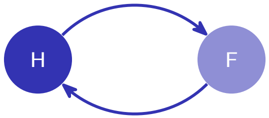
The Macroeconomy

A-Level Economics ▪ Topic 4

A-Level Economics



What we will cover

1. National income
2. The circular flow
3. Aggregate demand & supply
4. Growth & the business cycle
5. Unemployment
6. Inflation

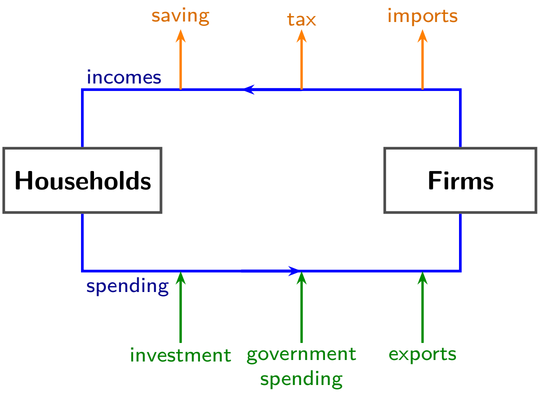
output of the whole economy

National income

GDP vs GNI	nominal vs real	total vs per capita
made inside vs + income earned abroad	**real** 实际 removes rising prices	**per capita** 人均 = ÷ population

National income 国民收入 measures the **standard of living** 生活水平, but ignores distribution, unpaid work & pollution.

The circular flow of income



Money loops between **households** 家庭 and **firms** 企业.

- **leakages** 漏出 drain it: saving, tax, imports
- **injections** 注入 add to it: investment, government spending, exports

Equilibrium: injections = leakages.

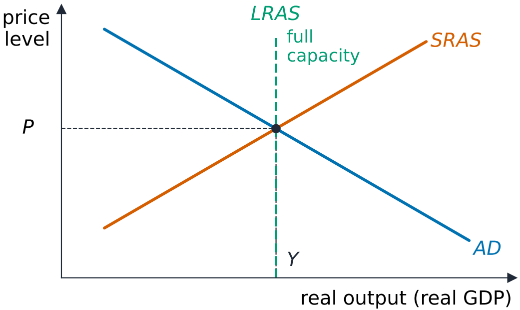
Aggregate demand

$$AD = C + I + G + (X - M)$$

C	I	G	$X - M$
consumption 消费	investment 投资	government 政府支出	net exports 净出口

Aggregate demand 总需求 is total spending; it shifts when any part changes (e.g. a tax cut raises C).

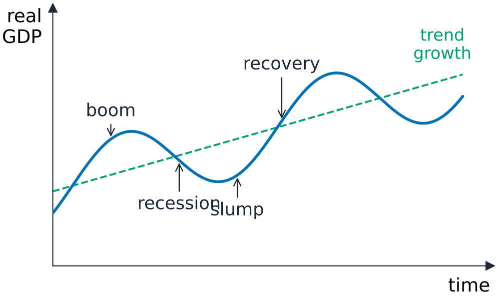
AD–AS equilibrium



Equilibrium is where AD meets AS – it sets the **price level** 价格水平 and **real output** 实际产出.

- **SRAS** 短期总供给 slopes up; shifts with costs
- **LRAS** 长期总供给 is vertical – full capacity

Growth and the business cycle



Economic growth 经济增长 is a rise in real GDP.

- **actual growth** 实际增长 – output that happens
- **potential growth** 潜在增长 – LRAS shifts out

Output swings: boom → recession → slump → recovery.

Unemployment

frictional **摩擦性失业** – between jobs (short)

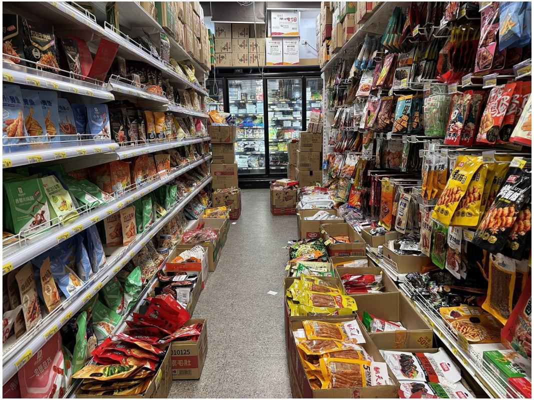
structural **结构性失业** – skills no longer match

cyclical **周期性失业** – low AD in a recession

seasonal **季节性失业** – only at certain times

Measured by the **claimant count** 申领救济人数 or the broader **labour force survey** 劳动力调查.

Inflation and the CPI

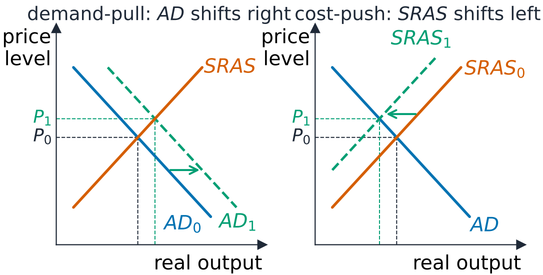


Inflation 通货膨胀 is a sustained rise in prices, so **purchasing power** 购买力 falls.

- **deflation** 通货紧缩 – prices fall
- **disinflation** 反通货膨胀 – rising, but slower

Measured by the **CPI** 消费者价格指数: a weighted basket of goods.

Causes of inflation



- **demand-pull**
  需求拉动型通货膨胀 – AD rises faster than AS
- **cost-push**
  成本推动型通货膨胀 – costs rise, SRAS shifts left

Both raise the price level.

Worked example – inflation from a CPI

A CPI rises $100 \to 104$ in one year, then $104 \to 107$. Find the inflation rate in each year.

- Inflation $=$ the percentage change in the index.
- Year 1: $\dfrac{104 - 100}{100} \times 100 = 4.0\%$
- Year 2: $\dfrac{107 - 104}{104} \times 100 = 2.9\%$
- Inflation fell, but prices still rose $\Rightarrow$ disinflation, not deflation.

Divide by the previous year's index, not the base year. Falling inflation $\neq$ falling prices – deflation needs a negative rate.

Topic 4 – key takeaways

1 National income

real, per-capita GDP measures living standards

2 AD & AS

$AD = C + I + G + (X - M)$; equilibrium sets P & Y

3 Unemployment

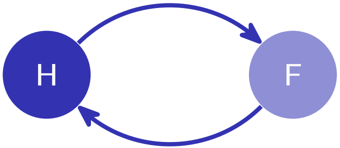
frictional, structural, cyclical, seasonal

4 Inflation

demand-pull & cost-push; CPI basket

Check yourself

1. Name a leakage from the circular flow.
2. Write the four parts of AD.
3. Which unemployment type comes from low AD?
4. Cost-push inflation shifts which curve, which way?



Answers **1.** saving / taxation / imports **2.** $C + I + G + (X - M)$ **3.** cyclical **4.** SRAS left