

### What is economic growth?

Economic growth is a long-term expansion of the productive potential of the economy

#### Explaining economic growth

Fastest Growing Countries in 2016	Real GDP growth compared to the previous year (per cent)
Iraq	10.1
Ethiopia	8.0
Uzbekistan	7.8
Côte d'Ivoire	7.5
Iceland	7.2
Cambodia	7.0
Lao P.D.R.	6.9
Bangladesh	6.9
Tajikistan	6.9
Philippines	6.8
India	6.8
China	6.7



### What is trend growth?

**Trend growth** refers to the **smooth path of long run national output**. Measuring the trend rate of growth requires a long-run series of data perhaps of 20-30 years or more in order to calculate **average growth rates** from peak to peak across different economic cycles

### What determines the rate of economic growth?

- Every country is different, each factor will vary in importance for a country at a given point in time
- Remember too that in our inter-connected globalising world, growth does not happen in isolation. Events in one country and region can have a significant effect on growth prospects in another

#### Growth Drivers

Here are some of the main determinants of economic growth – they apply for both developing and developed countries although the relative weighting that we might attach to each will depend on the individual circumstances facing each country or region.

- Growth in physical capital stock - leading to a rise in capital per employee (capital deepening)
- Growth in the size of the active labour force available for production
- Growth in the quality of labour (human capital)
- Technological progress and innovation driving productivity improvements i.e. higher GDP per hour worked Institutions - including maintaining the rule of law, stable democracy, macro-economic stability
- Rising demand for goods and services - either led by domestic demand or from external trade

### What is inflation?

Inflation is a sustained increase in the cost of living or the general price level leading to a fall in the purchasing power of money

Annual % rate of consumer price inflation for the UK



#### Inflation rate in the UK economy

##### How is the rate of inflation measured?

- The **rate of inflation** is measured by the annual percentage change in consumer prices.
- The British government has set an **inflation target** of 2% using the **consumer price index (CPI)**
- It is the job of the Bank of England to set interest rates so that aggregate demand is controlled, inflationary pressures are subdued and the inflation target is reached
- The Bank is independent of the government with control of interest rates and it is free from political intervention. *The Bank is also concerned to avoid price deflation*

#### Inflation Rate in the UK Economy in Recent Years

##### Falling inflation does not mean falling prices!

- Please remember that a **fall in the rate of inflation** is not the same thing as a **fall in prices!**
- In 2009 there was a drop in inflation from 5 per cent to 1 per cent over the course of the year. Inflation was falling – but the rate remained positive – meaning that prices were rising but at a slower rate!
- A slowdown in inflation is not the same as deflation!
- For this to happen, the annual rate of price inflation would have to be negative.

The following hypothetical example shows how to calculate a weighted price index.

Category	Price Index	Weighting	Price x Weight
Food	104	19	1976

#### How is the rate of inflation calculated?

- The **cost of living** is a measure of changes in the average cost of buying a basket of different goods and services for a typical household
- In the UK the main measure of inflation is the **consumer price index (CPI)**

#### Calculating a weighted price index

- CPI is a **weighted price index**. Changes in weights reflect shifts in the spending patterns of households in the British economy as measured by the Family Expenditure Survey.

#### What is the official definition of unemployment?

The unemployed are those people able, available and willing to work at the going wage but cannot find a job despite an active search for work

- Unemployment means that **scarce human resources** are not being used to produce goods and services to meet people's needs and wants
- Persistently high levels of joblessness have damaging **scarring consequences** for an economy causing economic and social costs
- Problems caused by unemployment occur across a country but are often bad and deep-rooted in local and regional communities and within particular groups of society – for example in the UK, more than one in six young people are out of work.