

# Edexcel (A) Economics A-level

## Theme 2: The UK Economy - Performance and Policies Definitions



Key word	Definition
<b>Actual growth</b>	Economic growth measured by changes in real GDP
<b>Aggregate demand (AD)</b>	The total level of demand in an economy at any given price at a moment in time
<b>Aggregate supply (AS)</b>	The total amount of output in the economy at any given price at a moment in time
<b>Animal spirits</b>	The level of confidence of business owners
<b>Balance of payments</b>	A record of all financial dealings over a period of time between economic agents of one country and another
<b>Base year</b>	A year chosen as a good comparison in series of data when building an index; it is automatically given an index figure of 100
<b>Boom</b>	The peak of the business cycle, when growth is high
<b>Budget</b>	Where the government lays out their spending and taxation plans
<b>Budget deficit</b>	When the government spends more money than it receives
<b>Budget surplus</b>	When the government receives more money than it spends
<b>Circular flow</b>	A model of the economy which shows the flow of goods and services, the factors of production and money around the economy
<b>Claimant count</b>	A measure of unemployment; the number of people receiving benefits for being unemployed
<b>Consumer Price Index (CPI)</b>	Official measure used to calculate the rate of inflation, using a weighted basket of goods.
<b>Consumption</b>	Consumer spending on goods and services
<b>Cost push inflation</b>	Inflation caused by a decrease in AS
<b>Current account</b>	A record of the payments for the purchase and sale of goods and services, as well as income and transfers
<b>Current account deficit</b>	When more money leaves the country than enters, so the current account is negative
<b>Current account surplus</b>	When more money enters the country than leaves, so the current account is positive
<b>Cyclical unemployment</b>	Unemployment caused by a lack of AD



<b>Deflation</b>	A persistent fall in prices of goods and services
<b>Deflationary policy</b>	Fiscal or monetary policy which is aimed at reducing AD
<b>Demand pull inflation</b>	Inflation caused by an increase in AD
<b>Depreciation</b>	The reduction in the value of machinery overtime
<b>Direct tax</b>	Taxes paid straight to the government by the individual taxpayer
<b>Disinflation</b>	A reduction in the rate of inflation
<b>Disposable income</b>	The money consumers have left to spend, after taxes have been taken away and benefits added
<b>Economic growth</b>	An increase in the long term productive potential in the economy; an increase in the amount of goods and services which are produced, measured by an increase in real GDP
<b>Employed</b>	Someone who does more than 1 hour of paid work a week or is temporarily away from work, on a government supported training scheme or does a minimum of 15 hours unpaid work for their family business (ILO definition)
<b>Expansionary policy</b>	Fiscal or monetary policy which is aimed at increasing AD
<b>Exports</b>	Goods or services sold to foreigners that bring income into the country
<b>Export-led growth</b>	Economic growth arising from an increase in exports
<b>Fiscal policy</b>	The use of borrowing, government spending and taxation to manipulate the level of AD and improve macroeconomic performance
<b>Frictional unemployment</b>	Unemployment caused when people move between jobs and enter the job market
<b>Gross Domestic Product (GDP)</b>	The value of goods and services produced in a country over a given period of time
<b>GDP per capita</b>	Total GDP divided by the population
<b>Gross investment</b>	Investment both to replace old machinery that has depreciated and to create/buy new ones
<b>Gross National Income (GNI)</b>	The value of goods and services produced by a country over a period of time plus net overseas interest payments and dividends
<b>Gross National Product (GNP)</b>	The value of goods and services produced by citizens of a country, whether they live in the country or not.
<b>Government spending</b>	Spending by the government for the provision of goods and services



