# 2.5.1 Causes of growth

a) *Factors which could cause economic growth*
b) *The distinction between actual and potential growth*
c) *The importance of international trade for (export-led) economic growth*

- Growth occurs when there is an increase in aggregate demand or aggregate supply, meaning that there is a new equilibrium output at a level where more is produced. If occurs with multiplier effects when there is a shift in aggregate demand. If the aggregate supply curve is vertical then when aggregate demand shifts there will not be growth- in other words, actual growth cannot occur beyond full capacity
- Short-run economic growth, is an increase in real GDP. On a PPF short-run growth is shown by a movement from a point further out
- Long-run growth is an increase in capacity, or productive potential. On a PPF it occurs when a PPF shifts outwards
- Short-run economic growth is caused by changes in demand-side factors
- Long-run economic growth is caused by changes in supply-side factors
- Shifting AS to the right comes under the category of supply-side policies which tend to be long run and involves enabling firms to produce more at lower costs.
- The difference between the actual and potential growth is the output gap; the bigger the gap, the more inefficient the economy is in its use of resources. In fact a persistent output gap tends to lead to a fall in potential output.
- Sustainable growth is the highest rate of growth which does not compromise the welfare of future generations
- International trade is very important for economic growth because an increase in exports or a fall in imports will make AD shift to the right, with multiplier effects. Export-led growth means that the economy can grow without a worsening of the current account of the balance of payments
- Ways to create long-run economic growth
  - Innovation
  - Improving capital stock
  - Increasing spending on education and spending
  - Increasing population size