

The Macroeconomy

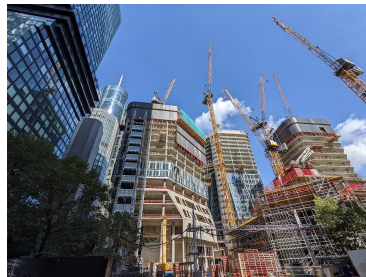
A-Level Economics ■ Topic 9

A-Level Economics



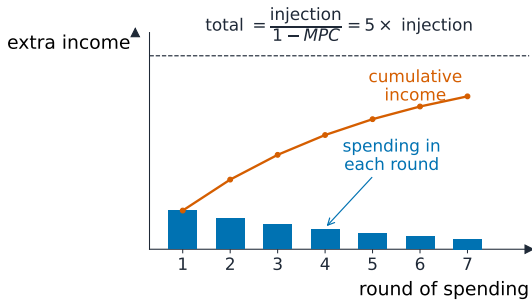
What we will cover

- 1 The multiplier
- 2 Growth & the output gap
- 3 Unemployment
- 4 The Phillips curve
- 5 Money & banking
- 6 The money market



investment drives growth

The multiplier



sustainable wind farm

The accelerator and what drives spending

consumption & saving
disposable income

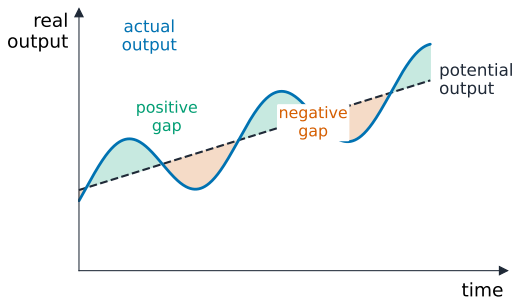
可支配收入, wealth,
interest, confidence

investment 投资

interest, expected profit,
technology, confidence

The **accelerator 加速数**: investment depends on the **rate of change** of output – it jumps when demand rises fast.

Growth, the output gap and sustainability



The **output gap** 产出缺口 is actual minus potential output.

- **positive** gap → inflation
- **negative** gap → spare capacity, unemployment

Sustainable growth 可持续增长 weighs output today against tomorrow.

Unemployment

frictional 摩擦性失业 – between jobs (short)

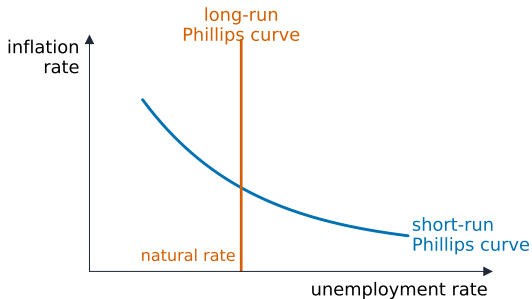
structural 结构性失业 – skills no longer match

cyclical 周期性失业 – low demand in a recession

seasonal 季节性失业 – only at certain times

The **natural rate** 自然失业率 (frictional + structural) cannot be removed just by raising demand.

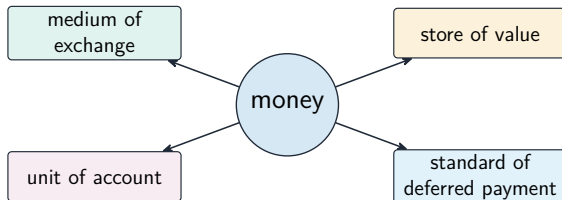
The Phillips curve



The **Phillips curve** 菲利普斯曲线 links unemployment & inflation.

- short run – a **trade-off**: less unemployment, more inflation
- long run – **vertical** at the natural rate; no lasting trade-off

The functions of money



Money 货币 does four jobs:

- **medium of exchange** 交换媒介 – avoids barter
- **store of value** 价值储藏 – save it
- **unit of account** 记账单位 – measure prices
- **deferred payment** 延期支付标准 – borrow & repay

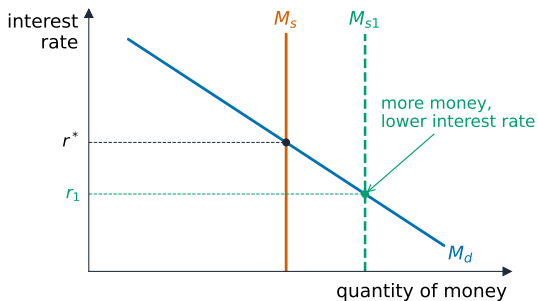
Banks



- the **central bank** 中央银行 runs policy & is **lender of last resort** 最后贷款人
- **commercial banks** 商业银行 take deposits & lend – **creating money**

Moral hazard 道德风险: banks may take big risks expecting a bailout.

The money market



People hold money for its **liquidity** 流动性 (**liquidity preference** 流动性偏好).

The **interest rate** 利率 is set where money demand meets the **money supply** 货币供给; a larger supply lowers it.

Worked example – the multiplier

MPC = 0.8. Find the multiplier, then the effect of a £10bn rise in investment.

- $k = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.8} = \frac{1}{0.2} = 5$
- $\Delta Y = k \times \Delta \text{injection} = 5 \times 10 = \text{£}50\text{bn}$
- The extra spending becomes someone's income, 80% of which is spent again, and so on.
- With **spare capacity** that is real output; **near full employment** it is mostly inflation.

$$k = \frac{1}{1 - \text{MPC}} = \frac{1}{\text{MPW}}.$$

A **bigger** MPC $\Rightarrow$ bigger multiplier. Leakages (saving, tax, imports) **shrink** it.

Topic 9 – key takeaways

1

Multiplier

$1/(1 - MPC)$; an injection multiplies

2

Output gap

positive → inflation; negative → slack

3

Phillips curve

short-run trade-off; long-run vertical

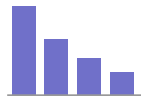
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Money

four functions; banks create money

Check yourself

- 1 If $MPC = 0.8$, what is the multiplier?
- 2 A positive output gap tends to cause what?
- 3 The long-run Phillips curve is what shape?
- 4 Name one function of money.



Answers 1. 5 2. inflation 3. vertical (at the natural rate) 4. medium of exchange
/ store of value / unit of account