

Economics Year 1 Macro

Theme 2 Close the Gap



The UK economy -
performance and policies



Measures of Economic Performance

2.1 Measures of Economic Performance - Economic Growth

What is Gross Domestic Product (GDP)?

Explain the difference between Real and Nominal GDP

Explain the difference between total and per capita GDP

Explain the difference between GNP and GNI

Explain three limitations of using GDP to measure living standards

What is meant by 'Purchasing Power Parity'

Why is PPP useful

How is the ONS National Wellbeing indicator measured

Explain the link between Income and Subjective Happiness



2.1 Measures of Economic Performance - Inflation

Define the following terms providing an example of each

- Inflation
- Deflation
- Disinflation

What is an index number used for?

What does Base Year represent and what number is associated with the Base Year

How do you calculate an Index number?

How do you convert between nominal and real values?

What does CPI stand for?

Explain how CPI is calculated

Explain 3 limitations of CPI as a measure of inflation

Explain the difference between CPI and RPI



Explain what is meant by Cost Push Inflation Provide 3 possible causes of cost push inflation

Explain what is meant by Demand Pull Inflation Provide 3 possible causes of cost push inflation

Illustrate Cost Push Inflation



Illustrate Demand Pull Inflation



What is meant by 'menu costs'?

What is meant by 'shoe leather costs'?

Explain the effects of Inflation on Consumer

Explain the effects of Inflation on workers



Explain the effects of inflation on firms

Explain the effect of inflation on the government

What is meant by 'wage-price spiral'

2.1 Measures of Economic Performance - Employment and Unemployment

Define Unemployment

What is the claimant count? Explain one advantage and one disadvantage of this method to calculate Unemployment

What is the ILO measure of Unemployment and how is it calculated (Labour Force Survey)? Explain one advantage and one disadvantage of this method to calculate Unemployment

Which of these methods is typically higher and why?



What is meant by employment?

What is meant by economically inactive?

What is meant by underemployed?

What is the difference between the population of a country and its labour force?

How do you calculate the following:

- Employment Rate
- Unemployment Rate
- Labour Force
- Participation Rate

What is 'structural unemployment'?

What is 'frictional unemployment'?

What is 'seasonal unemployment'?

What is 'demand deficient-' or 'cyclical unemployment'?

What is 'real wage inflexibility'?



How does Unemployment affect:

- Individuals
 -
 -
 -
- Firms
 -
 -
 -
- Government
 -
 -
 -
- Society
 -
 -
 -

Explain one possible benefit of Increasing Unemployment

What is meant by Net Inward Migration?

Explain the likely effects of Net Inward Migration on an Economy

Explain the likely effects of Net Outward Migration on an Economy

Illustrate the effect of Net Inward Migration on a PPF curve





2.1 Measures of Economic Performance - Balance of Payments

What is the Balance of Payments?

What are the four components of the Current Account?

What is meant by a Current Account Surplus?

What is meant by a Current Account Deficit?

Explain four factors that might lead to a Current Account Deficit or Surplus

When would a Current Account Deficit be considered a problem?

How might a Current Account Deficit affect:

- Unemployment

- Inflation

How might economic growth affect a Current Account Deficit?

Why can't all countries have a Current Account Surplus?



Aggregate Demand

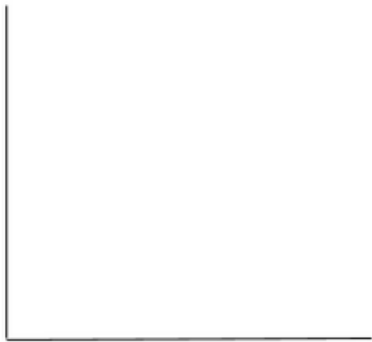
2.2 Characteristics of Aggregate Demand

What is Aggregate Demand?

