

OCR Economics A-level

Macroeconomics

Topic 2 – Economic Policy Objectives

Definitions and Concepts

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2.1 – Economic growth

Actual rate of growth - Economic growth measured by changes in real GDP.

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

Economic growth - An expansion of the productive potential of the economy.

GDP per capita - Total GDP divided by the population of the country.

Gross domestic product (GDP) - The value of goods and services produced in a country over a given period of time.

Long run growth - An increase in the productive capacity of the economy.

Nominal GDP - The value of GDP without being adjusted for inflation.

Real GDP - The value of GDP adjusted for inflation.

Short run growth - Calculated annually by the percentage change in real GDP.

Trend rates of growth - The average sustainable rate of economic growth over a period of time.

2.2 – Development

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

Economic development - An increase in living standards, freedom and life expectancy.

Genuine Progress Indicator - A measure of development calculated from 26 different indicators looking at economic, environmental and social factors.

Human Development Index (HDI) - Measures an economy's development based on income, health and education.

Measuring National Wellbeing programme - A report which measures how lives are improving; asks four key questions about life satisfaction, anxiety, happiness and worthwhileness.

Primary sector - The part of the economy focused on raw materials, such as farming or mining.

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

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

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



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.

Tertiary sector - The part of the economy concerned with the supply of services.

2.3 – Employment

Claimant count - A measure of unemployment; the number of people receiving benefits for being unemployed.

Employment – Those with a job.

Labour Force Survey - A measure of unemployment which surveys people to class them as unemployed, employed or inactive under the International Labour Organisation (ILO) definitions.

Unemployment - Those able and willing to work, but are not employed.

2.4 – Inflation

Consumer Price Index - Official measure used to calculate the rate of inflation, using a weighted basket of goods.

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

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

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

Inflation - The general rise in prices of goods and services that erodes the purchasing power of money.

Retail Price Index - An old measure of inflation which has lost its national statistic status.

2.5 – 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.

Capital account - A part of the balance of payments; involves transfers of the ownership of fixed assets.

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

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

Marginal propensity to import (MPM) - The proportion of an increase in income spent on imports.

2.7 – Income distribution and welfare

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

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.

Income distribution - How the flow of assets is spread throughout the economy.

Income inequality - When income is unevenly distributed across a nation.

Lorenz curve - The cumulative percentage of population plotted against the cumulative percentage of income that those people have.

Relative poverty - When income falls below an average income threshold. In the UK, this is those on less than 60% of median household income.

Wealth distribution - How the stock of assets is spread across the economy.

Wealth inequality - When wealth is unevenly distributed across the economy.

2.8 – The Phillips Curve

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.

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

