Government and the economy

Pearson Edexcel · International GCSE · Economics · Vocabulary in context

Word	Example
economic growth /ˌiːkəˈnɒmɪk grəʊθ/	**Economic growth** means the economy makes more each year.
real GDP /rɪəl ˌdʒiː diː ˈpiː/	**Real GDP** removes the effect of rising prices.
economic cycle /ˌiːkəˈnɒmɪk ˈsaɪkl/	The **economic cycle** goes from boom to recession and back.
boom /buːm/	A **boom** is a period of strong economic activity.
downturn /ˈdaʊntɜːn/	In a **downturn**, sales fall and firms cut jobs.
recession /rɪˈseʃn/	In a **recession**, the economy shrinks and jobs are lost.
recovery /rɪˈkʌvəri/	A **recovery** brings rising activity after a downturn.
inflation /ɪnˈfleɪʃn/	**Inflation** means prices in general are rising.
deflation /diːˈfleɪʃn/	During **deflation**, prices in general fall.
consumer price index /kənˈsuːmə praɪs ˈɪndeks/	The **consumer price index** measures the price of a basket of household goods.
weight /weɪt/	The **weight** on the edge is the distance.
demand-pull inflation /dɪˈmænd pʊl ɪnˈfleɪʃn/	**Demand-pull inflation** happens when people want to buy more than firms can make.

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cost-push inflation /kɒst pʊʃ ɪnˈfleɪʃn/	**Cost-push inflation** happens when firms pass higher costs on as higher prices.
interest rates /ˈɪntrest reɪts/	Higher **interest rates** make loans more expensive.
real income	If prices rise faster than wages, **real income** falls.
menu costs /ˈmenjuː kɒsts/	**Menu costs** are the costs of changing price lists when prices rise.
shoe-leather costs /ʃuː ˈleðə kɒsts/	**Shoe-leather costs** are the time and effort spent avoiding holding cash during high inflation.
unemployed /ʌnemˈplɔɪd/	A person is **unemployed** if they want a job and are looking for one.
ILO measure	By the **ILO measure**, a person is unemployed if they want work and are looking for it.
cyclical /ˈsaɪklɪkl/	**Cyclical** unemployment rises in a recession.
structural /ˈstrʌktʃərəl/	**Structural** unemployment happens when an industry dies out.
seasonal /ˈsiːzənl/	**Seasonal** unemployment hits farm workers in winter.
frictional /ˈfrɪkʃənl/	**Frictional** unemployment is the short time between leaving one job and starting another.
voluntary /ˈvɒləntəri/	**Voluntary** unemployment means people choose not to take the jobs on offer.

Word	Example
current account /ˈkʌrənt əˈkaʊnt/	Money from selling services abroad goes into the **current account**.
deficit /ˈdefɪsɪt/	The country has a trade **deficit** because it imports more than it exports.
fiscal policy /ˈfɪskl ˈpɒlɪsi/	Changing taxes and government spending is **fiscal policy**.
direct /daɪˈrekt/	Income tax is a **direct** tax: it is taken straight from your income.
indirect	VAT is an **indirect** tax: it is added to the price of goods. VAT
fiscal deficit /ˈfɪskl ˈdefɪsɪt/	The government has a **fiscal deficit** when it spends more than it collects.
surplus /ˈsɜːpləs/	A charity uses its **surplus** to improve its services.
monetary policy /ˈmʌnɪtəri ˈpɒlɪsi/	The central bank uses **monetary policy** when it changes interest rates.
central bank /ˈsentrəl bæŋk/	The **central bank** sets interest rates.
quantitative easing /ˈkwɒntɪteɪtɪv ˈiːzɪŋ/	In **quantitative easing**, the central bank creates money to buy bonds.
deregulation /diːˌregjʊˈleɪʃn/	**Deregulation** removes rules that stop new firms from entering.
aggregate demand /ˈægrɪgeɪt dɪˈmænd/	**Aggregate demand** is the total spending in the economy.
aggregate supply /ˈægrɪgeɪt səˈplaɪ/	**Aggregate supply** is the total output that firms will produce.

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Word	Example
supply-side policy /səˈplaɪ saɪd ˈpɒlɪsi/	Training workers is a **supply-side policy**.