

The Macroeconomy

A-Level Economics ■ Topic 4

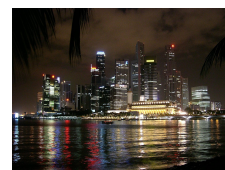
A-Level Economics



The Macroeconomy

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

1 Measuring the economy

The Macroeconomy

↳ Measuring the economy

National income

GDP vs GNI

made inside vs
+ income earned abroad

nominal vs real

real 实际 removes
rising prices

total vs per capita

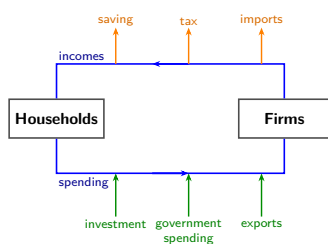
per capita 人均
= ÷ population

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

The Macroeconomy

↳ Measuring the economy

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.

2 Aggregate demand and supply

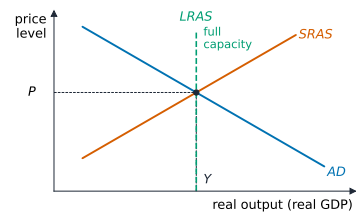
Aggregate demand

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



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

AD-AS equilibrium



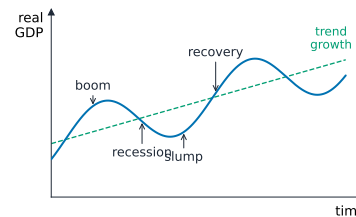
Equilibrium is where AD meets AS – it sets the **price level** 价格水平 and **real output** 实际产出.

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

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Growth and the cycle

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.

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Unemployment and inflation

Unemployment

frictional 摩擦性失业 – between jobs (short)

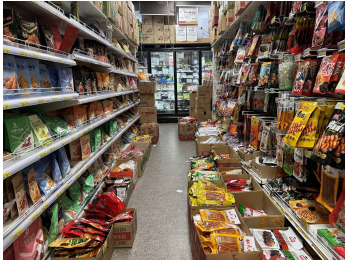
structural 结构性失业 – skills no longer match

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

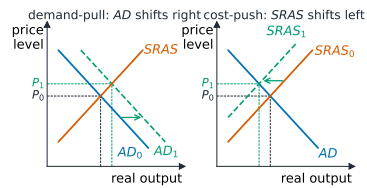


Inflation 通货膨胀 is a sustained rise in prices, so **purchasing power** 购买力 falls.

- **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.

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Recap

Worked example – inflation from a CPI

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

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

Divide by the **previous** year's index, not the base year. Falling inflation ≠ 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

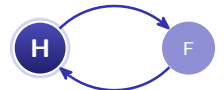
frictional, structural, cyclical, seasonal

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