive and a negative output gap
- analyse the tension between growth and sustainability

Method — The output gap and sustainability

- **Actual growth 实际增长**: real output that happens. **Potential growth 潜在增长**: a rise in capacity.
- **Output gap 产出缺口**: actual − potential. **Positive** gap (above potential) → inflation; **negative** gap → unemployment.
- **Sustainable growth 可持续增长**: meets today's needs without harming future generations.

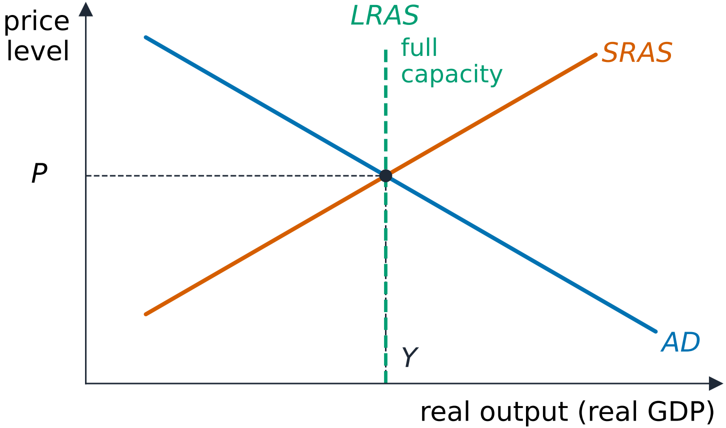
Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

Method — The output gap and sustainability



Actual output swings above and below potential output

Method — The output gap and sustainability



An outward LRAS shift raises potential output without raising the price level

Practice 2.1 ▪ 2 marks

Define the term *output gap*.

Solution 2.1

Worked steps

the difference between an economy's actual output and its potential (full-capacity) output (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 1 mark

State what a **positive** output gap tends to cause.

Solution 2.2

Method: The output gap and sustainability

Worked steps

inflationary pressure (1).

Practice 2.3 ▪ 2 marks

Define the term *sustainable growth*.

Solution 2.3

Method: The output gap and sustainability

Worked steps

growth that meets the needs of the present without reducing the ability of future generations to meet their own needs (2 for a clear definition; 1 for a partial idea).

Exam-style 3.1 ▪ 1 mark

A **negative** output gap is associated with:

- **A** rising inflation and full capacity
- **B** spare capacity and unemployment
- **C** an outward shift of the PPC
- **D** a current account surplus

Solution 3.1

Method: The output gap and sustainability

A rising inflation and full capacity

B spare capacity and unemployment ✓

C an outward shift of the PPC

D a current account surplus

Worked steps

B. A negative output gap means spare capacity and unemployment.

Exam-style 3.2 ▪ 6 marks

Explain the difference between actual and potential economic growth.

Solution 3.2

Method: The output gap and sustainability

Worked steps

[6] AO1 2 + AO3 up to 4 — actual growth is the real rise in output that occurs (a movement towards or along the PPC/LRAS); potential growth is a rise in the economy's productive capacity (the PPC/LRAS shifting outward) $\rightarrow$ one is what is produced, the other is what *could* be produced.

Exam-style 3.3 ▪ 12 marks

Discuss whether economic growth can be sustainable.

Solution 3.3

Method: The output gap and sustainability

Worked steps

[12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** growth from better technology, education and renewable resources can raise output without exhausting resources or harming the environment. **Against:** fast growth often uses non-renewable resources and causes pollution, threatening future generations. Judgement: growth *can* be sustainable if it is based on productivity, clean technology and renewable resources, but unchecked resource-heavy growth is not — it depends on how growth is achieved.