

3.1 Measures of economic performance

Name: _____ Class: _____ Date: _____

Total: 26 marks

KEY WORDS consumer price index • recession
• underemployment

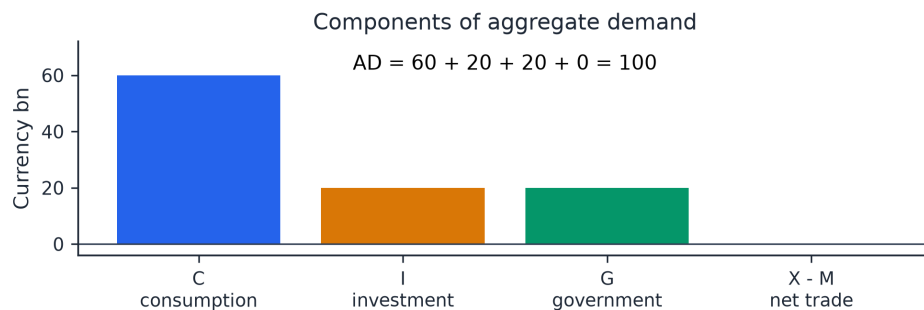
Measures of economic performance

Objective

Calculate and interpret GDP, GNI, per-capita and PPP measures, inflation from a weighted CPI basket, unemployment by the ILO definition, and balance of payments positions (spec 2.3.1, rows 1–4).

1 Key knowledge and worked examples

Measuring the economy. Real GDP = nominal ÷ deflator × 100; per capita divides by the population index. CPI = the weighted sum of price relatives × 100. Recession = two consecutive quarters of negative growth. The ILO measure counts those without work, available and actively seeking. The current account = trade in goods and services + primary and secondary income.



Original data; used across the topic's sheets.

2 Practice

2.1 Nominal GDP index is 112, the price deflator 108 and the population index 102. Calculate real GDP and real GDP per capita. [3]

2.2 Define a recession and state how it differs from one quarter of negative growth. [2]

2.3 A CPI basket has three goods with weights 50, 30 and 20. Their prices this year are 110%, 100% and 120% of last year's. Calculate the CPI and the inflation rate. [3]

2.4 (*SAM WEC12/01 Q12(b), adapted.*) India's inflation fell from about 12% in 2010 to about 9% in 2011. Was this deflation? Explain. [2]

2.5 State the ILO definition of unemployment. [2]

2.6 Give two reasons why higher GDP per capita may not mean better living standards. [2]

2.7 Name the three components of the current account of the balance of payments. [2]

3 Exam-style questions

3.1 (*Original.*) Using an AD/AS diagram, distinguish demand-pull from cost-push inflation. [4]

3.2 (*Original.*) Classify each as frictional, seasonal, structural, demand-deficiency or real-wage unemployment: (a) a shipyard closes and its workers lack other local skills; (b) a ski instructor in July; (c) spending falls in a recession; (d) a new graduate looking for a first job. [4]

3.3 (*Original.*) Explain why Purchasing Power Parities are used when comparing real GDP between countries. [2]

Solutions

2.1 Real GDP = $\frac{112}{108} \times 100 = 103.7$; per capita = $\frac{103.7}{102} \times 100 = 101.7$.

2.2 A recession is two consecutive quarters of negative real GDP growth; one negative quarter alone is not a recession by the standard definition.

2.3 $\text{CPI} = 0.5 \times 110 + 0.3 \times 100 + 0.2 \times 120 = 55 + 30 + 24 = 109$; inflation = 9%.

2.4 No – prices still ROSE, by 9% instead of 12%. The RATE of increase fell, which is disinflation; deflation would need a negative inflation rate.

2.5 People without work who are available to start and have actively sought work in a recent reference period.

2.6 Any two: income distribution may widen; non-market and shadow-economy activity is missed; environmental damage is not deducted; working hours or health may worsen; prices differ across countries.

2.7 Trade in goods and services; primary income; secondary income.

3.1 Demand-pull: the AD curve shifts RIGHT along a given SRAS – the price level rises because spending runs ahead of capacity (diagram: $\text{AD} \rightarrow \text{AD}_2$, price level up, output up). Cost-push: SRAS shifts LEFT along a given AD – input costs (wages, oil) raise prices at every output (diagram: $\text{SRAS} \rightarrow \text{SRAS}_2$, price level up, output DOWN). The output direction separates them: both raise prices, only demand-pull raises output.

3.2 (a) Structural. (b) Seasonal. (c) Demand-deficiency. (d) Frictional. (Real-wage unemployment would be wages fixed above the market-clearing level.)

3.3 Market exchange rates reflect currency markets, not purchasing power: the same basket costs far less in some countries than its exchange-rate price suggests. PPP rates equalise basket prices, so converting at PPP compares REAL volumes rather than distorted price levels.

Local review guidance: index calculations show the divide before the answer; the disinflation/deflation verdict quotes the sign of the rate; classifications use the spec's five names, not paraphrases; diagram marks require labelled axes, both curves and the shift arrow. This is authored classroom guidance.