

Edexcel (B) Economics A-level

Theme 2.5: The Economic Cycle

Flashcards

This work by [PMT Education](https://www.pmt.education) is licensed under [CC BY-NC-ND 4.0](https://creativecommons.org/licenses/by-nc-nd/4.0/)



What is the economic cycle?



What is the economic cycle?

Refers to stages of economic prosperity and decline



Which stages of the economic cycle are inflationary?



Which stages of the economic cycle are inflationary?

Booms and recoveries



Which stages of the economic cycle are accompanied by government spending?



Which stages of the economic cycle are accompanied by government spending?

Recessions and Slumps



What stage of the economic cycle would tax revenue be the highest, and why?



What stage of the economic cycle would tax revenue be the highest, and why?

Booms

Aggregate demand is high, firms produce more units of output so pay more corporation tax, and consumers earn higher wages so pay more income tax



When do consumers and firms have the lowest levels of confidence?



When do consumers and firms have the lowest levels of confidence?

During economic slumps



Name the 3 injections and 3 withdrawals
to the circular flow of income



Name the 3 injections and 3 withdrawals to the circular flow of income

Injections: exports, investment, government spending

Withdrawals: imports, savings, taxes



When does the economy reach a state of equilibrium?



When does the economy reach a state of equilibrium?

When the rate of withdrawals = the rate of injections



Income = _____ = _____ ?



Income = _____ = _____ ?

Income = Output = Expenditure



List the components of aggregate demand



List the components of aggregate demand

Consumer Spending

Investment

Government Spending

Exports - Imports



Which is the largest component of aggregate demand?



Which is the largest component of aggregate demand?

Consumer spending



Define disposable income



Define disposable income

Income left over for consumers to spend once taxes have been deducted



How do low interest rates encourage more consumer spending?



How do low interest rates encourage more consumer spending?

Low interest rates make it cheaper to borrow money and discourage saving.

They also lower the cost of variable rate mortgages, increasing disposable income



What are the only two things consumers can do with income?



What are the only two things consumers can do with income?

Save it or spend it



How do business confidence and capital investment correlate?



How do business confidence and capital investment correlate?

As confidence increases, so does capital investment



Is fiscal policy demand-side or supply-side?



Is fiscal policy demand-side or supply-side?

Demand-side



When would the government initiate contractionary fiscal policy?



When would the government initiate contractionary fiscal policy?

During economic booms, in order to ease inflationary pressures and prevent any periods of economic instability



How would the exchange rate affect the current account deficit?



How would the exchange rate affect the current account deficit?

A depreciation of the pound (£) makes imports expensive and exports cheap, thus narrowing the deficit and boosting economic growth



How could the government intervene to reduce the current account deficit?



How could the government intervene to reduce the current account deficit?

By adopting protectionist measures, whereby tariffs against imports increase and British firms are subsidised to improve their competitiveness



List 4 factors affecting aggregate supply



List 4 factors affecting aggregate supply

1. Cost of employment
2. Cost of raw materials
3. Government regulation
4. Migration



Which way would the SRAS curve shift given an increase in taxes?



Which way would the SRAS curve shift given an increase in taxes?

Shift to the left (i.e. a decrease in supply)



Which way would the SRAS curve shift given a decrease in the cost of raw materials?



Which way would the SRAS curve shift given a decrease in the cost of raw materials?

Shift to the right (i.e. an increase in supply)



Define inflation



Define inflation

A persistent increase in the general price level of goods/services over a period of time



How does deflation differ from disinflation?



How does deflation differ from disinflation?

Deflation is a fall in the general price level, whereas disinflation is a fall in the rate of inflation



What is the target inflation rate in the UK?



What is the target inflation rate in the UK?

2% (+/- 1%)



Briefly describe the Consumer Price Index



Briefly describe the Consumer Price Index

A survey is used to find a weighted basket of goods. The prices of these goods are measured and updated annually



How does the Retail Price Index differ from the CPI?



How does the Retail Price Index differ from the CPI?

The RPI includes housing costs, and therefore generally has a higher value than the CPI



Describe the difference between nominal values and real values



Describe the difference between nominal values and real values

Real values take into account the rate of inflation



What type of inflation is caused by exchange rate depreciation?



What type of inflation is caused by exchange rate depreciation?

Demand-pull inflation



When does cost-push inflation occur?



When does cost push inflation occur?

During a inward shift of aggregate supply,
whereby firms face higher costs



What type of inflation occurs when workers demand higher wages?



What type of inflation occurs when workers demand higher wages?

Cost-push inflation



How does inflation benefit those in debt?



How does inflation benefit those in debt?

The value of debt erodes over time with inflation, so consumers don't have to pay back as much



How would inflation be a burden on firms?



How would inflation be a burden on firms?

Workers would see their real income erode when accounting for inflation, therefore they would demand higher wages which increases costs for firms



How does someone unemployed differ from someone economically inactive?



How does someone unemployed differ from someone economically inactive?

Unemployed are those who are able to work and actively seeking a job, whereas those economically inactive choose to remain out of a job



How does the Claimant Count work?



How does the Claimant Count work?

This counts the number of people claiming unemployment-related benefits



What is the main disadvantage of using the Claimant Count?



What is the main disadvantage of using the Claimant Count?

Many of those unemployed don't claim benefits, as they have partners on high salaries



What 2 things does the Labour Force Survey ask?



What 2 things does the Labour Force Survey ask?

1. If the subject has been out of work for 4 weeks
2. Whether or not the subject can start work within 2 weeks



Briefly describe structural unemployment



Briefly describe structural unemployment

Occurs when there is a mismatch between skills provided and skills required



When does cyclical unemployment occur?



When does cyclical unemployment occur?

When there is a lack of demand in an industry or the economy

