

Exercise walk-through

5.1

Macroeconomic measures and policy: supported rehearsal

International Baccalaureate · IB Diploma · Economics · HL

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The method

Method — Worked example

Nominal output includes price changes; real output adjusts for prices; per-capita output divides by population. AD combines consumption, investment, government spending and net exports. Expansion can raise output and/or prices depending on spare capacity, expectations and supply conditions. Demand-side and supply-side policies operate through different mechanisms and time horizons.

Task: nominal GDP rises 8%, the GDP deflator rises 5%, and population rises 2%.

Estimate real and real-per-capita growth, then qualify a spending stimulus.

Real growth factor = $1.08/1.05 = 1.02857$, so real growth $\approx 2.86\%$. Per-capita real factor = $(1.08/1.05)/1.02 = 1.00840$, so growth $\approx .84\%$. An approximation of $8 - 5 - 2 = 1\%$ is rougher. A stimulus can shift AD right, increasing output with spare capacity; near capacity, inflation/import leakage may dominate. Consider financing, distribution and supply bottlenecks.

Method — Worked example

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Original source / task evidence

Task: nominal GDP rises 8%, the GDP deflator rises 5%, and population rises 2%.
Estimate real and real-per-capita growth, then qualify a spending stimulus.

Separate what is stated from the interpretation.
Macroeconomic measures and policy

Original classroom evidence panel for Macroeconomic measures and policy

Exercises 2.1-3.1

2.1 For the worked case, identify the evidence and a conclusion it can support. Explain one material limit. [3]

3.1 Real GDP per person increases. Does this establish lower inequality and environmental improvement? Give a reasoned answer, evidence or method, and a relevant qualification. [3]

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3.1 Real GDP per person increases. Does this establish lower inequality and environmental improvement? Give a reasoned answer, evidence or method, and a relevant qualification. [3]

3.1 It is an average output measure, not a distribution or environmental index. Compare income shares, poverty measures and relevant environmental indicators separately. Higher average output may provide resources for improvement but does not establish their use or equal benefit. Authored points for a relevant judgement, reason tied to the case and justified qualification or method. Accept a supported alternative.