Macroeconomic activity, objectives and policy (3.1-3.7)

International Baccalaureate · IB Diploma · Economics · HL · Vocabulary in context

Word	Example
factors of production /ˈfæktəz ɒv prəˈdʌkʃn/	Land, workers and machines are **factors of production**.
leakages /ˈliːkɪdʒɪz/	Saving, taxes and imports are **leakages** from the flow of income.
injections /ɪnˈdʒekʃnz/	Investment, government spending and exports are **injections** into the flow of income.
gross domestic product /grəʊs dəˈmestɪk ˈprɒdʌkt/	**Gross domestic product** is the value of everything a country makes in a year.
gross national income /grəʊs ˈnæʃənl ˈɪŋkʌm/	**Gross national income** adds income from abroad to GDP. GDP
nominal GDP /ˈnɒmɪnl ˌdʒiː diː ˈpiː/	**Nominal GDP** uses today's prices.
real GDP /rɪəl ˌdʒiː diː ˈpiː/	**Real GDP** removes the effect of rising prices.
GDP per capita /ˌdʒiː diː ˈpiː pɜː ˈkæpɪtə/	**GDP per capita** is GDP divided by the number of people. GDP
purchasing power parity /ˈpɜːtʃɪsɪŋ ˈpaʊə ˈpærɪti/	**Purchasing power parity** says the same basket of goods should cost the same everywhere.
informal economy /ɪnˈfɔːml ɪˈkɒnəmi/	Cash jobs that are not recorded are part of the **informal economy**.

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Human Development Index /ˈhjuːmən dɪˈveləpmənt ˈɪndeks/	The **Human Development Index** combines health, education and income.
trend /trend/	The long-term **trend** in sales is upward.
business cycle /ˈbɪznəs ˈsaɪkl/	A **business cycle** includes expansions and contractions in economic activity.
boom /buːm/	A **boom** is a period of strong economic activity.
recession /rɪˈseʃn/	A **recession** is a long fall in economic activity.
recovery /rɪˈkʌvəri/	A **recovery** brings rising activity after a downturn.
output gap /ˈaʊtpʊt gæp/	An **output gap** is the difference between what the economy makes and what it could make.
aggregate demand /ˈægrɪgeɪt dɪˈmænd/	**Aggregate demand** is the total spending in the economy.
short-run aggregate supply /ʃɔːt rʌn ˈægrɪgeɪt səˈplaɪ/	**Short-run aggregate supply** shows how much firms will produce at each price level now.
monetarist	A **monetarist** believes the money supply is the key to inflation.
long-run aggregate supply /lɒŋ rʌn ˈægrɪgeɪt səˈplaɪ/	**Long-run aggregate supply** shows how much the economy can make at full capacity.
potential output /pəˈtenʃl ˈaʊtpʊt/	**Potential output** is what the economy can make when all resources are used normally.

Word	Example
Keynesian	A **Keynesian** believes the government should spend more in a recession.
recessionary gap /rɪ'seʃənəri gæp/	There is a **recessionary gap** when the economy makes less than it could.
inflationary gap /ɪn'fleɪʃənəri gæp/	There is an **inflationary gap** when demand is greater than the economy can supply.
multiplier /ˌmʌltɪ'plaɪə/	The **multiplier** means £1 of new spending can create more than £1 of income. £1 £1
marginal propensity to consume /'mɑːdʒɪnl prə'pensɪti tə kən'sjuːm/	The **marginal propensity to consume** is the share of extra income that people spend.
unemployed /ʌnem'plɔɪd/	A person is **unemployed** if they want a job and are looking for one.
labour force /'leɪbə fɔːs/	The **labour force** is everyone who has a job or is looking for one.
discouraged workers /dɪ'skʌrɪdʒd 'wɜːkəz/	**Discouraged workers** have stopped looking for work because they think there are no jobs.
natural rate of unemployment /'nætʃərəl reɪt ɒv ʌnem'plɔɪmənt/	The **natural rate of unemployment** is the unemployment left when the economy is healthy.
inflation /ɪn'fleɪʃn/	**Inflation** means prices in general are rising.
deflation /diː'fleɪʃn/	During **deflation**, prices in general fall.
disinflation /ˌdɪsɪn'fleɪʃn/	When inflation falls from 6% to 2%, that is **disinflation**: prices still rise, but more slowly. 6% 2%