<b>Imports</b>	Goods and services bought from foreigners that takes income out of the country
<b>Inactive</b>	Those neither employed nor unemployed; those not participating in the job market
<b>Income</b>	A flow of assets
<b>Index number</b>	Numbers allowing accurate comparisons over time to be made. The base year value is typically 100
<b>Indirect tax</b>	Tax where the person charged with paying the money to the government is able to pass on the cost to someone else
<b>Inflation</b>	The general rise in prices of goods and services that erodes the purchasing power of money
<b>Injection</b>	Spending power entering the circular flow of income resulting from investment, government spending and exports
<b>Interventionist supply side policies</b>	Policies designed to correct market failure, where the government intervenes in the market
<b>Investment</b>	Spending by businesses on capital goods, which leads to the creation of real goods
<b>Labour Force Survey</b>	A measure of unemployment which surveys people to class them as unemployed, employed or inactive under the International Labour Organisation (ILO) definitions
<b>Living standards</b>	The quality of life enjoyed by people in a country
<b>Long run</b>	When all factors of production are variable
<b>Long run aggregate supply (LRAS)</b>	The total output an economy can produce when operating at full output
<b>Long run trend growth rate</b>	The average sustainable rate of economic growth over a period of time
<b>Marginal propensity to consume</b>	The proportion of an increase in income spent on consumption $\frac{\text{change in consumption}}{\text{change in income}}$
<b>Marginal propensity to import</b>	The proportion of an increase in income spent on imports
<b>Marginal propensity to save</b>	The proportion of an increase in income that is saved
<b>Marginal propensity to tax</b>	The proportion of an increase in income that is taken away in tax



<b>Marginal propensity to withdraw</b>	The proportion of an increase in income that is withdrawn from the circular flow
<b>Market-based supply-side policies</b>	Policies which are designed to remove anything which prevents the free market system working efficiently
<b>Monetary policy</b>	The attempts of the central bank/regulatory authority to control the level of AD by altering base interest rates or the amount of money in the economy
<b>Monetary Policy Committee (MPC)</b>	9 economists who meet monthly to set the Bank rate as well as other monetary instruments
<b>Monetary supply</b>	Stock of money in the economy
<b>Multiplier</b>	An increase in an injection will lead to an even greater increase of national income $\frac{1}{(1-MPC)} = \frac{1}{MPW}$
<b>National expenditure</b>	The value of spending by households on goods and services
<b>National income</b>	The value of income paid by firms to households in return for land, labour, capital and enterprise
<b>National output</b>	The value of the flow of goods and services from firms to households
<b>Negative output gap</b>	When GDP is lower than predicted; the economy is producing below full output
<b>Net exports</b>	Exports minus imports
<b>Net investment</b>	Investment adjusted for depreciation; gross investment minus depreciation
<b>Nominal GDP</b>	GDP which does not take inflation into account; GDP at current prices
<b>Output gap</b>	The difference between the long term trend rate of growth and actual growth
<b>Positive output gap</b>	When GDP is higher than predicted; the economy is producing above full output
<b>Potential growth</b>	A change in the productive potential of the economy
<b>Purchasing power parity</b>	Exchange rate of one currency to another that compares the cost of living in different countries through comparing a typical basket of goods
<b>Quantitative easing</b>	When the central banks buys assets in exchange for money in an attempt to increase the money supply
<b>Real GDP</b>	GDP which strips out the effect of inflation



<b>Real wage unemployment</b>	Unemployment caused when wages are set above the equilibrium wage rate
<b>Recession</b>	The trough of the business cycle, when growth is low. The government defines it as where real GDP falls in at least two successive quarters
<b>Retail Price Index (RPI)</b>	An old measure of inflation which has lost its national statistic status
<b>Savings</b>	The decision by consumers to postpone consumption
<b>Seasonal unemployment</b>	Unemployment caused when an industry only operates during certain times of the year
<b>Short run</b>	When at least one factor of production is fixed
<b>Short run aggregate supply (SRAS)</b>	Aggregate supply when at least one factor of production is fixed
<b>Short run Phillips curve</b>	Shows the relationship between unemployment and inflation: higher levels of unemployment lead to lower levels of inflation
<b>Structural unemployment</b>	Unemployment caused by the long-term decline of an industry
<b>Supply-side policies</b>	Government policies aimed at increasing the productive potential of the economy and shifting LRAS to the right
<b>Total GDP</b>	The GDP of the whole country
<b>Trade (business) cycle</b>	The tendency of economic growth to rise and fall above and below the trend rate of economic growth, causing booms and busts
<b>Underemployment</b>	Those who are working part time, on zero hour contracts or on government training schemes but would prefer to be full time or those employed in areas under their skill level e.g. a graduate working at a bar
<b>Unemployed</b>	Those who are without work, able to start work in the next 2 weeks and have actively sought work for the last 4 weeks (ILO definition)
<b>Value of GDP</b>	Nominal values of GDP; GDP at current prices
<b>Volume of GDP</b>	Real values of GDP; the size of the basket of goods
<b>Wealth</b>	A stock of assets
<b>Withdrawal</b>	Spending power leaving the circular flow of income resulting from savings, taxation and imports.

