

OCR Economics A-Level

Macroeconomics

Topic 1 - Aggregate Demand and Aggregate Supply

Flashcards

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Circular flow of income



Circular flow of income

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



Injections



Injections

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



Leakages



Leakages

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



Macroeconomic equilibrium



Macroeconomic equilibrium

Where the rate of withdrawals equals the rate of injections



Monetary flows



Monetary flows

The flow of money, for example from taxes or for consumption



Physical flows



Physical flows

The flow of a good or service



Aggregate demand (AD)



Aggregate demand

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



Consumption



Consumption

Consumer spending on goods and services



Investment



Investment

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



Government expenditure



Government expenditure

Spending by the government for the provision of goods and services



Exports



Exports

Goods and services sold to foreign countries that provide an inflow of money



Imports



Imports

Goods and services bought from foreign countries that lead to an outflow of money



Net exports



Net exports

Exports minus imports



Aggregate supply (AS)



Aggregate supply

The total amount of output in the economy at any given price level at a moment in time



Short run aggregate supply (SRAS)



Short run aggregate supply (SRAS)

Aggregate supply when at least one factor of production is fixed



Short run



Short run

When at least one factor of production is fixed



Long run aggregate supply (LRAS)



Long run aggregate supply

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



Long run



Long run

When all factors of production are
variable



Multiplier



Multiplier

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



Accelerator theory



Accelerator theory

A change in consumption will cause a larger percentage increase in investment; high consumption leads to high investment



Output gap



Output gap

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



Negative output gap



Negative output gap

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



Positive output gap



Positive output gap

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



Marginal propensity to consume (MPC)



Marginal propensity to consume

The proportion of an increase in income spent on consumption



Marginal propensity to save (MPS)



Marginal propensity to save (MPS)

The proportion of an increase in income that is saved



Marginal propensity to withdraw (MPW)



Marginal propensity to withdraw

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



Average propensity to consume



Average propensity to consume

The percentage of income spent on goods and services



Average propensity to save



Average propensity to save

The percentage of income that is saved

