

Definitions and Concepts for AQA Economics A-level

Paper 2: Macroeconomics

Topic 2 – How the Macroeconomy Works

Accelerator: A change in the level of investment into capital goods, brought about by a growth of aggregate demand

Actual output: Level of actual output produced in the economy in a year

Aggregate demand: Total planned spending on real output produced by the economy

Aggregate supply: Total real national output

Autonomous consumption: The minimum level of consumption in society needed to sustain a basic standard of living

Boom/Bust Policy: When the government enacts policies to stimulate then contract the economy

Circular flow of income: The circulation of national income, output and expenditure between economic agents, such as firms and households

Credit crunch: Low availability of credit; when borrowing becomes (significantly) more expensive

Full employment income: Total output of an economy when output is minimised

Funding for Lending Scheme (FLS): Scheme allowing banks to borrow cheaply from the Bank of England, on the condition that they lend the money out to promote economic growth

Gross domestic product (GDP): The sum of all goods and services produced in an economy over a period of time

Injection: Spending power entering the circular flow of income resulting from investment, government spending and exports

Keynesian economists: Followers of the economist John Maynard Keynes, who believe the government should generally manage the economy

Long run aggregate supply (LRAS): Aggregate supply when the economy produces its productive potential

Monetarists: Economists who believe increases in the money supply is a significant factor of inflation

Multiplier: The relationship between a change in aggregate demand and the resulting change in national income

Multiplier ratio: Number of times a rise in national income is larger than the rise in the initial injection of AD, which led to the rise in national income

National capital stock: Stock of capital in the economy

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National income: The flow of new output produced by the economy

National output: The same as national income

National product: The same as national income

Nominal GDP: GDP measured at current market prices, without taking into account the effects of inflation

Pro-free market economists: Opponents of Keynesian economists, who believe the government should generally leave the markets to operate freely

Real GDP: GDP measured, taking into account the effects of inflation

Real wage: The purchasing power of the nominal wage, after taking into account the effects of inflation

Real wage unemployment: Unemployment caused by real wages being stuck above the equilibrium wage rate

Red tape: Unnecessary business regulation

Saving: Unspent income

Short run aggregate supply (SRAS): Aggregate supply when the level of capacity is fixed, though existing factors can be utilised more or less to impact real output

Short run economic growth: An increase in the real output by taking up slack in the economy

Sovereign wealth fund: Government or state run fund created by profits from natural resources

Technological progress: When technological change results in more output for the same quantity of input

Trend growth rate: The level of economic growth that is sustainable, without putting upward pressure on inflation

Withdrawal: Spending power exiting the circular flow of income resulting from savings, taxation and imports

