



# Starters and Plenaries

Theme 2: UK Economy - Performance and Policies

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# Teacher's Introduction

This resource is essentially an activities-only resource that has been designed to support the teaching of Edexcel Theme 2. These useful activities will help to either switch pupils on at the beginning of the session or to wind down and take learning right up to the end of the session, or on their understanding of key terms while developing new knowledge that is interesting and relevant.

There are 20 activities in this resource which loosely follow the specification order. Each activity includes individual, group or full-class activities, teacher's notes, plus an activity-by-activity beginning of the resource with guidance on how to teach the content. Some of the additional activities are as follows, here is an example:



Spec Area	Topic	Activity Description	Notes			
1.1. Nature of economics	What is economics?	Activity 1 – Fill in the missing words followed by a cut out and paste activity	Individual tasks (but can be done in pairs as well, where students can compare their answers)	✓	✓	

The starters and plenaries included are designed to help teachers prevent any boredom by encouraging them to recap previously studied topics or begin to learn new ones. Each activity is designed to take between 10 and 20 minutes to complete. The end of the resource includes an answer key for teachers to use in marking.

It is hoped that this resource, as well as offering support for teaching the essential content for the examination, will help students build on any knowledge they already have.

Happy teaching!



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## Activity-by-Activity

Spec Area	Topic	Activity Description	Notes	
2.1. Measures of economic performance	Economic Growth 	Activity 1 – Discussion task followed by a small question	Divide the class into small groups for task 1. Task 2 may be done individually	✓
	Inflation	Activity 2 – Quick questions	Individual tasks but check each other's work in pairs.	✓
	Unemployment	Activity 3 – Quick research task followed by a discussion task	Group work. For task 1, split the class into two or more groups. For task 2, divide the class into 5 groups and assign a role to each group	
	Balance of Payments 	Activity 4 – Cut out and paste task followed by a couple of hangman games	Work individually or in pairs for task 1. Task 2 needs to be done in pairs.	✓

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## Activity 1 – Economic Growth

1. Each group should discuss one of the following topics and share its thoughts with other groups:
  - a) Understanding of real GDP, nominal GDP, GDP, GNP, per capita GDP, etc.
  - b) Other measures of national income
  - c) Limitations of using GDP to compare living standards
  - d) What is national happiness? Can it be measured? Can it be used to compare living standards?
2. a) Which two of the following explanations of purchasing power parity (PPP) are correct?
  - A) PPP compares living standards between countries
  - B) PPP compares living standards within a country
  - C) PPP involves converting all currencies into a single currency (e.g. dollars)
  - D) Exchange rate between two currencies =  $\frac{\text{Price level in country A}}{\text{Price level in country B}}$
  - E) PPP suggests that a £10 note has the same purchasing power as a \$10 note
  - F) PPP takes into account the cost of living and inflation rates
- b) Correct the two incorrect statements you identified in part a):
  - .....
  - .....

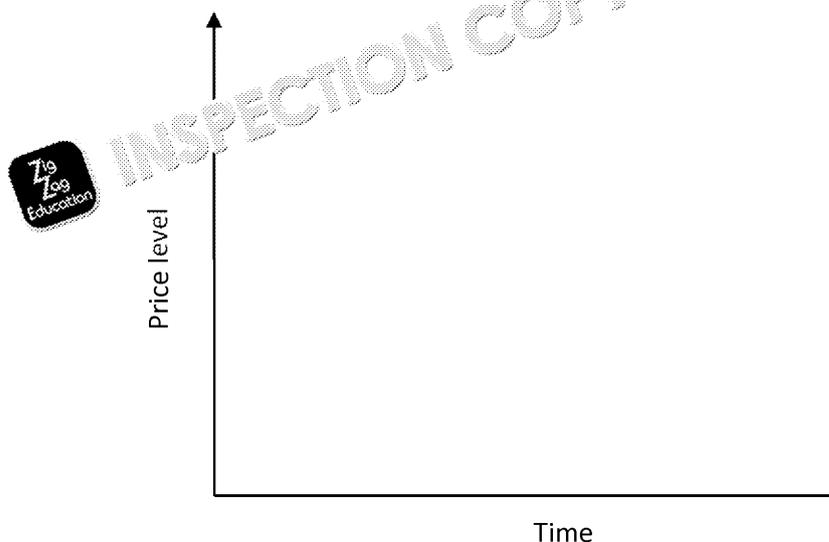
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## Activity 2 – Inflation

1. On the axes below, illustrate periods of inflation, disinflation and deflation.



2. Below are three scenarios. Work out the cause of inflation in each scenario.

a) Following Britain's vote to leave the EU, the UK exchange rate has devalued. The pound now buys fewer euros and US dollars. As a result, all the raw materials used to produce consumer goods and services have become more expensive.

.....

b) Following a recession, the central bank of country A decided to introduce quantitative easing (QE). In simple terms, QE allows more money to be created. As a result, consumer and business spending have increased, which has pushed prices up.

.....

c) Following a recession, the central bank of country A decided to lower interest rates. This makes saving less attractive, while making borrowing cheaper. As a result, consumer and business spending have increased, which has pushed prices up.

.....

3. Spot the errors in the following paragraph and write down the correct version of this task.

The UK uses three measures to calculate the rate of inflation: the Retail Price Index (RPI), the Consumer Price Index (CPI) and the Producer Price Index (PPI). The Bank of England calculates inflation on an annual basis by using a 'basket of goods', which includes around 150 goods and services that an average household would buy. Each good or service is given a weightage to represent its importance to the average household. Prices of these goods are collected from 700 locations across the country using the Living Costs and Food Survey to get data.

Once you have done that, swap your answers with the person next to you.

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## Activity 3 – Unemployment

1. Below is a list of the 5 main causes of unemployment. The task is to find at least 3 causes of unemployment. The group that gets the highest score wins. You have 10 minutes to complete this task.
  - a) Structural unemployment
  - b) Frictional unemployment
  - c) Seasonal unemployment
  - d) Cyclical unemployment
  - e) Mismatched skills and inflexibility
2. Discuss the impacts of unemployment on your assigned stakeholder and then write down your points. The roles are: consumers, firms, workers and government. Use the following table to jot down your points.

Consumers	Firms	Workers	Government

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## Activity 4 – Balance of Payments

1. Fill in the table below with the following examples of the two main components of the balance of payments:

Remittances	Foreign exchange held by the Bank of England	UK investors buying foreign bonds
Grants	Manufacturing in the UK	UK call-centre jobs outsourced to India

Current Account	Capital and Financial Account

2. In pairs, play a game of hangman to find out a real-life example of a country that runs a current account deficit and one that runs a current account surplus. One player may look at which countries have been used, while the other player will attempt to guess.

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## Activity-by-Activity

Spec area	Topic	Activity description	Notes	
2.2 Demand	Character of AD	Activity 5 – Brief questions	Individual activity	✓
	Consumption	Activity 6 – Some questions, including a mathematical question	Individual activity	✓
	Investment	Activity 7 – Research task followed by an analysis question	Can be done individually or in pairs	✓
	Net Trade	Activity 8 – Research task followed by an analysis question	Individually or in pairs	✓

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## Activity 5 – Characteristics of

1. a) What are the components of aggregate demand?

AD = .....

