Exercise walk-through

Economic growth ▪ 4.5

eXercise

You must be able to

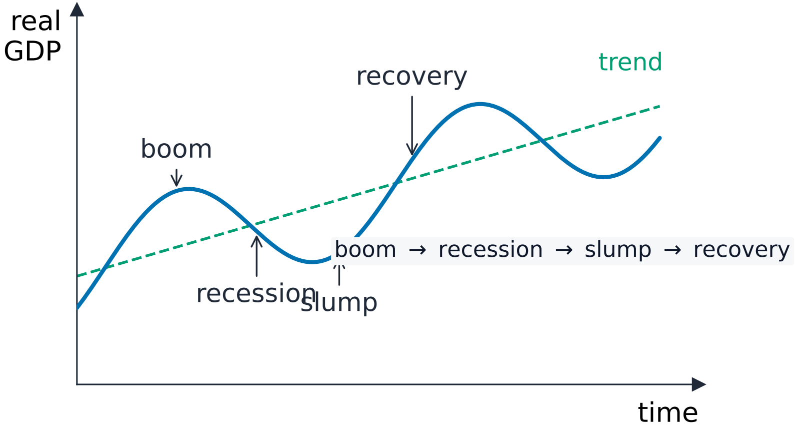
- define economic growth and real GDP
- describe the stages of the business cycle
- analyse the causes and the good and bad effects of growth

Method — Growth and the business cycle

- **GDP 国内生产总值**: total value of all goods/services produced in a year. **Real 实际**: after removing the effect of rising prices.
- **Cycle: boom 繁荣** → **recession 衰退** → **slump 萧条** → **recovery 复苏**.
- **Causes:** investment, a bigger/more skilled workforce, new technology.
- **Good:** higher incomes, more jobs, better **living standards 生活水平**. **Bad:** inflation, a wider rich-poor gap, pollution.

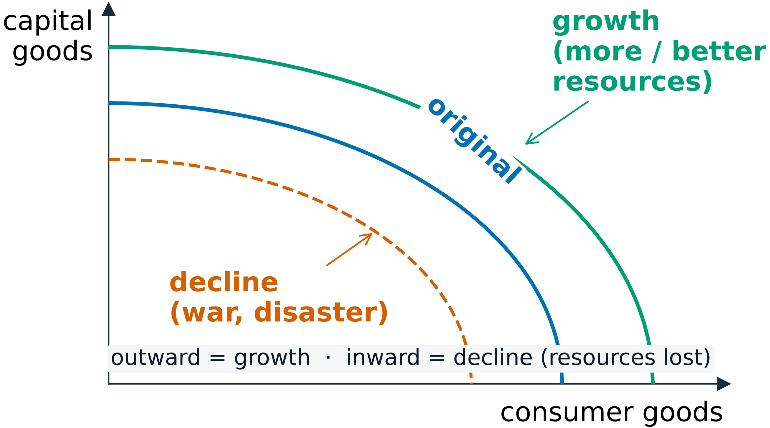
Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

Method — Growth and the business cycle



Real GDP moves through boom, recession, slump and recovery

Method — Growth and the business cycle



More or better resources push the whole curve outward

Practice 2.1 ▪ 2 marks

Define the term *economic growth*.

Solution 2.1

Method: Growth and the business cycle

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

Define the term *gross domestic product (GDP)*.

Solution 2.2

Worked steps

the total value of all goods and services a country produces in a year (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 2 marks

State the four stages 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

Economic growth is best measured by a rise in:

A nominal GDP

B real GDP

C the price level

D the population

Solution 3.1

Method: Growth and the business cycle

A nominal GDP

B real GDP ✓

C the price level

D the population

Worked steps

B. Real GDP removes the effect of rising prices, so it shows the true change.

Exam-style 3.2 ▪ 4 marks

Explain two causes of economic growth.

Solution 3.2

Method: Growth and the business cycle

Worked steps

[4] For **each** of two causes: K 1 + An 1 — *investment in capital*: more machines per worker raises output; *a more skilled workforce*: training raises productivity, so the economy makes more.

Exam-style 3.3 ▪ 8 marks

Discuss whether economic growth is always good for a country.

Solution 3.3

Method: Growth and the business cycle

Worked steps

[8] K/App/An up to 5 + Ev up to 3. **Good:** higher incomes, more jobs, better living standards, and more tax for public services. **Bad:** demand-led growth may cause inflation, the rich-poor gap may widen, and there may be more pollution and use of scarce resources. **Judgement (Ev):** growth usually raises living standards, but whether it is "always good" depends on its type (sustainable vs polluting) and whether the gains are shared fairly.