Definitions and Concepts for AQA Economics AS-level

Paper 2: Macroeconomics

Topic 2 – How the Macroeconomy Works

Accelerator: A change in the level of investment into capital goods, brought about by a growth of aggregate demand.

Actual output: Level of actual output produced in the economy in a year.

Aggregate demand: Total planned spending on real output produced by the economy.

Aggregate supply: Total real national output.

Gross domestic product (GDP): The sum of all goods and services produced in an economy over a period of time.

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

Keynesian economists: Followers of the economist John Maynard Keynes, who believe the government should generally manage the economy.

Long run aggregate supply (LRAS): Aggregate supply when the economy produces its productive potential.

Monetarists: Economists who believe increases in the money supply is a significant factor of inflation.

Multiplier: The relationship between a change in aggregate demand and the resulting change in national income.

National capital stock: Stock of capital in the economy.

National income: The flow of new output produced by the economy.

National output: The same as national income.

National product: The same as national income.

Nominal GDP: GDP measured at current market prices, without taking into account the effects of inflation.

Pro-free market economists: Opponents of Keynesian economists, who believe the government should generally leave the markets to operate freely.

Real GDP: GDP measured, taking into account the effects of inflation.

Real wage: The purchasing power of the nominal wage, after taking into account the effects of inflation.

Real wage unemployment: Unemployment caused by real wages being stuck above the equilibrium wage rate.

Saving: Unspent income.

Short run aggregate supply (SRAS): Aggregate supply when the level of capacity is fixed, though existing factors can be utilised more or less to impact real output.

Short run economic growth: An increase in the real output by taking up slack in the economy.

Technological progress: When technological change results in more output for the same quantity of input.

Trend growth rate: The level of economic growth that is sustainable, without putting upward pressure on inflation.

Withdrawal: Spending power exiting the circular flow of income resulting from savings, taxation and imports.