- b) Now, briefly explain each component in



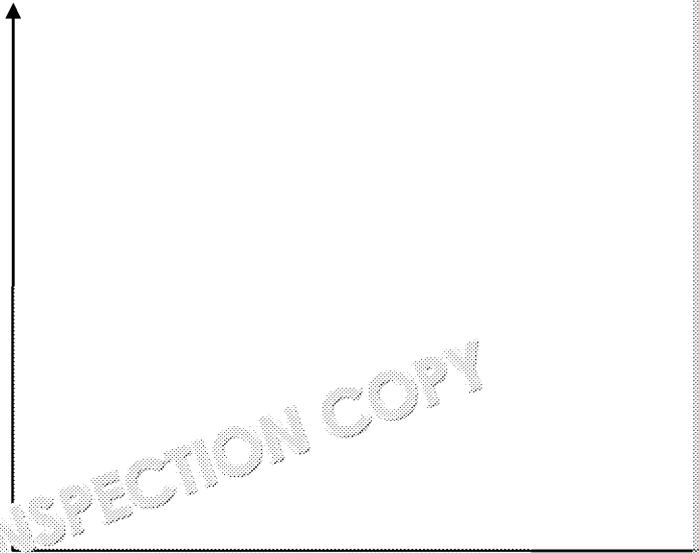
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- c) Discuss what you think the percentage of each component in the UK

2. What is the difference between a regular demand curve and an aggregate demand curve? (Use the latter below?)



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## Activity 6 – Consumption

1. A construction worker's annual income is £25,000. He pays £8,000 a year of mortgage interest and £1,000 in taxes. What is his disposable income?

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2. Explain how the following affect consumer spending:

a) Interest rates

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b) Wealth effects

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c) Consumer confidence

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3. How, in your opinion, are savings and consumption related? Fully explain your answer.

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## Activity 7 – Investment

1. Research what the following terms mean in economics:

- a) animal spirits
- b) business expectations
- c) access to credit
- d) government regulation



2. Now briefly explain how each of these factors will affect investment.

- a) Animal spirits

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- b) Business expectations



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- c) Access to credit

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- d) Government regulation



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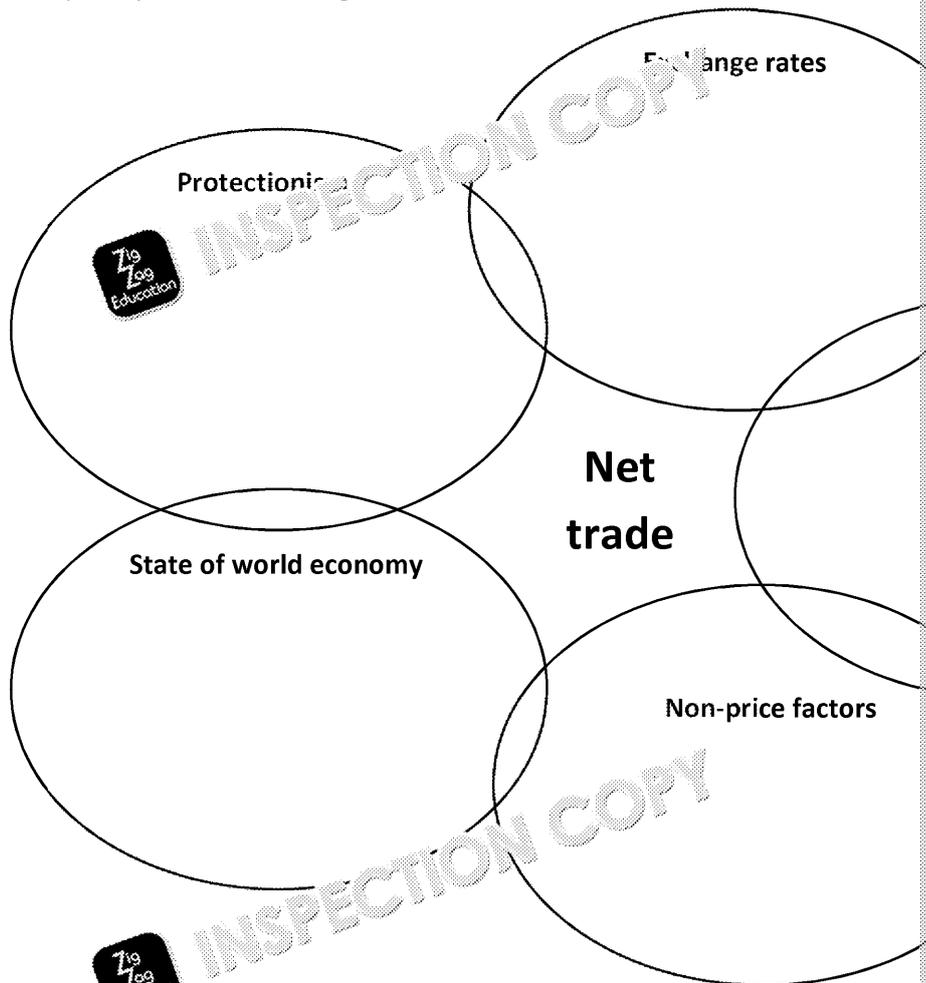
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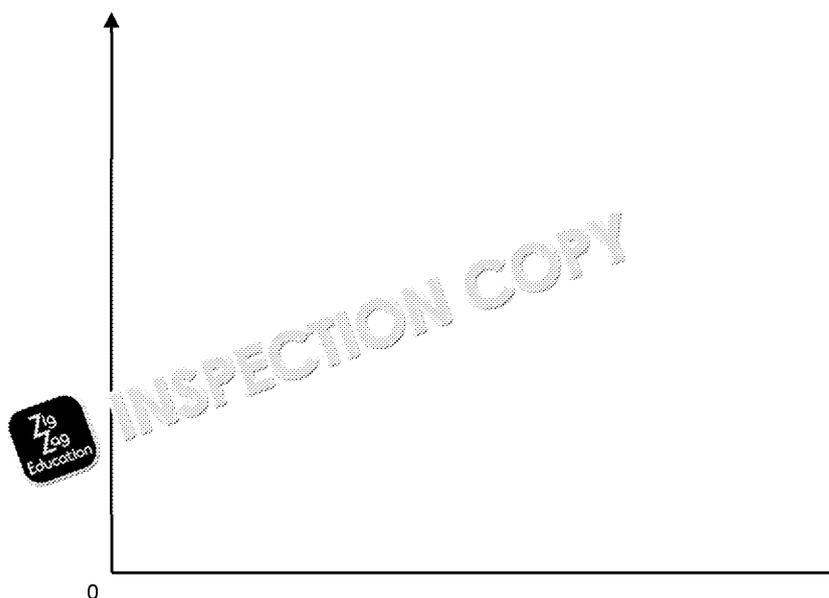
## Activity 8 – Net Trade

1. a) Explain the following influences on net trade.



- b) In your opinion, which factors are likely to have the most and the least relative importance? Use the scale below to help you answer.

Relative importance



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## Activity-by-Activity

Spec Area	Topic	Activity Description	Notes	
2.3 Aggregate Supply	Aggregate Supply 	Activity 9 – Brief questions reinforcing concepts	Individual activity	✓
	Aggregate Supply	Activity 10 – Distinguishing between SRAS and LRAS task followed by graphical illustrations task	Can be done individually or in pairs	✓

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## Activity 9 – Aggregate Supply

1. Explain the difference between the short-run and long-run in economics.

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2. Explain the difference between a classical and a Keynesian long-run aggregate supply curve on the axes below.

