

Edexcel (A) Economics A-level

Theme 2: The UK Economy - Performance and Policies

Flashcards

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Actual growth



Actual growth

Economic growth measured by changes
in real GDP



Aggregate demand (AD)



Aggregate demand

The total level of demand in an economy at any given price level at any given moment in time



Aggregate supply (AS)



Aggregate supply

The total amount of output in an economy at any given price at any given moment in time



Animal spirits



Animal spirits

The level of confidence of business owners



Balance of payments



Balance of payments

A record of all financial dealings over a period of time between economic agents of one country and all other countries



Base year



Base year

A year chosen as a good comparison in a series of data when building an index; it is automatically given an index figure of 100



Boom



Boom

The peak of the business cycle, when growth is high



Budget



Budget

Where the government lays out their spending and taxation plans



Budget deficit



Budget deficit

When the government spends more money than it receives



Budget surplus



Budget surplus

When the government receives more money than it spends



Circular flow



Circular flow

A model of the economy which shows the flow of goods and services, the factors of production and money around the economy



Claimant count



Claimant count

A measure of unemployment; the number of people receiving benefits for being unemployed



Consumer Price Index



Consumer Price Index

Official measure used to calculate the rate of inflation, using a weighted basket of goods.



Consumption



Consumption

Consumer spending on goods and services



Cost push inflation



Cost push inflation

Inflation caused by a decrease in AS



Current account



Current account

A record of the payments for the purchase and sale of goods and services as well as income and transfers



Current account deficit



Current account deficit

When more money leaves the country than enters, so the current account is negative



Current account surplus



Current account surplus

When more money enters the country than leaves, so the current account is positive



Cyclical unemployment



Cyclical unemployment

Unemployment caused by a lack of AD



Deflation



Deflation

A persistent fall in prices of goods and services



Deflationary/contractionary policy



Deflationary/contractionary policy

Fiscal or monetary policy which is aimed at reducing AD



Demand pull inflation



Demand pull inflation

Inflation caused by an increase in AD



Depreciation



Depreciation

The reduction in the value of machinery overtime



Direct tax



Direct tax

Taxes paid straight to the government by the individual taxpayer



Disinflation



Disinflation

A reduction in the rate of inflation



Disposable income



Disposable income

The money consumers have left to spend, after taxes have been taken away and benefits added



Economic growth



Economic growth

An increase in the long term productive potential of the economy; an increase in the amount of goods and services which are produced, measured by an increase in real GDP



Employed



Employed

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)



Expansionary policy



Expansionary policy

Fiscal or monetary policy which is aimed at increasing AD



Exports



Exports

Goods and services sold to foreigners that bring income into the country



Export-led growth



Export-led growth

Economic growth arising from an increase in exports



Fiscal policy



Fiscal policy

The use of borrowing, government spending and taxation to manipulate the level of AD and improve macroeconomic performance



Frictional unemployment



Frictional unemployment

Unemployment caused when people move between jobs and enter the job market



Gross Domestic Product (GDP)



Gross Domestic Product

The value of goods and services produced in a country over a given period of time



GDP per capita



GDP per capita

Total GDP divided by the population



Gross investment



Gross investment

Investment both to replace old machinery that has depreciated and to create/buy new ones



Gross National Income (GNI)



Gross National Income (GNI)

The value of goods and services produced by a country over a period of time plus net overseas interest payments and dividends



Gross National Product (GNP)



Gross National Product (GNP)

The value of goods and services produced by citizens of a country, whether they live in the country or not



Government spending



Government spending

Spending by the government on the provision of goods and services



Imports



Imports

Goods and services bought from foreigners that takes income out of the country



Inactive



Inactive

Those neither employed nor unemployed; those not participating in the job market



Income



Income

A flow of assets



Index number



Index number

Numbers allowing accurate comparisons to be made over time. The base year value is typically 100



Indirect tax



Indirect tax

Tax where the person charged with paying the money to the government is able to pass the cost onto someone else



Inflation



Inflation

The general rise in prices of goods and services that erodes the purchasing power of money



Injection



Injection

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



Interventionist supply side policies



Interventionist supply side policies

Policies designed to correct market failure, where the government intervenes in the market



