

OCR Economics A-Level

Macroeconomics

Topic 2 - Economic Policy Objectives

Flashcards

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Economic growth



Economic growth

An expansion of the productive potential
in the economy



Economic cycle



Economic cycle

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



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 of the country



Nominal GDP



Nominal GDP

The value of GDP without being adjusted for inflation



Real GDP



Real GDP

The value of GDP adjusted for inflation



Short run growth



Short run growth

Calculated annually by the percentage change in real GDP



Long run growth



Long run growth

An increase in the productive capacity of the economy



Actual rate of growth



Actual rate of growth

Economic growth measured by change
in real GDP



Trend rates of growth



Trend rates of growth

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



Economic development



Economic development

An increase in living standards, freedom and life expectancy



Structure of an economy



Structure of an economy

How the economy is made up in terms of what proportion of output comes from the different economic sectors



Primary sector



Primary sector

The part of the economy focussed on raw materials, such as farming or mining



Secondary sector



Secondary sector

The sector which transforms raw materials into goods for consumers, the manufacturing industry



Tertiary sector



Tertiary sector

The part of the economy concerned with the supply of services



Sustainable development



Sustainable development

Development that occurs to meet the needs of the people of today without preventing future generations from meeting their needs;
development that occurs without depletion of natural resources



Human Development Index (HDI)



Human Development Index (HDI)

Measures an economy's development based on income, health and education



Genuine Progress Indicator



Genuine Progress Indicator

A measure of development calculated from 26 different indicators looking at economic, environmental and social factors



Measuring National Wellbeing programme



Measuring National Wellbeing programme

A report which measures how lives are improving; asks four key questions about life satisfaction, anxiety, happiness and worthwhileness



Aid



Aid

When a country voluntarily transfers resources to another or gives loans on a concessionary basis



Remittances



Remittances

A sum of money sent back to the domestic economy of a migrant



Employment



Employment

Those with a job



Unemployment



Unemployment

Those able and willing to work, but are not employed



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



Claimant count



Claimant count

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



Inflation



Inflation

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



Deflation



Deflation

The opposite of inflation, where the average price level in the economy falls



Disinflation



Disinflation

A falling rate of inflation; prices are still rising but by not as much



Hyperinflation



Hyperinflation

When the rate of inflation is high and accelerating, to the extent that it is out of control



Consumer Price Index



Consumer Price Index

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



Retail Price Index



Retail Price Index

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



Balance of payments



Balance of payments

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



Current account



Current account

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



Marginal propensity to import (MPM)



Marginal propensity to import (MPM)

The proportion of an increase in income spent on imports



Capital account



Capital account

A part of the balance of payments;
involves transfers of the ownership of
fixed assets



Financial account



Financial account

A part of the balance of payments;
records FDI, portfolio investment and the
transfer of gold and currency reserves



Income and current transfers



Income and current transfers

Net earnings on foreign investment, net cash transfers and transfers that have no return such as aid and grants



Income distribution



Income distribution

How the flow of assets is spread throughout the economy



Income inequality



Income inequality

When income is unevenly distributed
across a nation



Wealth distribution



Wealth distribution

How the stock of assets is spread across the economy



Wealth inequality



Wealth inequality

When wealth is unevenly distributed
across the economy



Absolute poverty



Absolute poverty

When people are unable to afford sufficient necessities to maintain life; those on less than \$1.90 a day



Relative poverty



Relative poverty

When income falls below an average income threshold

In the UK, this is those on less than 60% of median household income



Gini coefficient



Gini coefficient

A measure of income inequality; the ratio of the area between the 45 degree line (the line of perfect equality) and the Lorenz curve and the whole area under the 45 degree line



Lorenz curve



Lorenz curve

The cumulative percentage of population plotted against the cumulative percentage of income that those people have



Phillips Curve



Phillips Curve

Shows the trade-off between the level of unemployment and the inflation rate



Natural (non-accelerating inflation) rate of unemployment



Natural (non-accelerating inflation) rate of unemployment

The unemployment rate when the labour market is at equilibrium, when there is no demand deficient unemployment and unemployment is only caused by supply side factors



Regressive taxation

Where the proportion of income paid in tax falls whilst the income of the taxpayer increases; those on lower incomes pay a higher percentage of their income on tax



Automatic stabilisers



Automatic stabilisers

Mechanisms which reduce the impact of changes in the economy on national income



Discretionary fiscal policy



Discretionary fiscal policy

Deliberate manipulation of government expenditure and taxes to influence the economy; expansionary and deflationary fiscal policy



Balanced budget



Balanced budget

When government spending equal tax revenue



Budget deficit



Budget deficit

When the government spends more money than it receives



Budget



Budget position/fiscal stance

The impact that taxes and government spending has on the future economy



Budget position on current expenditure



Budget position on current expenditure

The flow of cash during one period of time



Budget surplus



Budget surplus

When the government receives more money than it spends



Current government expenditure



Current government expenditure

Spending on goods and services which are consumed and last for a short time



Capital government expenditure



Capital government expenditure

Government spending on investment goods such as new roads, schools and hospitals, which will be consumed in over a year



Cyclical budget position



Cyclical budget position

A temporary budget position, which is related to the business cycle



Structural budget position



Structural budget position

Budget which is either in a deficit or surplus due to an imbalance in revenue and expenditure of the government, as it exists at every point in the business cycle



Overall budget position



Overall budget position

An accumulation of deficits and surpluses over time to give the overall budget



National debt



National debt

The sum of government debts built up over many years



Crowding out



Crowding out

When government borrowing discourages private sector investment or when government provision of a good or service prevents it being provided by the private sector



Crowding in



Crowding in

When government borrowing leads to an increase in private investment



Laffer curve



Laffer curve

Shows that a rise in tax rates does not necessarily lead to a rise in tax revenue, due to the impact on incentives and work



Average tax rates



Average tax rates

The amount of tax paid as a proportion of income



Marginal rate of tax



Marginal rate of tax

The rate of tax applied to the next unit of currency in income e.g. the rate of tax on the next pound earned in the UK



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



Money supply



Money supply

Stock of money in the economy



Interest rates



Interest rates

The price of money



Symmetric inflation targeting



Symmetric inflation targeting

When the Central Bank intervenes when inflation is too high or too low