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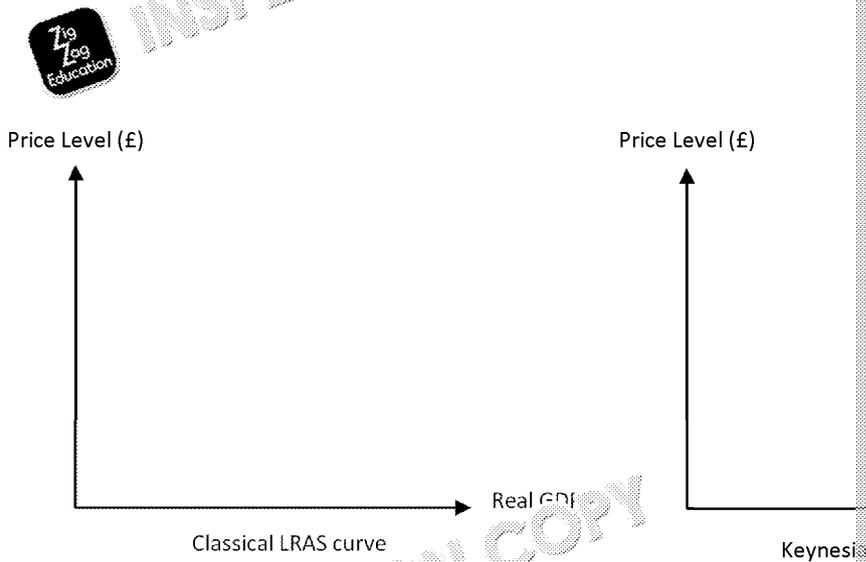
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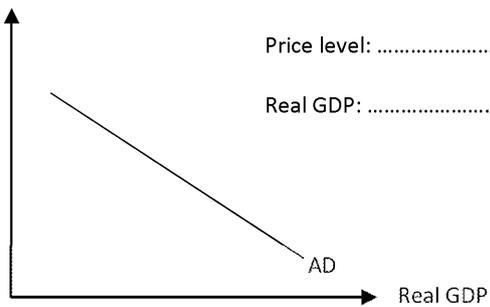


## Activity 10 – Factors Affecting Aggregate Demand

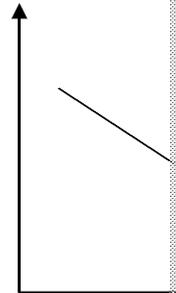
- Using the statements below, decide whether each is referring to short-run Aggregate Demand (AD) or short-run Aggregate Supply (AS).
  - Increasing tax rates affects a firm's costs.
  - Improving human capital via education or vocational training affects AS.
  - Lack of competition in the industry affects AS.
  - A reduction in the price of raw materials is likely to lower a firm's production costs.
  - Improvements in technology improve a country's productivity.
  - If the exchange rate worsens, imports become more expensive.
  - An increase in net migration potentially affects labour supply.

- Using the statements from question 1, illustrate which way the curve will shift the price level and total national output.

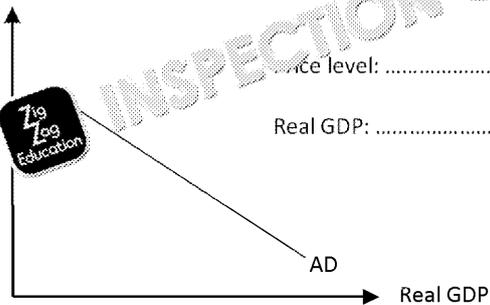
a) Price Level (£)



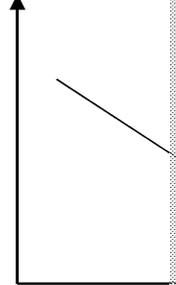
b) Price Level (£)



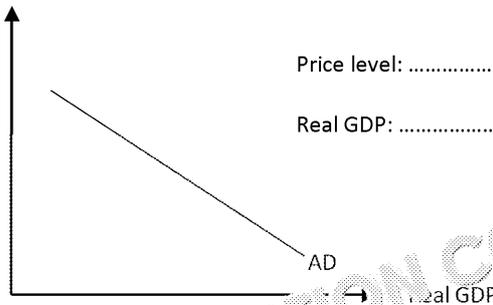
c) Price Level (£)



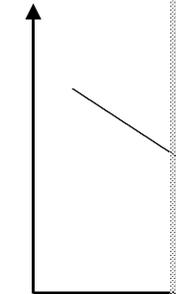
d) Price Level (£)



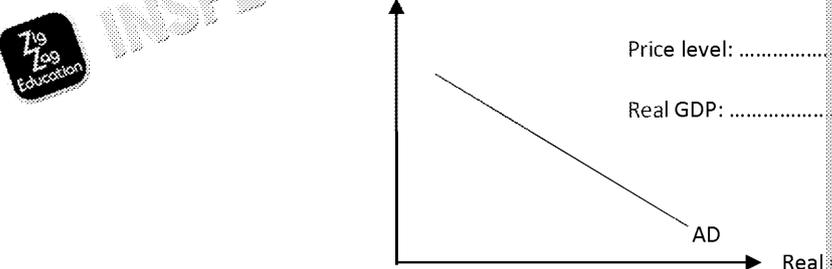
e) Price Level (£)



f) Price Level (£)



g) Price Level (£)



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## Activity-by-Activity

Spec Area	Topic	Activity Description	Notes	
2.4 National Income	National Income	Activity 11 – Writing definitions followed by completing the circular flow of income chart and assessing the importance of withdrawals and injections	Individual activity Task 3 can be done in pairs for comparing results.	✓
	Equilibrium Levels of Real National Output	Activity 12 – Questions based on a short data piece followed by prediction task	Individual work	✓
	The Multiplier	Activity 13 – Definitions followed by prediction task	Individual work	✓

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## Activity 11 – National Income

1. Define the following:

a) National income

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 .....

b) Income

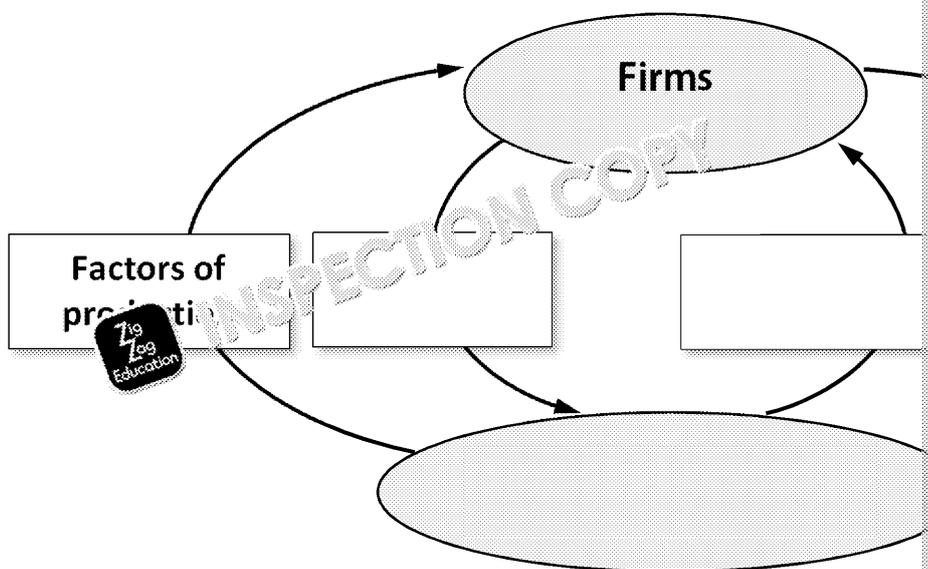


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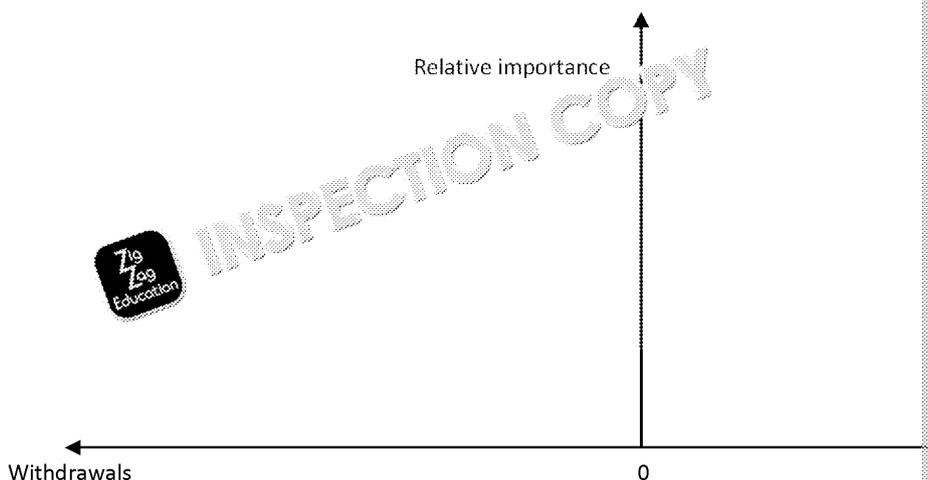
c) Wealth

.....  
 .....

