3.4 Economic growth

Name: _____ Class: _____ Date: _____ **Total: 22 marks**

KEY WORDS inflation • deflation

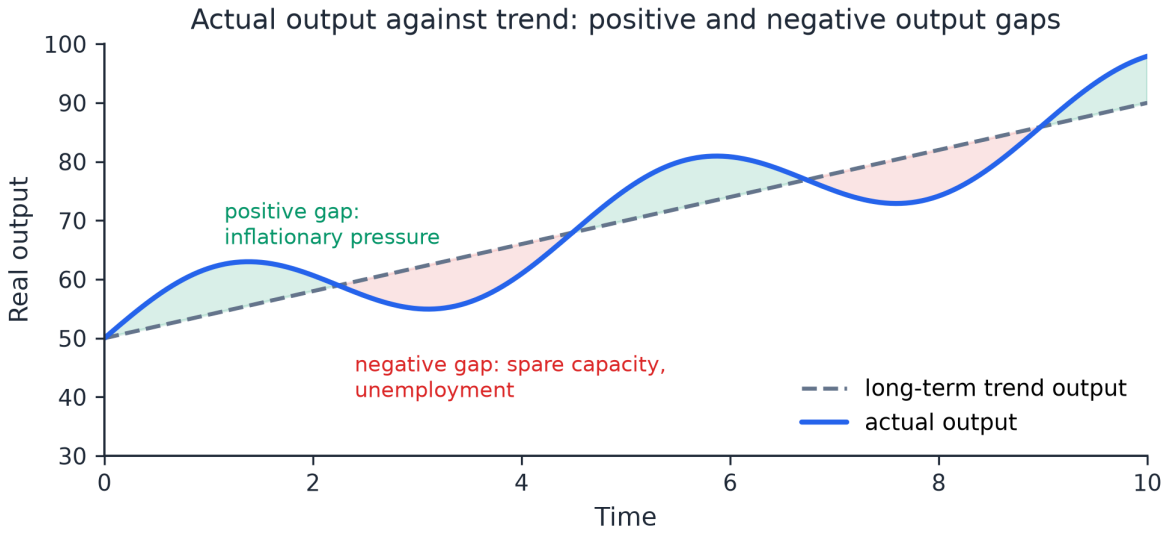
Economic growth

Objective

Distinguish actual from potential growth, explain causes, benefits and costs, and interpret output gaps (spec 2.3.5, rows 1–4).

1 Key knowledge and worked examples

Growth and gaps. Actual growth moves the economy towards its PPF; potential growth shifts the PPF out. Benefits: living standards, employment, profits, investment, tax revenue, public services. Costs: opportunity cost, environment, trade deficits, inequality, inflation. An output gap is actual minus trend output: positive gaps build inflationary pressure, negative gaps mean spare capacity.



Original cycle; the shaded bands are the two gap types.

2 Practice

2.1 Distinguish actual growth from potential growth. [2]

2.2 Why can export-led growth raise output with less inflationary pressure than a consumer boom? [2]

2.3 State any two benefits of economic growth. [2]

2.4 State any two costs of economic growth. [2]

2.5 Distinguish a positive from a negative output gap. [2]

3 Exam-style questions

3.1 *(Original.)* The economy moves from a negative to a positive output gap. Analyse the effects on inflation and unemployment. [4]

3.2 *(Original.)* Explain how foreign direct investment and productivity growth each raise POTENTIAL growth. [4]

3.3 *(Original.)* "Rapid growth is worth any environmental cost." Comment, giving one argument each way. [4]