Investment



Investment

Spending by businesses on capital goods, which leads to the creation of real goods



Labour Force Survey



Labour Force Survey

A measure of unemployment which surveys people to class them as unemployed, employed or inactive under the ILO definitions



Living standards



Living standards

The quality of life enjoyed by people in a country



Long run



Long run

When all factors of production are
variable



Long run aggregate supply (LRAS)



Long run aggregate supply (LRAS)

The total output an economy can produce when operating at full output



Long run trend rate of growth



Long run trend rate of growth

The average sustainable rate of economic growth over a period of time



Marginal propensity to consume



Marginal propensity to consume

The proportion of an increase in income spent on consumption



Marginal propensity to import



Marginal propensity to import

The proportion of an increase in income spent on imports



Marginal propensity to save



Marginal propensity to save

The proportion of an increase in income that is saved



Marginal propensity to tax



Marginal propensity to tax

The proportion of an increase in income that is taken away in tax



Marginal propensity to withdraw



Marginal propensity to withdraw

The proportion of an increase in income that is withdrawn from the circular flow



Market-based supply-side policies



Market-based supply-side policies

Policies which are designed to remove anything which prevents the free market system working efficiently



Monetary policy



Monetary policy

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



Monetary Policy Committee (MPC)



Monetary Policy Committee

9 economists who meet monthly to set the Bank rate as well as other monetary instruments



Monetary supply



Monetary supply

Stock of money in the economy



Multiplier



Multiplier

An increase in an injection will lead to an even greater increase in national income



National expenditure



National expenditure

The value of spending by households on goods and services



National income



National income

The value of money paid by firms to households in return for land, labour, capital and enterprise



National output



National output

The value of the flow of goods and services from firms to households



Negative output gap



Negative output gap

When GDP is lower than predicted; the economy is producing below full output



Net exports



Net exports

Exports minus imports



Net investment



Net investment

Investment adjusted for depreciation;
gross investment minus depreciation



Nominal GDP



Nominal GDP

GDP which does not take inflation into account; GDP at current prices



Output gap



Output gap

The difference between the long term trend rate of growth and actual growth



Positive output gap



Positive output gap

When GDP is higher than predicted; the economy is producing above full output



Potential growth



Potential growth

A change in the productive potential of the economy



Purchasing power parity



Purchasing power parity

Exchange rate of one currency to another that compares the cost of living in different countries through comparing a typical basket of goods



Quantitative easing



Quantitative easing

When the central bank buys assets in exchange for money in an attempt to increase the money supply



Real GDP



Real GDP

GDP which strips out the effect of inflation



Real wage unemployment



Real wage unemployment

Unemployment caused when wages are set above the equilibrium wage rate



Recession



Recession

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



Retail Price Index (RPI)



Retail Price Index (RPI)

An old measure of inflation which has lost its national statistic status



Savings



Savings

The decision by consumers to postpone consumption



Seasonal unemployment



Seasonal unemployment

Unemployment caused when an industry only operates during certain times of the year



Short run



Short run

When at least one factor of production is fixed



Short run aggregate supply (SRAS)



Short run aggregate supply (SRAS)

Aggregate supply when at least one factor of production is fixed



Short run Phillips curve



Short run Phillips curve

Shows the relationship between unemployment and inflation: higher levels of unemployment lead to lower levels of inflation



Structural unemployment



Structural unemployment

Unemployment caused by the long term decline of an industry



Supply-side policies



Supply-side policies

Government policies aimed at increasing the productive potential of the economy and shifting LRAS to the right



Total GDP



Total GDP

The GDP of the whole country



Trade (business) cycle



Trade (business) cycle

The tendency of economic growth to rise and fall above and below the trend rate of economic growth, causing booms and busts



Underemployment



Underemployment

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 below their skill level



Unemployed



Unemployed

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)



Value of GDP



Value of GDP

Nominal values of GDP; GDP at current prices



Volume of GDP



Volume of GDP

Real values of GDP; the size of the basket of goods



Wealth



Wealth

A stock of assets



Withdrawal



Withdrawal

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