2. Complete the following circular flow of income diagram.



3. On the axes below, identify three withdrawals and three injections into the axis, suggest how important you think each response is (i.e. how big a withdrawal to the other two?). Compare your answer with the person next to you.



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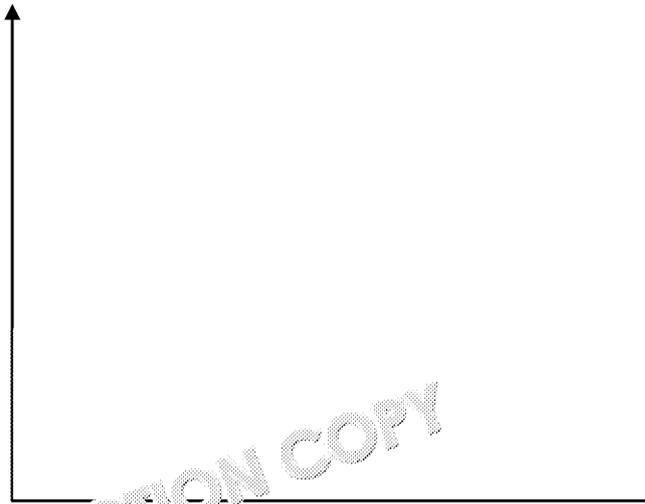




## Activity 12 – Brexit and Equilibrium Level of National Output

On 24<sup>th</sup> of June 2016, the people of Britain voted to leave the EU. A wave of uncertainty spread within minutes – and economists dished out several predictions with regards to the economic future. One of the most frightening of them all was the possibility of another recession. However, to everyone's surprise, the data revealed that consumers had in fact increased their spending. The British Retail Association reported that spending in retail stores increased by 2.1% compared with October 2016. However, the fall in the pound affected the UK exchange rate. Immediately after the vote, the pound fell from a 13-year high of 1.36. This has meant that UK exports appear cheaper abroad and imports appear more expensive.

1. a) Illustrate the above information on an AD/AS diagram.



b) Explain what happens to inflation and real output.

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c) Write down your predictions for:

- Consumer spending

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- Exchange rate

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.....

- Economic growth

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## Activity 13 – The Multiplier

1. Write down definitions for the following terms:

- Marginal propensity to consume (MPC)

.....  
.....

- Marginal propensity to save (MPS)

.....  
.....

- Marginal propensity to tax (MPT)

.....  
.....

- Marginal propensity to import (MPM)

.....  
.....

2. There is foreign direct investment into the UK construction industry of £200 million. The total costs of the industry are £120 million, which leaves a gross profit of £80 million. Calculate the multiplier ratio. national income increases to £500 million. Calculate the multiplier ratio.

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3. Suppose the average UK household spent a whopping 80% of its additional income. Calculate the value of the multiplier in the same year.

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## Activity-by-Activity

Spec Area	Topic	Activity Description	Notes	
2.5 Economic Growth	Causes of Growth	Activity 14 – Discuss why some economies grow while other do not	This may be conducted as a class activity	✓
	Output Gaps	Activity 15 – Short questions followed by graphical illustration task	Individual work	✓
	Trade Cycle	Activity 16 – Spotting the error task	Individual work	✓
	Impact of Economic Growth	Activity 17 – Group debates.	Split the class into groups of 4	

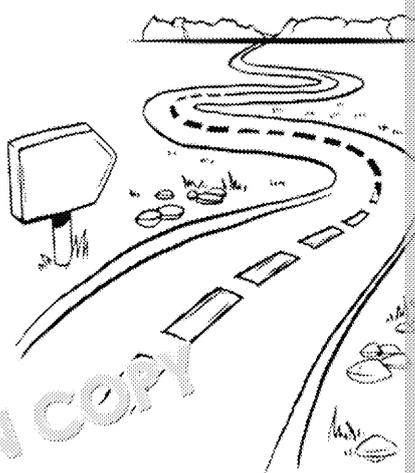
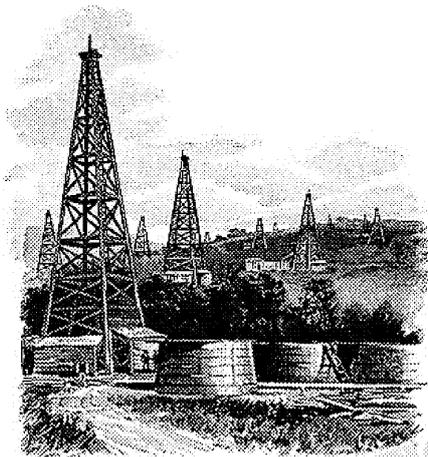
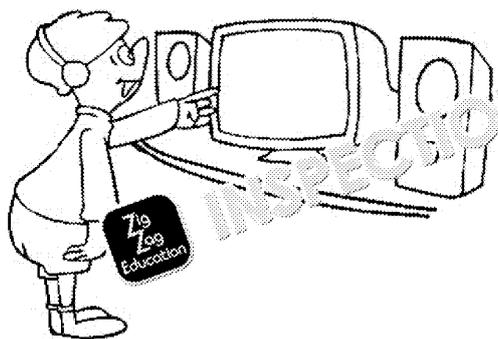
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## Activity 14 – Causes of Growth

1. With the help of the following images, jot down as many causes of growth as you can.



2. Now think about why some economies may grow slowly. Write down your points.

- .....
- .....
- .....
- .....
- .....
- .....
- .....
- .....
- .....



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## Activity 15 – Output Gaps

1. a) Keynesians believe that output gaps can occur in the short and long-run

.....

.....

.....

b) Classical economists believe that output gaps can only occur in the short-run

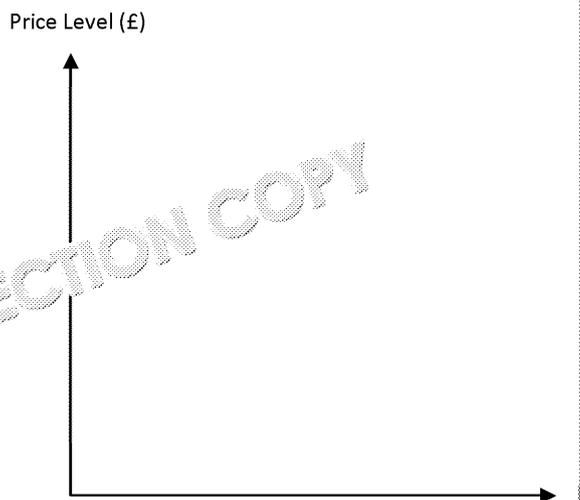
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2. On the axes below, use AD/AS curves to show:

- Short-run negative output gap
- Long-run negative output gap
- Short-run positive output gap



