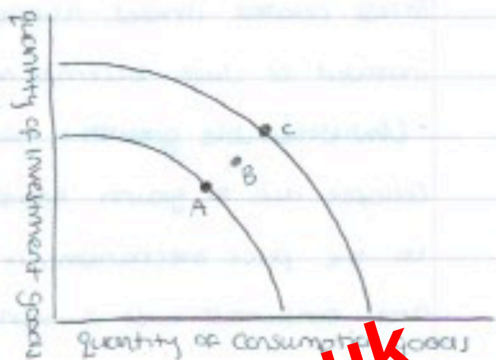
3.4.1 Part 1: The economic cycle and Economic growth

economic growth - Increases in productive capacity, may be shown by a shift to the right of the productive possibility frontier (PPF), measured in the change in real national income.

The productive possibility frontier:

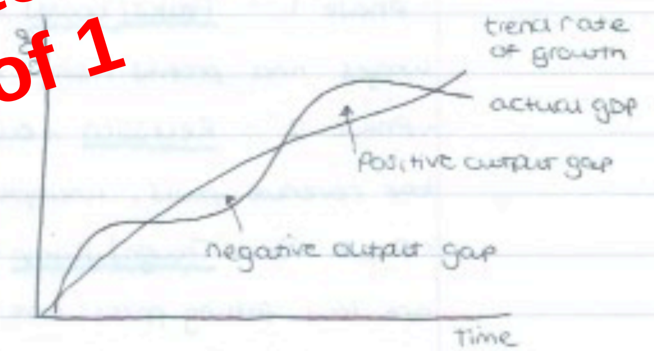
Shows the maximum or potential output of an economy, See graph ↓



- A movement from A to C would be an example of economic growth.
- A movement from B to C would be an example of economic recovery
- graph shows the trade off between investment and consumption goods and therefore consumption in the short or long run.

Causes of economic growth:

- The economic cycle - fluctuations in actual GDP around the trend rate of growth.
- Positive output gap - actual GDP growth is higher than trend rate = inflationary pressure
- Negative output gap - actual GDP is lower than trend rate = deflationary pressure.



Output = land, labour, capital, technical progress, efficiency.

- National output may be increased if there is increase quantity or quality of the inputs to the production progress.

1. Land - Land size, quality, natural resources available, however most agree that exploitation of natural resources will not result in significant or sustainable growth.

2. Labour - demographic changes eg ages, gender balance, birth rate. Increase in participation rates, such as more women in work. Immigration. Labour is not homogenous, workers need to be skilled enough to meet existing demand, they need to flexible to market changes and need to contribute to change.