Exercise walk-through

Economic growth ▪ 4.4

eXercise

You must be able to

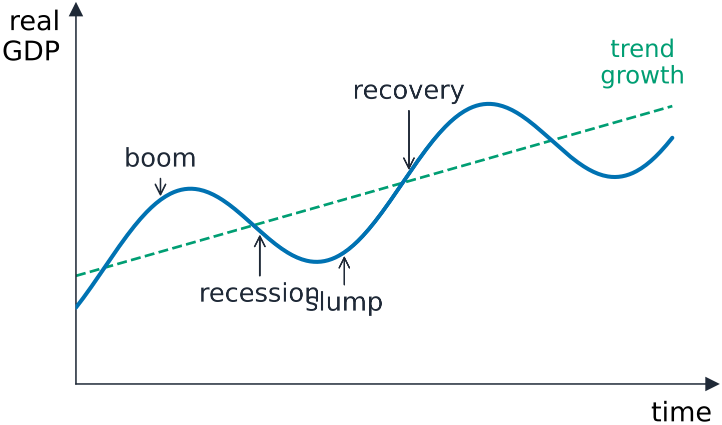
- distinguish actual from potential growth
- explain the causes of economic growth
- analyse the costs and benefits of growth

Method — Growth and the business cycle

- **Actual growth 实际增长**: the rise in output that really happens. **Potential growth 潜在增长**: a rise in capacity (LRAS shifts out).
- **Causes:** more/better factors — a bigger or more skilled workforce, investment, new technology, higher **productivity 生产率**.
- **Cycle: boom 繁荣** $\rightarrow$ **recession 衰退** $\rightarrow$ **slump 萧条** $\rightarrow$ **recovery 复苏**.

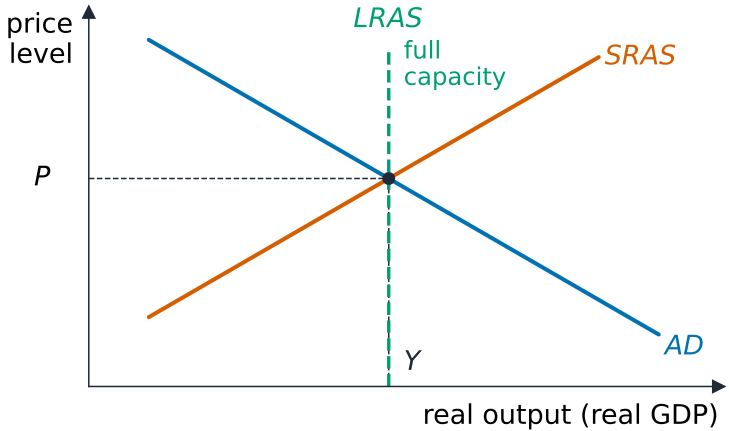
Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

Method — Growth and the business cycle



Real GDP swings through boom, recession, slump and recovery around its trend

Method — Growth and the business cycle



Higher AD or an outward LRAS shift raises real output — actual and potential growth

Practice 2.1 ▪ 2 marks

Define the term *economic growth*.

Solution 2.1

Worked steps

an increase in a country's real output (real GDP) over time (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

State the difference between *actual* and *potential* growth.

Solution 2.2

Method: Growth and the business cycle

Worked steps

actual growth is the real rise in output that occurs; potential growth is a rise in the economy's productive capacity (the LRAS shifting out) (2 for a clear difference; 1 for a partial idea).

Practice 2.3 ▪ 2 marks

State the four phases of the business cycle.

Solution 2.3

Method: Growth and the business cycle

Worked steps

boom, recession, slump, recovery (2 for all four; 1 for a partial list).

Exam-style 3.1 ▪ 1 mark

Potential economic growth is shown by:

A a movement from inside the PPC towards it

B an outward shift of the LRAS curve

C a rise in the price level

D a leftward shift of AD

Solution 3.1

Method: Growth and the business cycle

A a movement from inside the PPC towards it

B an outward shift of the LRAS curve ✓

C a rise in the price level

D a leftward shift of AD

Worked steps

B. Potential growth is an outward shift of LRAS.

Exam-style 3.2 ▪ 6 marks

Explain two causes of potential economic growth.

Solution 3.2

Method: Growth and the business cycle

Worked steps

[6] For **each** of two causes: AO1 1 + AO3 up to 2 — e.g. *investment*: more capital per worker → higher productivity → greater capacity. *Education/training*: a more skilled workforce → higher output per worker → LRAS shifts out. Maximum 3 each.

Exam-style 3.3 ▪ 12 marks

Discuss whether economic growth always improves living standards.

Solution 3.3

Worked steps

[12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** growth raises incomes, jobs, tax revenue and can cut poverty. **Against:** it may cause inflation, pollution and resource depletion, and can widen inequality if the gains are unevenly shared. Judgement: growth usually improves living standards, but whether it *always* does depends on its type (sustainable vs polluting) and how the gains are distributed.