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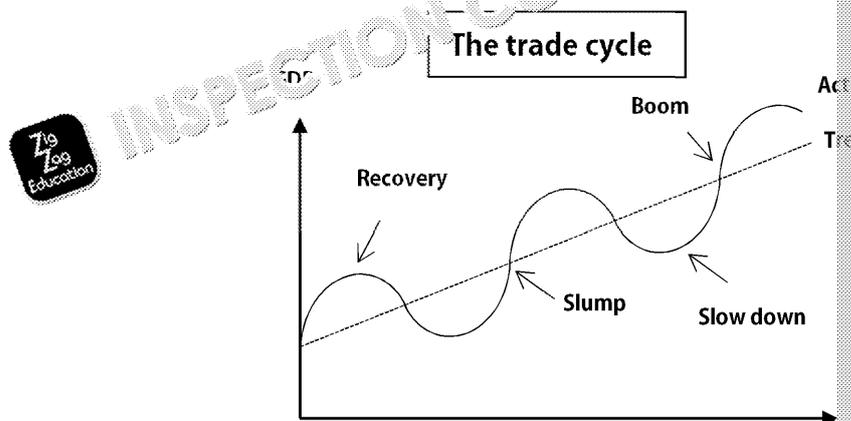
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## Activity 16 – Trade Cycle

1. It's all gone wrong! Identify what is wrong with the following and write down them:

a) The trade cycle diagram – 5 errors!



b) The trade cycle characteristics – 8 errors!

	Boom	
Economic growth	High	
Unemployment	High	
Inflation	Low	
Consumer confidence	High	
Government finances	Low tax revenue, low welfare spending	High
Exchange rate	Weak currency	

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## Activity 17 – Impact of Economic

- Split into groups of 4. The team should cut out the cards below and place them on a table. Take it in turns to pick a card at random, then in no more than 60 seconds discuss how the factor has either positively or negatively affected your chosen factor.

If you're listening to your classmates make their point, use the debate evaluation sheet to record how well your classmates do.

Repeat this activity until all 8 cards have been used, try to decide which the most and least affected factor you think is influenced the most by economic growth?

- Consumers (positive)
- Consumers (negative)
- Firms (positive)
- Firms (negative)
- Government (positive)
- Government (negative)
- Current and future generations (positive)
- Current and future generations (negative)



 <p><b>Consumers</b> (positive)</p>	<p><b>Government (positive)</b></p>
 <p><b>Consumers</b> (negative)</p>	<p><b>Government (negative)</b></p>
<p><b>Firms</b> (positive)</p>	<p><b>Current and future generations (positive)</b></p>
 <p><b>Firms</b> (negative)</p>	<p><b>Current and future generations (negative)</b></p>

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Argument	Strengths of argument	Weaknesses of argument
		
		
		
		

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## Activity-by-Activity

Spec Area	Topic	Activity Description	Notes	
2.6 Macroeconomic Objectives and Policies	 Demand-Side Policies: Monetary Policy	Activity 18 – Short question followed by a short research task	Can be done individually or in pairs	✓
	Demand-Side Policies: Fiscal Policy	Activity 19 – Fill in the chart/table task followed by a graphical illustration task	Individual work	✓
	Supply-Side Policies	Activity 20 – Plenary round-robin	Group work Split the class into two big groups	

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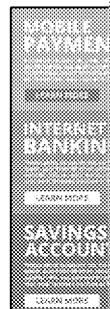


## Activity 18 – Demand-Side Policies: Monetary Policy

- Which one of the following is an example of monetary policy?
  - increasing the interest rate from 2% to 3%
  - increasing VAT from 27% to 30%
  - increasing spending on infrastructure
  - changing the exchange rate from floating to fixed
- Find out what the fundamental differences are between a commercial bank and a central bank. Spend five minutes on this task.



**Role of the Bank of England**



**Role of a Commercial Bank**



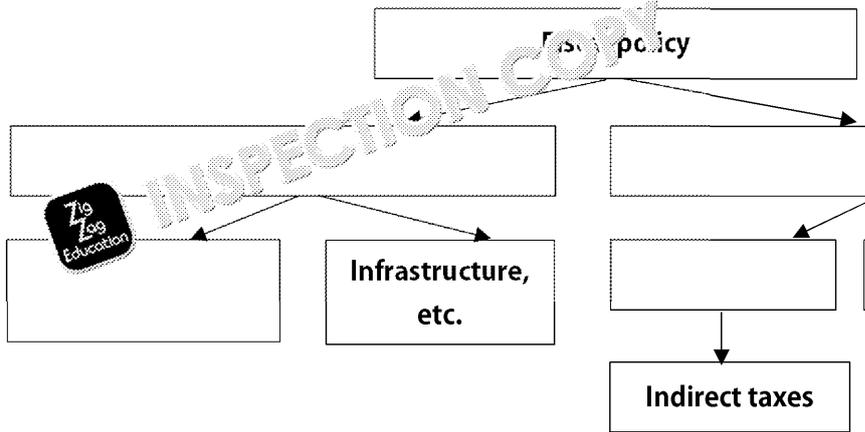
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## Activity 19 – Demand-Side Policies: F

1. a) Fill in the chart below:



- b) Write down the strengths and weaknesses of fiscal policy in the table

Strengths:	Weaknesses:

2. Draw an expansionary fiscal policy diagram below and state the effect of this policy on the price level and national output.



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## Activity 20 – Supply-Side Policies

1. **Market-based** supply-side policies involve policies that allow the market to function. **Interventionist policies** are policies that require the government to take action.  
Play a game of Pictionary (where one person in a group draws a decided word and the others guess within two minutes). One group will draw pictures to represent market-based policies whereas the second group will draw pictures to represent interventionist policies.  
Groups should alternate turns and a different person from each group should come up to draw. When a team gets the most correct answers within the allotted time or the most correct answers (say, five) wins. The person drawing must themselves think of the word, show the teacher to see and then begin drawing.

Remember no talking and no writing words while drawing.



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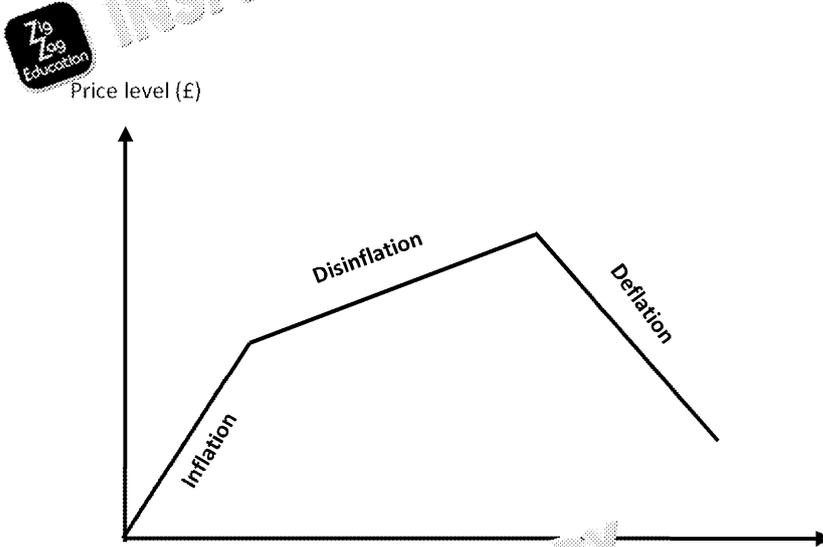
# Answers

## Activity 1 – Economic Growth

2. a) B and D
- b) • PPP compares living standards between countries, not within a country  
 • PPP suggests that a £10 note does not buy the same purchasing power as £10 can buy more in India than in the UK

## Activity 2 – Inflation

1.



