AQA Economics A-level

Macroeconomics

Topic 1: Measurement of Macroeconomic Performance

1.2 Macroeconomic indicators

Notes

The performance of an economy can be measured with the following data

Real GDP:

GDP measures the quantity of goods and services produced in an economy (national output). In other words, a rise in economic growth means there has been an increase in national output. **Real GDP** is the value of GDP adjusted for inflation. For example, if the economy grew by 4% since last year, but inflation was 2%, real economic growth was 2%.

Real GDP per capita:

Real GDP per capita is the value of real GDP divided by the population of the country. Capita is another word for 'head', so it essentially measures the average output per person in an economy. This is useful for comparing the relative performance of countries.

Consumer Prices Index and Retail Prices Index (CPI/RPI):

CPI and RPI are the measures of inflation in the UK. The **Consumer Prices Index (CPI)** measures household purchasing power with the Family Expenditure Survey. The survey finds out what consumers spend their income on. From this, a basket of goods is created. The goods are weighted according to how much income is spent on each item. Petrol has a higher weighting than tea, for example. Each year, the basket is updated to account for changes in spending patterns.

RPI is an alternative measure of inflation. Unlike CPI, RPI includes housing costs, such as payments on mortgage interest and council tax. This is why RPI tends to have a higher value than CPI.

Measures of unemployment:

It is usually difficult to accurately measure unemployment. Some of those in employment might claim unemployment related benefits, whilst some of the unemployed might not reveal this in a survey.

The two main measures of unemployment in the UK are:

The Claimant Count

This counts the number of people claiming unemployment related benefits, such as Job Seeker's Allowance (JSA). They have to prove they are actively looking for work.

The International Labour Organisation (ILO) and the UK Labour Force Survey (LFS)

The LFS is taken on by the ILO. It directly asks people if they meet the following criteria:

- Been out of work for 4 weeks
- Able and willing to start working within 2 weeks
- Workers should be available for 1 hour per week. Part time unemployment is included.

Since the part-time unemployed are less likely to claim unemployment benefit, this method gives a higher unemployment figure than the Claimant Count.

Measures of productivity:

Productivity is defined as **output per worker per period of time.** It measures how efficient production is. Productivity increases if more output can be produced with fewer units of input.

For example, labour productivity is measured in the UK by output per hour. In the first quarter of 2015, it grew by 0.3%.

Balance of payments on current account:

The balance of payments is a record of all financial transactions made between consumers, firms and the government from one country with other countries. It states how much is spent on imports, and what the value of exports is.

Exports are goods and services sold to foreign countries, and are positive in the balance of payments. This is because they are an **inflow** of money.

Imports are goods and services bought from foreign countries, and they are negative on the balance of payments. They are an **outflow** of money.

The balance of payments is made up of:

- The current account

- The capital account
- The official financing account.

For the AS course, only the current account is focussed on.

The **current account on the balance of payments** is the balance of trade in goods and services.