**Economic growth**

**What is economic growth?**

**Calculate the rate of economic growth from a set of data**. (HL only)

The growth rate is simply the % change in GDP from one year to the next,

i.e. Growth rate = Real GDP in Year 2 – Real GDP in Year 1 x 100

Real GDP in Year 1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Nominal GDP  ($ millions) | GDP deflator | Real GDP $ millions  (Nominal GDP/GDP deflator x100) | Growth rate |
| 2007 | 86.22 | 96 |  | - |
| 2008 | 91.39 | 100 |  |  |
| 2009 | 94.32 | 103 |  |  |
| 2010 | 95.26 | 104 |  |  |
| 2011 | 98.12 | 105 |  |  |

**Causes of economic growth**

* Describe, using a production possibilities curve (PPC) diagram, economic growth as an increase in actual output caused by factors including a reduction in unemployment and increases in productive efficiency, leading to a movement of a point inside the PPC to a point closer to the PPC.
* Describe, using a PPC diagram, economic growth as an increase in production possibilities caused by factors including increases in the quantity and quality of resources, leading to outward PPC shifts.
* Describe, using an LRAS diagram, economic growth as an increase in potential output caused by factors including increases in the quantity and quality of resources, leading to a rightward shift of the LRAS curve.
* Explain the importance of investment for economic growth, referring to investment in physical capital, human capital and natural capital.
* Explain the importance of improved productivity for economic growth.

**Consequences of economic growth**

* Discuss the possible consequences of economic growth, including the possible impacts on living standards, unemployment, inflation, the distribution of income, the current account of the balance of payments, and sustainability.

“Growth is good”…

* What are some of the potential benefits?
* What are some of the potential costs?

Why might income inequality worsen as an economy grows?

**Sustainability**

What is meant by sustainable growth?

Give examples of growth which you believe is not sustainable and explain why.

What policies may be implemented to stop or reduce unsustainable growth?