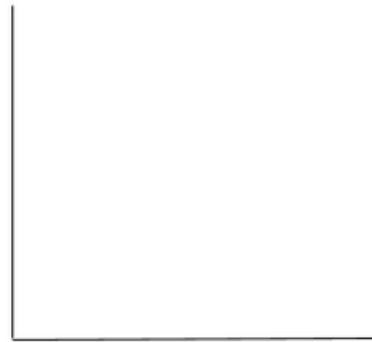
What are the four components of Aggregate Demand

What percentage of AD is comprised of each component

Explain 3 reasons why the AD curve is downward sloping



Illustrate an extension in AD



Illustrate a contraction in AD



Illustrate an increase in AD



Illustrate a decrease in AD



2.2 Consumption

Define Consumption

Define Disposable Income

Explain the relationship between Disposable Income and Consumption

Explain the relationship between Savings and Consumption

What is Consumer Confidence and how does it affect Consumption

Explain the difference between Income and Wealth

Explain how each of these factors affect the level of Consumption in an economy

Interest Rates	
Availability of Credit	
Wealth Effect	
Level of Taxation	
Compositiion of Households	



2.2 Investment

Define Investment

Explain the difference between net investment and gross investment

Explain two ways in which Investment may be funded

Explain the relationship between Economic Growth and Investment

Explain how each of these factors affect the level of Consumption in an economy

Interest Rates	
Availability of Credit	
Business Confidence/Animal Spirits	
Expected Demand	
Expected Profits	



2.2 Government Spending

Explain what is meant by Government Expenditure

Explain what is meant by:

Capital Expenditure

Current Expenditure

Transfer Payments

Explain why Transfer payments are not included in the G component of AD

Explain the relationship between Government Spending and the trade cycle

What is meant by a Budget Deficit

List 3 Biggest Sources of Tax Revenue

List 4 Biggest Expenditures for the UK Government



2.2 Net Trade (X-M)

Explain the difference between Exports and Imports

Explain the effect of an Increase in Imports on AD

Explain the impact of a depreciation on the trade balance (hint: SPICED)

Explain the effect of a recession in a major trading partner of the UK's trade balance

Explain the effect of increasing protectionism on the UK's trade balance

What are Non-Price Factors? Provide 3 examples of Non-Price Factors

Explain how Non-Price Factors affect the UK's trade balance



What Happens to AD?

Event	AD Component(s) Affected	Increase or Decrease	Explanation
A rise in interest rates			
An increase in employment			
A fall in welfare spending			
A rise in the exchange rate			
A fall in GDP in the EU			
A rise in consumer confidence			

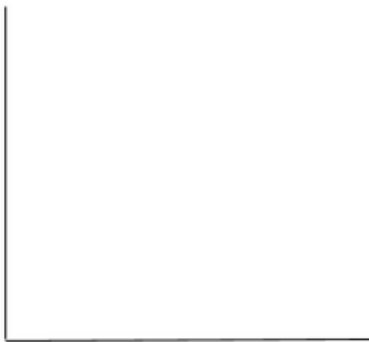


2.3 Aggregate Supply

What is meant by 'Aggregate Supply'?

How is the 'short run' defined in economics?

Illustrate a SRAS curve

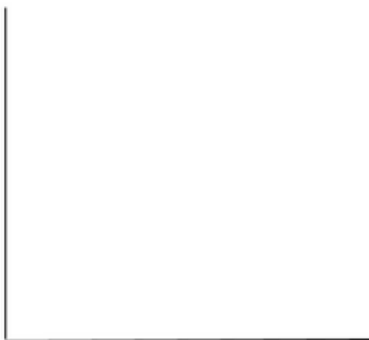


Explain why the SRAS slopes Upwards

Identify 3 factors that would cause the SRAS to shift

How is the 'long run' defined in economics?

Illustrate a Classical LRAS



What do Classical Economists believe about the LRAS

What causes the LRAS to shift?