2. a) cost-push inflation  
 b) growth in money supply (also accept demand-pull inflation)  
 c) demand-pull inflation
3. The UK uses *two* measures to calculate the rate of inflation: the Retail Price Index (RPI) and the Consumer Price Index (CPI). The UK calculates inflation on an **annual (monthly)** basis. **RPI** (Both measures use a 'basket of goods', which includes around **150 (700)** goods and services that are representative of the average household. Each good or service is given a weightage to reflect its importance to the average household. RPI is based on data collected from **700 (150)** locations. **CPI (RPI)**, in particular, uses the Living Costs and Food Survey (LCF).

## Activity 4 – Balance of Payments

1.

Current Account	Capital Account
<ul style="list-style-type: none"> <li>• Remittances</li> <li>• Grants</li> <li>• Holidaying in the UK</li> </ul>	<ul style="list-style-type: none"> <li>• UK investors buy foreign assets</li> <li>• UK call-centre jobs</li> <li>• Foreign exchange</li> </ul>

4. Germany – surplus  
 Canada – deficit

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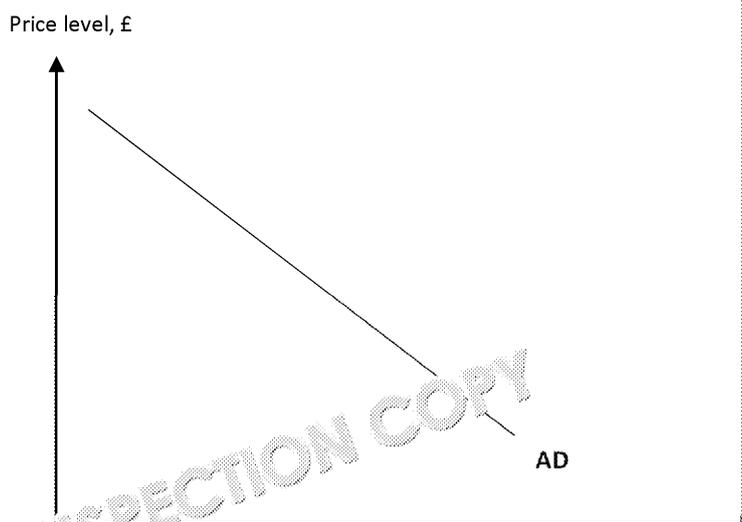
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### Activity 5 – Characteristics of AD

1. a)  $AD = C + I + G + (X - M)$ 
  - b)
    - Consumer spending (C) refers to the money spent by people on consumer goods and services.
    - Investment (I) refers to the money spent by firms on factor inputs, e.g. capital equipment, to expand their businesses.
    - Government spending (G) refers to money spent by the government on public services and welfare payments.
    - Net exports (X – M) refer to goods and services sold to another country less those bought from another country.
  - c)
 

$AD =$	$C +$	$I +$	$G +$	$(X - M)$
	60%	15%	25%	2%
2. No difference in *curves*. Demand curve shows demand for one good, while AD shows demand for all goods in an economy. However it is worth noting that the definitions of demand and aggregate demand are different.



### Activity 6 – Consumption

1. £25,000 minus £1,000 = £24,000
2.
  - a) When interest rates are high, saving becomes more attractive and borrowing less so. Therefore, consumption is likely to fall. At low interest rates, the opposite happens.
  - b) Increases in the value of people's assets is another factor that can increase consumption (e.g. if the value of someone's shares goes up), as people feel wealthier.
  - c) Businesses and consumers may base their spending decisions on how optimistic they are about the future of the economy. If confidence is low, consumption is likely to fall, and vice versa.
3. Savings and consumption are inversely related – i.e. if one rises the other falls. If people save more, they will have less left to spend. However, what consumers do with their extra income depends on their marginal propensity to consume (i.e. consumers' willingness to spend their extra income). This tends to be higher for low-income households.

### Activity 7 – Investment

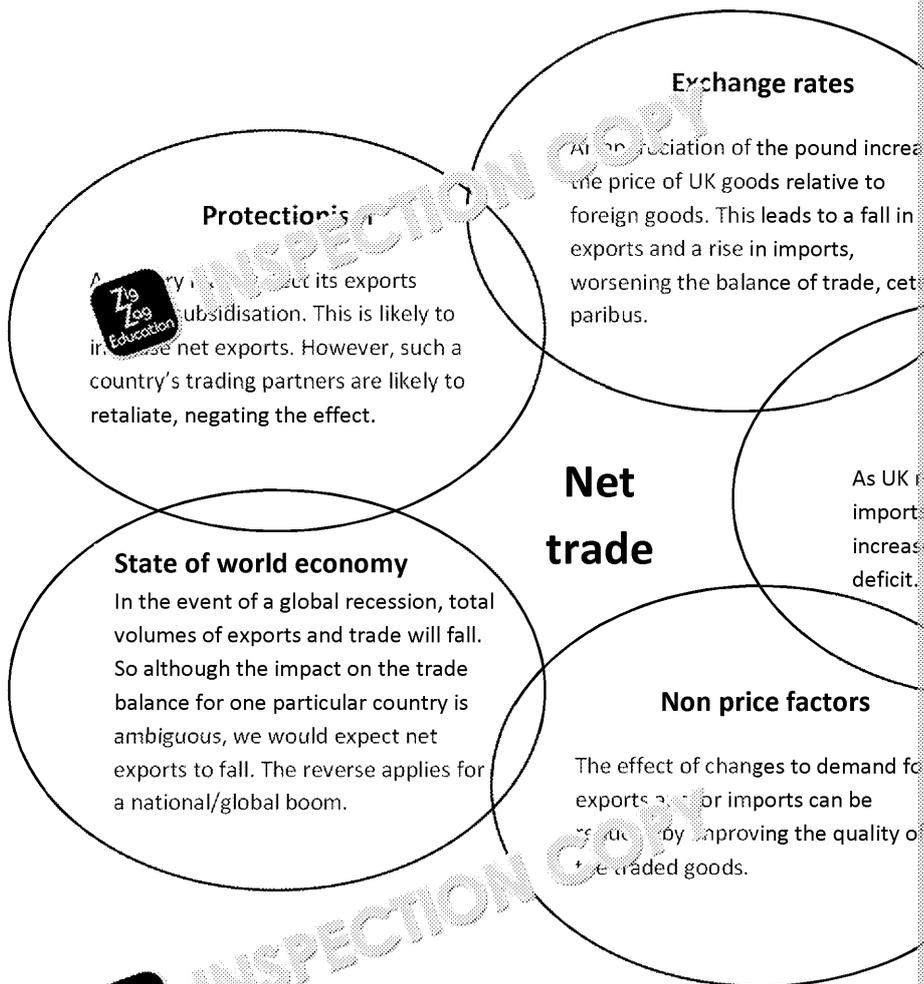
2.
  - a) High animal spirits mean that consumer confidence is high. Thus investors will expect high levels of consumer spending. Note that animal spirits may also refer to high levels of business confidence.
  - b) If business confidence is high then investors will look to invest more.
  - c) If credit is easily and cheaply available, then investors can easily borrow the money they need to invest. This can be high – however, this is conditional upon available opportunities and positive expectations.
  - d) Excessive government regulation, e.g. high corporation taxes, is likely to put investors off investing.

