

2020 Edition

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EXCESS LEARNING

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EXAM SUCCESS AT YOUR FINGERTIPS

A-LEVEL ECONOMICS

REVISION FLASH CARDS

Edexcel A



THEME 2.1 MEASURES OF ECONOMIC PERFORMANCE

GDP - BENEFITS & LIMITATIONS AS A MEASURE

BENEFITS

- **Internationally comparable** measure
- **Easy to calculate** - therefore low (opportunity) cost for governments, particularly those in developing nations that may not have a lot of cash
- **Requires less data** than some more complex measures (e.g. HDI), **reducing** the chance of (data) **inaccuracy**

LIMITATIONS

- **Inaccuracy** (difficult to collect & calculate in some countries)
- **Inequalities** - does not take into account or reflect levels of inequality (income distribution) in the nation
- **Quality of goods and services** - does not reflect the quality of goods & services
- **Education and healthcare** - GDP does not take into account quality of education and healthcare, which are important factors in the development of a nation
- **Happiness** - some argue that happiness is more important to development:
 - **UN - 6 happiness factors**: income, life expectancy, social support (having someone to depend on), corruption, generosity, freedom to make choices)
 - **UK - national wellbeing report** → **4** factors of development: life satisfaction, anxiety, happiness, worthwhileness
 - **Easterlin paradox** - limit to how much money (income) can make you happy.

THEME 2.3 AGGREGATE SUPPLY AGGREGATE SUPPLY (4)

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continued...

Keynes uses labour, the 2nd of the 4 factors, to further demonstrate this point.

He shows that since it takes 20-30 years to reach the long run, then a factor (of production) like labour isn't being fully used: there must be some people (workers) that are unemployed. And if they're unemployed, that means they aren't earning a wage (salary).

Because the amount of labour available (labour supply) outweighs the number of jobs (labour demand), it becomes worthwhile for firms to hire additional workers, since they can pay them a little less than the usual rate. This is why the Keynesian LRAS curve starts off horizontal, because a firm can boost output (production) without increasing their costs (the price level).

By employing a few more workers, firms can boost production, and ultimately output, taking the economy closer to the long run, where the supply curve gradually becomes vertical.

As firms continue to do this (hire more workers), fewer become available. In order to attract those that are still available, firms have to pay more, leading to an increase in the price level. Eventually no more workers are available, and firms can no longer increase production (output) since all factors of production have become exhausted. That means output has reached its max point (hence the vertical part of the Keynesian curve), and all firms can do now is maintain production at this level.

THEME 2.4 NATIONAL INCOME

NATIONAL INCOME

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Circular flow of income

- A model for explaining how the economy works.
- It looks at the interactions between firms and households
 - Firms provide goods and services for households in return for payment;
 - Households provide labour, land, capital (i.e. the factors of production) in return for a wage or salary, rent and profit.
- You measure the economy in terms of (economic) activity in **3** ways:
 - **Output** – total value of goods and services produced
 - **Expenditure** – total spending by households on these goods & services
 - **Income** – total income earned by households for supplying their labour to produce these goods and services
- All things being equal, **Output = Expenditure = Income**
- However, in reality, the economy is not that simple. There's far more going on and other people involved e.g. government and the financial sector

Injects and Withdrawals

- Money enters and leaves the economy that isn't considered by the model.
- The money that enters (injections) and leaves (withdrawals) falls into 2 broad categories
 - Injections – Government, Investment, Exports
 - Withdrawals – Savings, Tax, Imports

EFFECTS OF ECONOMIC GROWTH

Use acronym: **C.P.G.W**

CONSUMERS

- **Increased inequality** (economic growth doesn't tend to be fairly distributed)
- Potential **inflation** due to higher prices

PRODUCERS

- Some firms disappear as technology makes their market obsolete e.g. retail shops are disappearing as people increasingly shop online
- Increased *menu costs*

GOVERNMENT

- **Increased regulatory pressure** - economic growth comes with technological progress, with governments often failing to keep up with the pace of change
- **Increased political expectations** - voters expect more (in terms of public services) during periods of economic growth
- **Political capture** - governments might find themselves having to change their area of focus e.g. spending more on healthcare due to increased consumption of demerit goods

WORKERS

- **Diminished work/life balance** - leisure and family time sacrificed for economic opportunities

SOCIETY

- **Increased environmental** damage (pollution, climate change)
- **Increased inequality** between rich & poor

COSTS

BENEFITS

- **Higher quality** goods at lower costs
- **Increased happiness**
- **Positive wealth effect** (increased value of houses and assets)

- Increased business confidence
- Increased investment
- Improved technology
- Higher **efficiency** and lower costs
- Higher profits

- Increased tax revenues
- **Improved budget** (lower budget deficit)

- **Lower poverty** levels
- **Better quality** of life (better health and housing)

- **Improved public services**
- **Better technology** and greener services
- **Improved life expectancy**, education and housing standards

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