Identify 6 factors that would cause the LRAS to shift



What do Keynesian Economists believe? How does this affect the shape of the Keynesian LRAS?

Illustrate a Keynesian LRAS curve



What is meant by Full Employment (Y_f)?

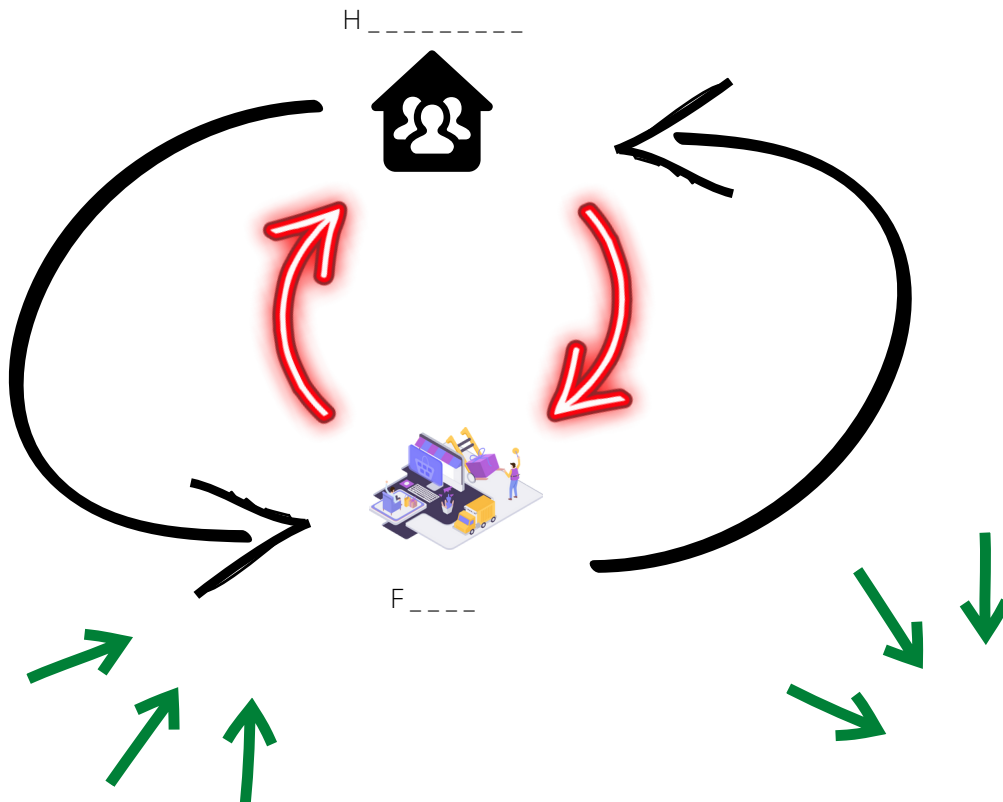
Explain what is happening in the three sections (identified by differing elasticity)



2.4 National Income

What is the circular flow of income?

Complete the circular flow of income diagram



What is the difference between Income and Wealth?

What is an Injection?

What is a leakage?

What happens when Injections > Leakages?

What happens when Injections < Leakages?

What happens when injections = Leakages?



The Multiplier

What is the Multiplier?

Define the following: (Bonus provide the formula)

MPC

MPS

MPM

MPT

MPW

Provide 3 ways to calculate the multiplier

Calculation time:

- if the MPC = 0.5 then the multiplier is ?
- If MPT = 0.4, MPM = 0.3 and MPS = 0.1 What is the MPC?
 - Using the above figures calculate the multiplier
- If the multiplier = 2.5 What is the MPC?



How do you calculate the change in national income?

