

# Edexcel (A) Economics A-level

## **Theme 2: The UK Economy, Performance and Policies**

### 2.5 Economic Growth

#### **2.5.4 The impact of economic growth**

##### Notes



## The benefits and costs of economic growth and the impact on:

	Costs	Benefits
<b>Consumers</b>	<p>Economic growth does not benefit everyone equally. Those on low and fixed incomes might feel worse off if there is high inflation and inequality could increase.</p> <p>There is likely to be higher demand-pull inflation, due to higher levels of consumer spending.</p> <p>Consumers could face more <b>shoe leather costs</b>, which means they have to spend more time and effort finding the best deal while prices are rising.</p> <p>The benefits of more consumption might not last after the first few units, due to the <b>law of diminishing returns</b>, which states that the utility consumers derive from consuming a good diminishes as more of the good is consumed.</p>	<p>The average consumer income increases as more people are in employment and wages increase.</p> <p>Consumers feel more confident in the economy, which increases consumption and leads to higher living standards.</p>
<b>Firms</b>	<p>Firms could face more <b>menu costs</b> as a result of higher inflation. This means they have to keep changing their prices to meet inflation.</p>	<p>Firms might make more profits, which might in turn increase investment. This is also driven by higher levels of business confidence.</p> <p>Higher levels of investment could develop</p>



		<p>new technologies to improve productivity and lower average costs in the long run.</p> <p>As firms grow, they can take advantages of the benefits of economies of scale.</p> <p>If there is more economic growth in export markets, firms might face more competition, which will make them more productive and efficient, but it will also give them more sales opportunities.</p>
<b>The government</b>	Governments might increase their spending on healthcare if the consumption of demerit goods increases.	The government budget might improve, since fewer people require welfare payments and more people will be paying tax.
<b>Current and future living standards</b>	High levels of growth could lead to damage to the environment in the long run, due to increase negative externalities from the consumption and production of some goods and services.	<p>As consumer incomes increase, some people might show more concern about the environment.</p> <p>Also, economic growth could lead to the development of technology to produce goods and services more greenly.</p> <p>Higher average wages mean consumers can enjoy more goods and services of a higher quality.</p> <p>Public services improve, since governments have</p>



		higher tax revenues, so they can afford to spend on improving services. This could increase life expectancy and education levels.
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