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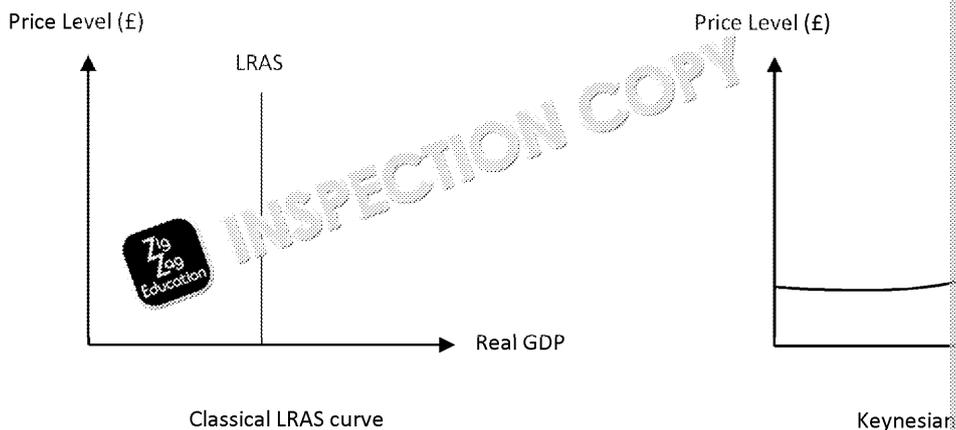
## Activity 8 – Net Trade

1 a)



## Activity 9 – Aggregate Supply

- In the short-run, capital is fixed and only labour is variable. In the long-run, both factors are variable.
- In the long run, we often assume that firms operate at maximum capacity; they cannot produce more capital. In this case the long-run AS curve is vertical (i.e. perfectly inelastic).
  - (An alternative understanding of long-run AS, based on the work of Keynes, allows for output gaps in the economy due to imperfections in markets.
  - In this case, when the economy reaches full employment, the LRAS curve is vertical. When there is spare capacity in the economy (low real GDP, low inflation), real wages fall (at the expense of steadily more inflation).



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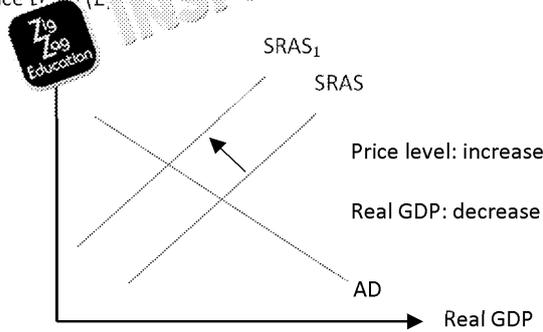


## Activity 10 – Factors Affecting Aggregate Supply

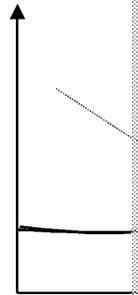
1.
  - a) Increasing tax rates affects a firm's costs. (SRAS)
  - b) Improving human capital via education and vocational training affects supply of labour. (LRAS)
  - c) Lack of competition in the industry affects AS. (LRAS)
  - d) A reduction in the price of oil is likely to lower a firm's production costs. (SRAS)
  - e) Improvements in technology improve a country's productivity. (LRAS)
  - f) If the exchange rate worsens, imports become more expensive. (SRAS)
  - g) An increase in net migration potentially affects labour supply. (LRAS)

2.

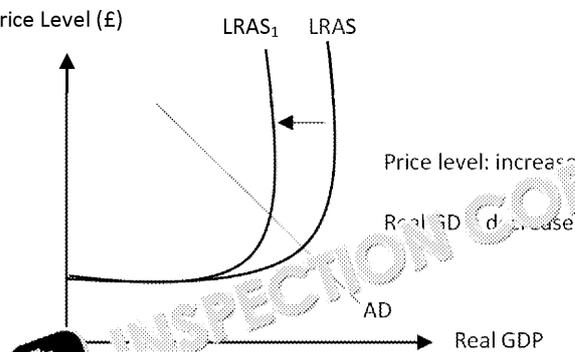
a) Price Level (£)



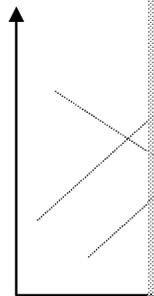
b) Price Level (£)



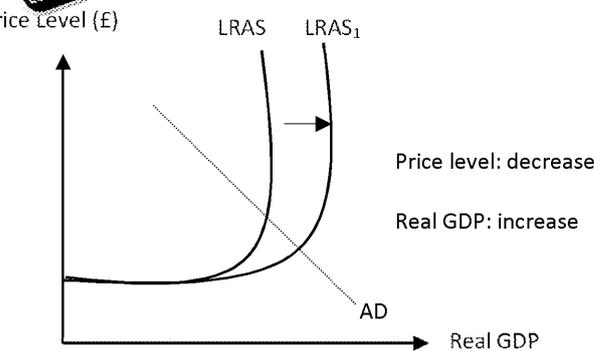
c) Price Level (£)



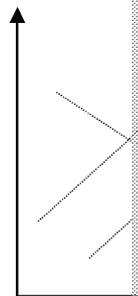
d) Price Level (£)



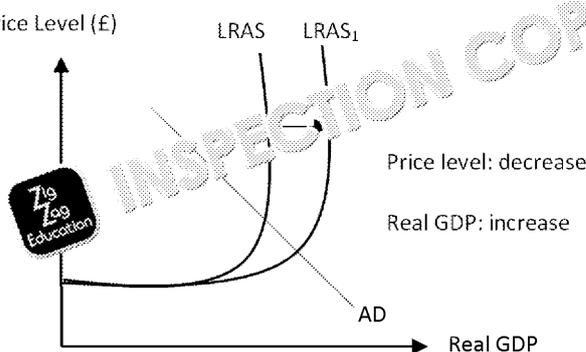
e) Price Level (£)



f) Price Level (£)



g) Price Level (£)



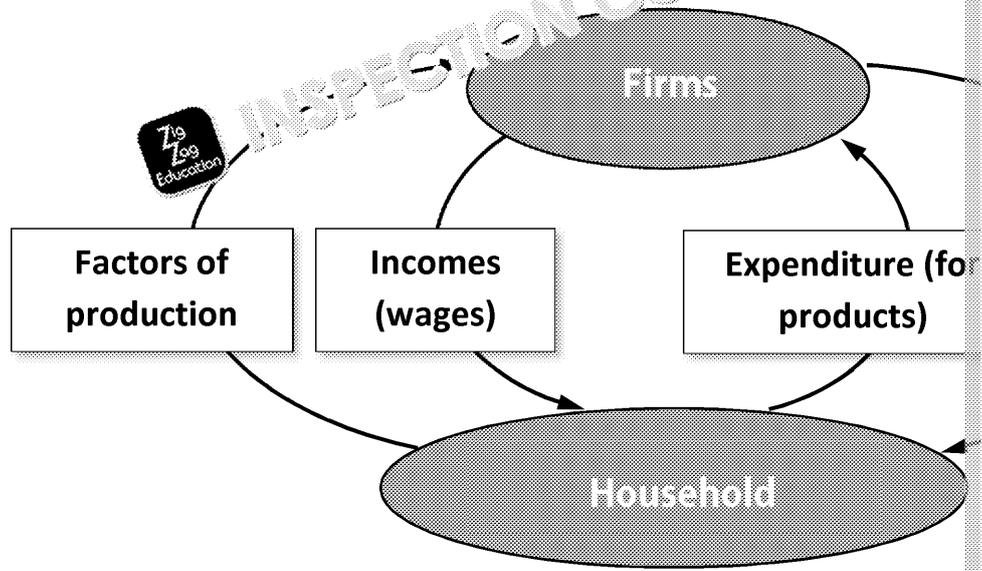
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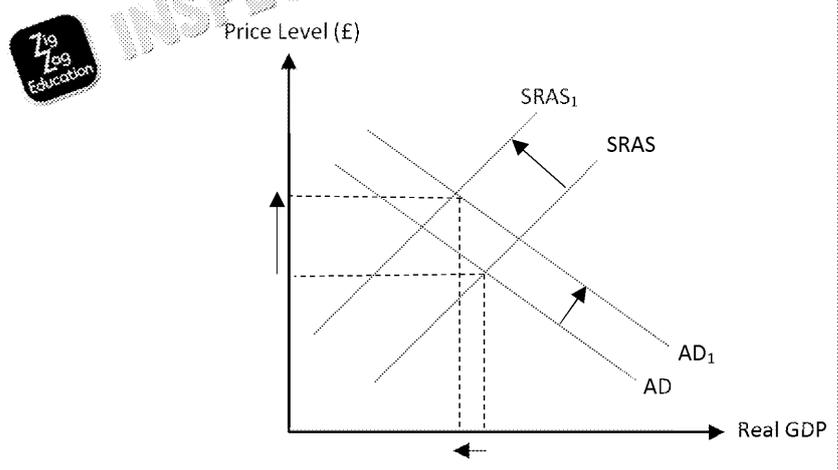
**Activity 11 – National Income**