Calculation Time:

- What happens to national income, assuming the MPC is 0.75, if Investment is reduced by £2bn?
- An economy has the following $MPS = 0.2$, $MPT = 0.2$ and $MPM = 0.3$. If the government invested £400m into the economy what would be the final value of GDP?
- Suppose households save 5% of extra income, and spend 10% of extra income on imports and then 25% goes in tax. What is the MPW?
- What is the value of the multiplier?
- What is the effect on the MPW and the multiplier if there is an increase in the savings rate to 15%?
- The value of the multiplier is 1.2 and there is a negative output gap of £450m. What injection is required to close this gap?

Explain 2 factors that will affect the size of the multiplier

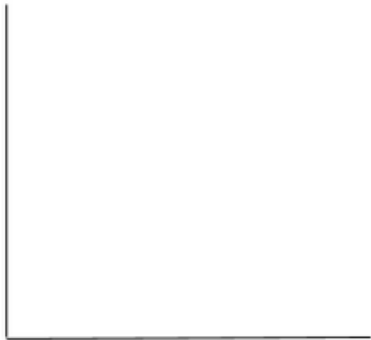


2.5 Economic Growth

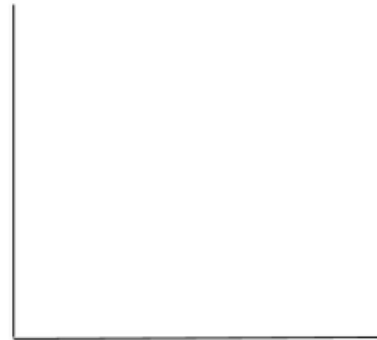
Causes of Growth

What is the difference between actual and potential growth

Illustrate Actual Growth



Illustrate Potential Growth



Explain 1 cause of Actual Growth

Explain 1 cause of Potential Growth

Explain 1 Advantage and 1 Disadvantage of Export Led Growth

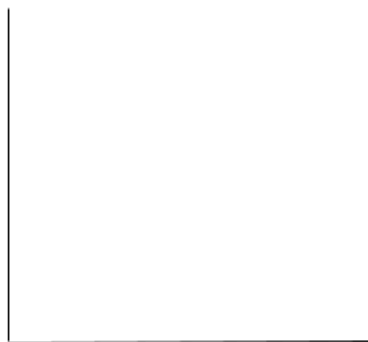
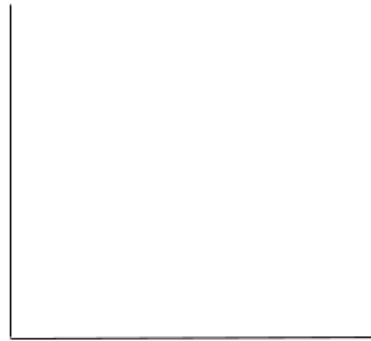
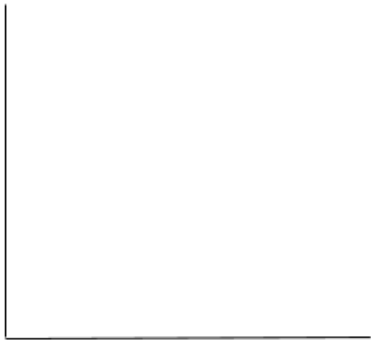


Output Gaps

What is an Output Gap?

What is a negative output gap? How does it occur? (use the term spare capacity in your answer)

Illustrate a negative output gap using A) PPF curve B) Keynesian AD-AS diagram
C) Classical AD-SRAS-LRAS

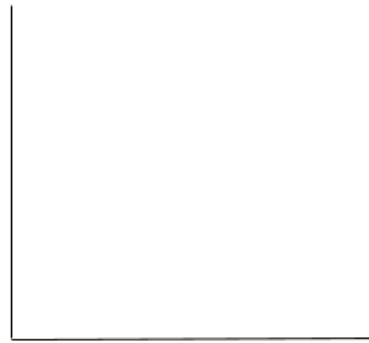
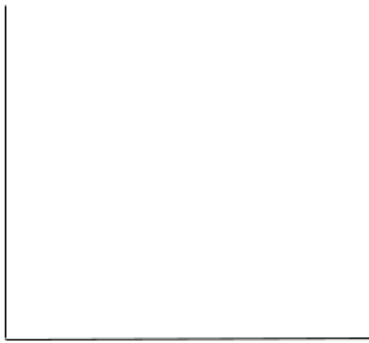




Output Gaps

What is a positive output gap? How does it occur?

