

# AQA Economics A-level

## Macroeconomics

Topic 2 - How the Macroeconomy Works,  
Circular Flow of Income, AD/AS Analysis and  
Related Concepts

Flashcards

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# Accelerator



# Accelerator

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



# Actual output



# Actual output

Level of actual output produced in the economy in a year.



# Aggregate demand



# Aggregate demand

Total planned spending on real output produced by the economy.



# Aggregate supply





# Aggregate supply

Total real national output.



# Autonomous consumption



# Autonomous consumption

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



# Boom/Bust Policy



# Boom/Bust Policy

When the government enacts policies to stimulate then contract the economy.



# Circular flow of income



# Circular flow of income

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



# Credit crunch





# Credit crunch

Low availability of credit; when borrowing becomes (significantly) more expensive.



# Full employment income



# Full employment income

Total output of an economy when output is minimised.



# Funding for Lending Scheme (FLS)



# 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)



# Gross domestic product (GDP)

The sum of all goods and services produced in an economy over a period of time.



# Injection





# Injection

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



# Keynesian economists



# Keynesian economists

Followers of the economist John Maynard Keynes, who believe the government should generally manage the economy.



# Long run aggregate supply (LRAS)



# Long run aggregate supply (LRAS)

Aggregate supply when the economy produces its productive potential.



# Monetarists



# Monetarists

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



# Multiplier





# Multiplier

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



# Multiplier ratio



# 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



# National capital stock

Stock of capital in the economy.



# National income



# National income

The flow of new output produced by the economy.



# National output





# National output

The same as national income.



# National product



# National product

The same as national income.



# Nominal GDP



# Nominal GDP

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



# Pro-free market economists



# Pro-free market economists

Opponents of Keynesian economists, who believe the government should generally leave the markets to operate freely.



# Real GDP





# Real GDP

GDP measured, taking into account the effects of inflation.



# Real wage



# Real wage

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



# Real wage unemployment



# Real wage unemployment

Unemployment caused by real wages being stuck above the equilibrium wage rate.



# Red tape



# Red tape

Unnecessary business regulation.



Question

Saving





# Question Saving

Unspent income.



## Question

# Short run aggregate supply (SRAS)



# Question

## 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.



## Question

# Short run economic growth



Question

# Short run economic growth

An increase in the real output by taking up slack in the economy.



# Sovereign wealth fund



Question

# Sovereign wealth fund

Government or state run fund created by profits from natural resources.



Question

# Technological progress





# Technological progress

When technological change results in more output for the same quantity of input.



# Question

## Trend growth rate



# Trend growth rate

The level of economic growth that is sustainable, without putting upward pressure on inflation.



# Withdrawal



## Question Withdrawal

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

