Output measures, spending and the multiplier

Pearson Edexcel · International A-Level · Economics · Vocabulary in context

Word	Example
economic growth /ˌiːkəˈnɒmɪk grəʊθ/	**Economic growth** means the economy makes more each year.
Gross Domestic Product /grəʊs dəˈmestɪk ˈprɒdʌkt/	**Gross Domestic Product** is the value of all goods and services made in a country in a year.
Gross National Income /grəʊs ˈnæʃənl ˈɪŋkʌm/	**Gross National Income** adds the income that people earn from abroad to GDP. GDP
nominal /ˈnɒmɪnl/	**Nominal** GDP uses today's prices, so it rises when prices rise. GDP
real /rɪəl/	**Real** GDP removes the effect of rising prices. GDP
per capita /pɜː ˈkæpɪtə/	GDP **per capita** is GDP divided by the number of people. GDP GDP
purchasing power parities	**Purchasing power parities** let us compare incomes in countries with different prices.
recession /rɪˈseʃn/	In a **recession**, the economy shrinks and jobs are lost.
inflation /ɪnˈfleɪʃn/	**Inflation** means prices in general are rising.
deflation /diːˈfleɪʃn/	During **deflation**, prices in general fall.

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disinflation /ˌdɪsɪn'fleɪʃn/	When inflation falls from 6% to 2%, that is **disinflation**: prices still rise, but more slowly. 6% 2%
consumer price index /kən'su:mə praɪs 'ɪndeks/	The **consumer price index** measures the price of a basket of household goods.
producer price index	The **producer price index** measures changes in the prices that firms pay and charge.
demand-pull /dɪ'mænd pʊl/	**Demand-pull** inflation happens when people want to buy more than firms can make.
cost-push /kɒst pʊʃ/	**Cost-push** inflation happens when oil and wages cost more.
unemployment /ʌnem'pləɪmənt/	**Unemployment** counts people who want a job but do not have one.
frictional /'frɪkʃənl/	**Frictional** unemployment is short: people are between two jobs.
seasonal /'si:zənl/	Ski teachers face **seasonal** unemployment in summer.
structural /'strʌktʃərəl/	Coal miners face **structural** unemployment when the mines close for good.
demand-deficient	**Demand-deficient** unemployment rises when people stop spending in a recession.
underemployment /ˌʌndərem'pləɪmənt/	A part-time worker who wants more hours faces **underemployment**.

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Word	Example
balance of payments /ˈbæləns ɒv ˈpeɪmənts/	The **balance of payments** records all money flowing into and out of a country.
current account /ˈkʌrənt əˈkaʊnt/	Money from selling services abroad goes into the **current account**.
aggregate demand /ˈægrɪgeɪt dɪˈmænd/	**Aggregate demand** is the total spending in the economy.
consumption /kənˈsʌmpʃn/	**Consumption** is what households spend on goods and services.
savings ratio /ˈseɪvɪŋz ˈreɪʃiəʊ/	The **savings ratio** is the share of income that people save.
investment /ɪnˈvestmənt/	Buying new machines for a factory is **investment**.
government spending /ˈgʌvənmənt ˈspendɪŋ/	**Government spending** pays for schools, hospitals and the army.
aggregate supply /ˈægrɪgeɪt səˈplaɪ/	**Aggregate supply** is the total output that firms will produce.
long-run aggregate supply /lɒŋ rʌn ˈægrɪgeɪt səˈplaɪ/	**Long-run aggregate supply** shows how much the economy can make at full capacity.
Keynesian	A **Keynesian** believes the government should spend more in a recession.
classical	**Classical** unemployment happens when wages are kept above the level the market would set.
circular flow of income /ˈsɜːkjʊlə fləʊ ɒv ˈɪŋkʌm/	The **circular flow of income** shows money moving between households and firms.

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Word	Example
wealth /welθ/	A household's **wealth** is its assets minus debts.
injections /ɪn'dʒekʃnz/	Investment, government spending and exports are **injections** into the flow of income.
withdrawals /wɪθ'drɔ:lz/	Saving, taxes and imports are **withdrawals** from the circular flow of income.
multiplier /ˌmʌltɪ'plaɪə/	The **multiplier** means £1 of new spending can create more than £1 of income.
marginal propensity to consume /'mɑ:dʒɪnl prə'pensɪti tə kən'sju:m/	The **marginal propensity to consume** is the share of extra income that people spend.
marginal propensity to withdraw /'mɑ:dʒɪnl prə'pensɪti tə wɪθ'drɔ:/	The **marginal propensity to withdraw** is the share of extra income saved, taxed or spent on imports.
actual growth /'æktʃu:əl grəʊθ/	Last year the country had strong **actual growth**: output rose by 6%.
potential growth /pə'tenʃl grəʊθ/	**Potential growth** is a rise in what the economy could produce.
foreign direct investment /'fɒrən daɪ'rekt ɪn'vestmənt/	Building a factory abroad is **foreign direct investment**.
productivity /ˌprɒdək'tɪvɪti/	Better machines raise **productivity**: more output per hour.
output gap /'aʊtpʊt gæp/	An **output gap** is the difference between what the economy makes and what it could make.

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