Illustrate a negative output gap using A) PPF curve B) Classical AD-SRAS-LRAS



Identify 3 difficulties in measuring output gaps



Trade/Business Cycle

Draw and Label the Trade Cycle

What is the definition of a Recession?

What would you expect to happen in a ?	Recession	Boom
Inflationary Pressure		
Unemployment		
Confidence		
Economic Growth		
Spare Capacity		
Fiscal Position		



The Impact of Growth

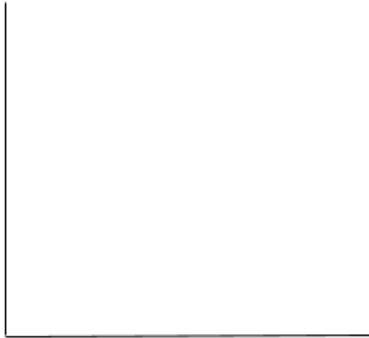
	Advantages of Economic Growth	Disadvantages of Economic Growth
Consumers		
Firms		
Government		
Living Standards		



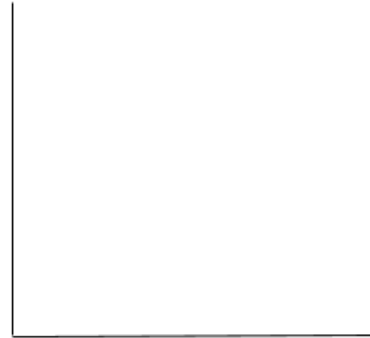
Macroeconomic Policies

2.6 Demand Side Policies

What is the purpose of Demand Side Policy?



Illustrate Expansionary Policy



Illustrate a Contractionary Policy

Fiscal Policy

What two instruments does Fiscal policy incorporate?

What would expansionary fiscal policy involve?

What is the difference between a budget/fiscal surplus and a budget/fiscal deficit?

What is meant by Direct Taxation? Provide 3 examples

What is meant by Indirect Taxation? Provide 3 Examples



Create a chain of analysis for each of the following scenarios:

Increase in Government spending -

Decrease in Income Tax -

Decrease in VAT -

Explain why an Increase in Government spending may be considered more effective than a cut in income taxes to boost the economy

Monetary Policy

What is meant by 'Monetary Policy'?

Who sets monetary policy in the UK? and what is their main objective?

What is meant by the 'Base Rate'?

What would expansionary Monetary Policy involve?



Create 3 chains of analysis to explain the ways that expansionary monetary policy affects AD (Hint: Transmission Mechanism)

What is Quantitative Easing (QE)?

Write a Chain of Analysis explaining how QE works



Explain 3 limitations of Monetary Policy

Explain 2 factors that the Bank of England's Monetary Policy Committee would consider when setting interest rates in the UK

Provide Examples of Recent Fiscal Policy Changes in the UK



2.6 Supply Side Policies

What is the purpose of Supply Side Policy?



Illustrate Expansionary Policy



Illustrate a Contractionary Policy

What is the difference between interventionist and market-based supply side policies?

Give 5 examples of Interventionist and 5 Examples of Market Based policies

-
-
-
-
-
-
-
-

Explain 1 benefit of supply side policy over demand side policy

Explain 1 disadvantage of supply side policy over demand side policy



Impact of Supply Side Policy

	Impact (Analysis)	Evaluation
Reduced Corporation Tax		
Spending on Education and Training		
Spending on Infrastructure		
Increasing Minimum wage		
Privatisation		
Deregulation		



Provide Examples of Supply side policies in the UK