

## 2.5 Economic Growth

### Causes of Growth

- i. What is the difference between actual and potential growth?
- ii. What causes actual growth but not potential growth?
- iii. What causes potential growth?
- iv. Give an example of a country which has grown through export-led growth
- v. Give 2 disadvantages of a heavy reliance on export-led growth as opposed to supply-side growth

### The trade (business) cycle

- i. Draw and label the business cycle
- ii. What are the axes of the business cycle graph?
- iii. What would you expect growth rates to be like in a boom?
- iv. What would you expect unemployment rates to be like in a boom?
- v. What would you expect levels of spare capacity to be like in a boom?
- vi. Would you expect inflationary or deflationary pressures in a boom?
- vii. What would you expect consumer and business confidence levels to be like in a boom?
- viii. What would you expect tax revenues to be like in a boom?
- ix. What would you expect government spending on welfare to be like in a boom?
- x. Would you expect an improving or worsening budget balance during a boom?
- xi. How is a recession defined in the UK?
- xii. What would you expect growth rates to be like in a recession?
- xiii. What would you expect unemployment rates to be like in a recession?
- xiv. What would you expect levels of spare capacity to be like in a recession?
- xv. Would you expect inflationary or deflationary pressures in a recession?
- xvi. What would you expect consumer and business confidence levels to be like in a recession?
- xvii. What would you expect tax revenues to be like in a recession?
- xviii. What would you expect government spending on welfare to be like in a recession?
- xix. Would you expect an improving or worsening budget balance during a recession?

## Output gaps

- i. What is the difference between the actual growth rate and the long-term growth rate
- ii. What is an output gap?
- iii. What is a negative output gap?
- iv. Illustrate a negative output gap on the following diagrams:
  - a) PPF b) Classical AD-SRAS-LRAS c) Keynesian AD-AS d) business cycle
- v. Does a negative output gap result in inflationary or deflationary pressures?
- vi. How does a negative output gap occur? Use the term 'spare capacity' in your answer
- vii. What is a positive output gap?
- viii. Illustrate a positive output gap on the following diagrams:
  - b) PPF b) Classical AD-SRAS-LRAS c) business cycle
- ix. Does a positive output gap result in inflationary or deflationary pressures?
- x. How does a positive output gap occur?
- xi. Give two examples of countries with positive output gap
- xii. Give 4 difficulties in measuring output gaps
- xiii. Briefly describe the output gap in recent history (see trading economics)

## The impact of growth

- i. Give 2 benefits of growth to consumers
- ii. Give 4 costs of growth to consumers
- iii. Give 4 benefits of growth to firms
- iv. Give 1 cost of growth to firms
- v. Give 1 benefit of growth to the government
- vi. Give 1 cost of growth to the government
- vii. Give 4 benefits of growth on long run living standards
- viii. Give 1 cost of growth on long run living standards

## Essays

1. Should economic growth be among the government's main economic objectives currently in the UK?
2. Evaluate the argument that economic growth, as a macroeconomic objective, is no longer relevant.
3. Evaluate whether improvements to productivity and growth should be prioritised as a UK government objective.