- **Economic growth - The % Change in an Economy's Real GDP** (Output/Income/Expenditure).

  - **increase in an Economy's Productive potential**
- How can we achieve this?
  - an increase in aggregate demand
  - an increase in aggregate supply (productive capacity)
- **There are at <u>least 3</u> Different ways to Illustrate economic growth:**
  - **SR Growth**
  - **Long Run**
  - **Increase in Growth/Productive Potential**
- **SR –** The government can introduce policies aimed at increasing any of the components of AD. This will create short term growth (pushing the economy back to trend).
  - Policies that attempt to do this are referred to as <u>**Demand side Expansionary policies**</u>
- **Causes of differences in economic growth rates across countries:**
  - Stability in AD and government policy
  - High levels of investment
  - Technological progress
  - High quality education and training
  - Good export performance
  - Strong manufacturing and services sectors
  - Appropriate government policies
  - A low level of international debt
  - Manageable changes in population

- **Supply side policies aim to boost the supply and productivity of factors of production**
  - Land, labour, capital and entrepreneurship
- **Output gap occurs if actual and potential output is different**
  - A *negative output gap* is when the economy operates below its potential output

  - A lack of AD causes a negative output gap
  - A *positive output gap* is when an economy operates above its potential output
  - Excessive AD causes a positive output gap

- **Causes of the business cycle:**
  - Expectations
  - Stock levels, the accelerator and the multiplier effects
  - Government policy
  - Exogenous models
- **If an economy operates within its PPF/PPC:**
  - This implies that there are unemployed resources. Hence an increase in AD will move the economy closer to its PPF: This reduces the 'negative' output gap
- **Benefits of economic growth**
  - Economic growth increases national income
  - This can reduce poverty
  - It can enable more people to consume luxury goods
  - It can increase expenditure on publicly provided goods / services e.g. education and healthcare
  - It can increase a country's status and international power, leading to more favourable outcomes in international negotiations
- **What are the causes of economic growth?**
  - **Investment:** Spending on capital goods, such as premises, machinery and equipment. More investment means the economy has the capacity to produce more goods and services in the future.
  - **Changes in technology:** Technological process means the quality of capital goods improves and this capital can now produce more output than before.
  - **A larger workforce:** The economy can produce more if it has more workers. There may be a natural increase in the working population (e.g. more school leavers), or immigration may bring more workers.

	↓ Depreciation	↑ Appreciation
Exports (X)	• Makes UK goods cheaper when priced in a foreign currency. • Demand for UK exports should rise	• Makes UK goods more expensive when priced in a foreign currency • Demand for UK exports should fall
Imports (M)	• Imports become more expensive for UK consumers – demand for imports should fall. • Increase costs of production for firms who use imported goods in their production process – *Cost Push Inflation.*	• Imports become cheaper for UK consumers – demand for imports should rise. • Reduce costs of production for firms who use imported goods in their production process
Inflation	• Rising exports (X) and falling imports (M) = rising AD – leading to demand-pull inflation • Rising costs for firms as imports are more expensive – leading to cost-push inflation (SRAS shift left)	• Falling exports (X) and rising imports (M) = falling AD – leading to a falling price level • Falling costs for firms as imports are cheaper – leading to a decreasing price level (SRAS shift right)
Economic Growth	• Higher exports and falling imports lead to an increase in GDP (AD shift right). However, less imports can reduce the standard of living for citizens (Recession)	Falling exports and rising imports leads to a decrease in GDP (AD shift left). However, increased imports can increase the standard of living for citizens (PPP)
Current Account of	• Rising exports (X) and falling imports (M) = improvement on current account of balance of payments	• Falling exports (X) and rising imports (M) = worsening of current account of balance of payments