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Word	Example
consumer price index /kən'suːmə praɪs 'ɪndeks/	The **consumer price index** measures the price of a basket of household goods.
demand-pull inflation /dɪ'mænd pʊl ɪn'fleɪʃn/	**Demand-pull inflation** happens when people want to buy more than firms can make.
cost-push inflation /kɒst pʊʃ ɪn'fleɪʃn/	**Cost-push inflation** happens when firms' costs rise.
short-run Phillips curve /ʃɔːt rʌn 'fɪlɪps kɜːv/	The **short-run Phillips curve** shows lower unemployment with higher inflation.
long-run Phillips curve /lɒŋ rʌn 'fɪlɪps kɜːv/	The **long-run Phillips curve** is a straight vertical line.
stagflation /stæg'fleɪʃn/	**Stagflation** is high inflation together with high unemployment.
economic growth /ˌiːkə'nɒmɪk grəʊθ/	**Economic growth** means the economy makes more each year.
government debt	**Government debt** is all the money the government has borrowed.
credit rating agencies	**Credit rating agencies** judge how likely a borrower is to pay back.
income /'ɪŋkʌm/	Wages are **income** received over time.
wealth /welθ/	A household's **wealth** is its assets minus debts.
Lorenz curve /'lɒrənts kɜːv/	A **Lorenz curve** shows how equally income is shared.
Gini coefficient /'dʒiːni ˌkəʊɪ'fɪʃənt/	A higher **Gini coefficient** means more inequality.

Word	Example
absolute poverty /ˈæbsəluːt ˈpɒvəti/	People in **absolute poverty** cannot pay for food and shelter.
relative poverty /ˈrelətɪv ˈpɒvəti/	People in **relative poverty** have much less than most people around them.
Multidimensional Poverty Index	The **Multidimensional Poverty Index** looks at health, education and living conditions.
progressive taxes /prəˈgresɪv ˈtæksɪz/	**Progressive taxes** take a higher income share as income rises.
regressive tax /rɪˈgresɪv tæks/	A **regressive tax** takes a bigger share from poorer people.
transfer payments /ˈtrænsfɜː ˈpeɪmənts/	Pensions are **transfer payments**.
average tax rate /ˈævrɪdʒ tæks reɪt/	The **average tax rate** is total tax divided by income.
marginal tax rate /ˈmɑːdʒɪnl tæks reɪt/	The **marginal tax rate** applies to the next unit of income.
equity /ˈekwɪti/	Who pays the new tax is a question of **equity**.
efficiency /ɪˈfɪʃənsi/	A lamp with 20% **efficiency** turns only a fifth of its energy into light. 20%
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.

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Word	Example
inflation target /ɪnˈfleɪʃn ˈtɑːgɪt/	The UK has an **inflation target** of 2%. UK 2%
policy interest rate	A central bank changes its **policy interest rate** to influence borrowing.
open market operations	In **open market operations**, the central bank buys or sells bonds.
minimum reserve requirements	**Minimum reserve requirements** set how much money banks must keep.
quantitative easing /ˈkwɒntɪteɪtɪv ˈiːzɪŋ/	In **quantitative easing**, the central bank creates money to buy bonds.
money supply /ˈmʌni səˈplaɪ/	The **money supply** is the total amount of money in the economy.
real interest rate /rɪəl ˈɪntrest reɪt/	The **real interest rate** is the interest rate minus inflation.
contractionary /kənˈtrækʃənəri/	A **contractionary** policy aims to reduce aggregate demand.
expansionary /ekˈspænʃənəri/	An **expansionary** policy aims to raise aggregate demand.
fiscal policy /ˈfɪskl ˈpɒlɪsi/	Changing taxes and government spending is **fiscal policy**.
direct taxes	Income taxes are **direct taxes** on people or organisations.
indirect taxes /ɪndaɪˈrekt ˈtæksɪz/	Sales taxes are **indirect taxes** on spending.
current spending /ˈkʌrənt ˈspendɪŋ/	Teachers' pay is **current spending**.

Word	Example
capital spending /ˈkæpɪtl ˈspendɪŋ/	Building a new railway is **capital spending**.
budget deficit /ˈbʌdʒɪt ˈdefɪsɪt/	A **budget deficit** means the government spends more than it collects in tax.
budget surplus /ˈbʌdʒɪt ˈsɜːpləs/	A **budget surplus** occurs when government revenue exceeds spending.
automatic stabilisers	Unemployment benefits act as **automatic stabilisers** in a recession.
crowding out /ˈkraʊdɪŋ aʊt/	**Crowding out** happens when government borrowing leaves less money for firms.
supply-side policies /səˈplaɪ saɪd ˈpɒlɪsiz/	**Supply-side policies**, such as training, help the economy produce more.

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