

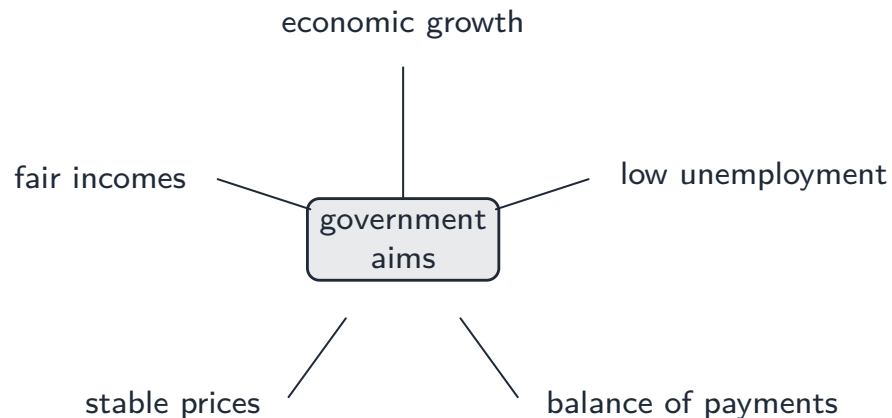
Exercise walk-through

4.5

Economic growth

IGCSE Economics

Government aims



Five **macroeconomic** aims:

- **economic growth**
- **full employment**
- **price stability**
- **balance-of-payments stability & fair incomes**

Aims can **conflict**.

Exam tips

- Learn the government's five aims (growth, low unemployment, low inflation, balance of payments, fair incomes) – they can **conflict**, e.g. fast growth can pull up inflation.
- **Fiscal policy** = government spending and taxes; **monetary policy** = interest rates, money supply and exchange-rate measures; **supply-side policy** = raising what the economy *can* produce.
- Key rates: unemployment rate = $\text{unemployed} \div \text{labour force} \times 100$; inflation rate = $\text{change in CPI} \div \text{old CPI} \times 100$; growth = $\text{change in real GDP} \div \text{old real GDP} \times 100$.
- **Deflation** (falling prices) can be harmful, because people delay buying, so demand and jobs fall.

Worked example – economic growth

Real GDP was £500bn last year and £515bn this year. Find the growth rate.

- $\text{Growth} = \frac{\text{change in real GDP}}{\text{original real GDP}} \times 100$
- $\text{Growth} = \frac{515 - 500}{500} \times 100$
- $\text{Growth} = \frac{15}{500} \times 100 = 3\%$
- **Real** GDP already has inflation removed, so this is a genuine rise in output.

Use **real** GDP to measure output growth; nominal GDP can rise because prices rise. Two quarters of **negative** growth is the usual definition of a recession.

Exercises 2.1-2.3

2.1 Define the term *economic growth*.

[2]

2.2 Define the term *gross domestic product (GDP)*.

[2]

2.3 State the four stages of the business cycle.

[2]

Exercises 2.1-2.3

2.1 Define the term *economic growth*. [2]

2.1

- **economic growth** is an increase in a country's **real output** (real GDP) over time (K)

2.2 Define the term *gross domestic product (GDP)*. [2]

2.2

- **GDP** is the total value of all goods and services a country produces in a year (K)

2.3 State the four stages of the business cycle. [2]

2.3

- the four stages of the business cycle
- **boom, recession, slump, recovery** (K)

Exercises 3.1·3.2

3.1 Economic growth is best measured by a rise in:

[1]

☐

A nominal GDP

B real GDP

C the price level

D the population

3.2 Explain two causes of economic growth.

[4]

Exercises 3.1·3.2

3.1 Economic growth is best measured by a rise in:

[1]

☐

A nominal GDP

B real GDP

C the price level

D the population

3.1 B

- **real GDP** removes the effect of rising prices, so it shows the **true** change (K)
- A includes inflation; C and D are not output

3.2 Explain two causes of economic growth.

[4]

3.2

- for **each** of two causes: K + An
- e.g. **investment in capital**: more machines per worker raises output
- e.g. a **more skilled workforce**: training raises productivity, so the economy makes more

Exercise 3.3

3.3 Discuss whether economic growth is always good for a country.

[8]

Exercise 3.3

3.3 Discuss whether economic growth is always good for a country. [8]

3.3

- **good:** higher incomes, more jobs, better living standards, more tax for public services (K + An)
- **bad:** demand-led growth may cause inflation; the rich-poor gap may widen; more pollution (An)
- **judgement (Ev):** growth usually raises living standards, but it depends on whether it is **sustainable** and **shared fairly**