1. a) value of total domestic and foreign output obtained by a country's residents
  - b) a liquid flow of money, e.g. wages, rents, profits, interest
  - c) a stock of money, e.g. assets such as houses or bonds. These are not liquid
- 2.



**Activity 12 – Equilibrium Levels of Real National Output**

1. a)



- b) An increase in demand for goods and services shifts the AD curve to the right and increase real output. However, over a short time, a fall in the exchange rate and materials has become more expensive. This translates into higher production costs and the AS curve shifts upwards. This leads to inflationary pressure, as well as a fall in overall output. The price level is upward. However, the effect on real GDP depends on the relative size of the shifts. If the increase in the AD outstrips the decrease in AS, then real output will rise. If the decrease in AS outstrips the increase in AD, then real output will fall.

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### Activity 13 – The Multiplier

1.

Terms	Definition
Marginal propensity to consume (MPC)	Refers to the extent to which additional income is spent on consumption
Marginal propensity to save (MPS)	Refers to the extent to which additional income is saved
Marginal propensity to tax (MPT)	Refers to the extent to which additional income is paid in tax
Marginal propensity to import (MPM)	Refers to the extent to which additional income is spent on imports following an increase in income

2. Multiplier ratio =  $\frac{500m}{100m}$



3.  $MPW = 1 - 0.80 = 0.20$

Multiplier ratio =  $\frac{1}{0.20} = 5$

### Activity 14 – Causes of Growth

2. Reasons may include:

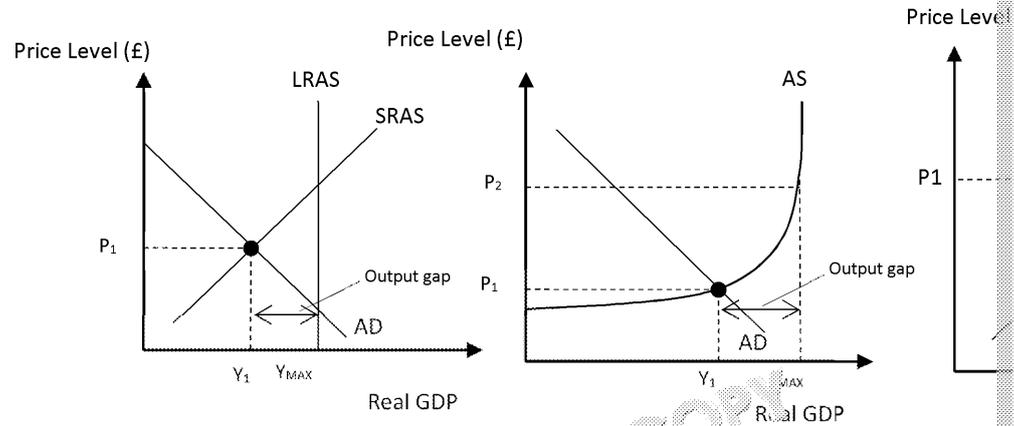
- War
- Lack of FDI
- Dependence on low-value commodity exports
- Corruption
- Lack of infrastructure
- Lack of education

### Activity 15 – Output Gaps

1. a) because the economy is always susceptible to market failure

b) because in the long run, markets work efficiently

2.



Negative output gap: short-run

Negative output gap: long-run  
Note that there is an output gap on the short-run part of the LRAS curve

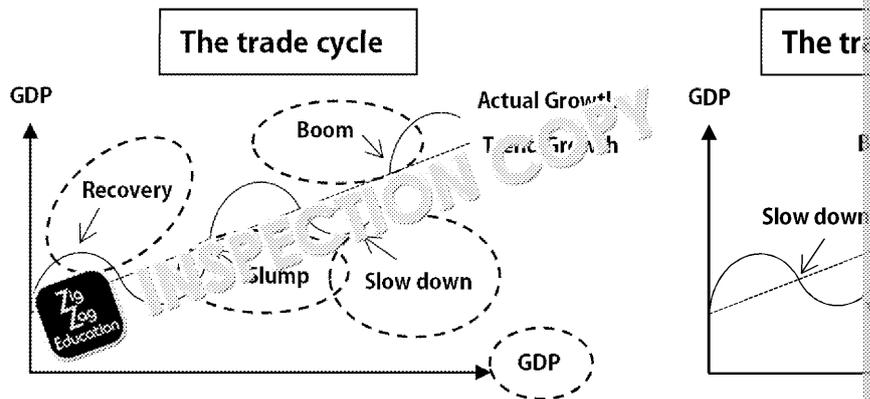


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## Activity 16 – Trade Cycle

1. a) Mistakes are circled with a dotted line



- b)

	Boom
Economic growth	High
Unemployment	(High) (low)
Inflation	(Low) (high)
Consumer/business confidence	High
Government finances	Low tax revenue, low welfare spending (high)
Exchange rate	(Weak) currency (strong)

## Activity 18 Monetary Policies: Monetary Policy

1. A  
2.

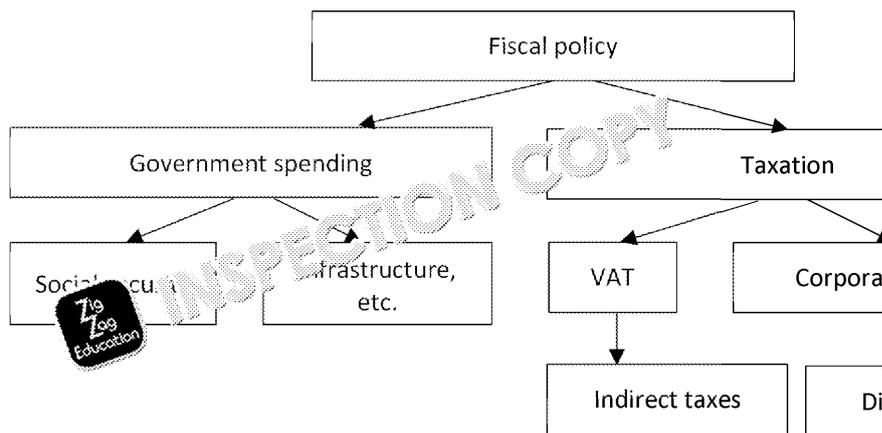
 <p><b>Role of Bank of England</b></p>	 <p><b>Role</b></p>
<ul style="list-style-type: none"> <li>• Sets monetary policy</li> <li>• Lender of last resort (lends to other banks)</li> <li>• Banker to the government</li> <li>• Regulates the banking sector</li> </ul>	<ul style="list-style-type: none"> <li>• Lends to other banks</li> <li>• Allows people to...</li> </ul>

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## Activity 19 Demand-Side Policies: Fiscal Policy

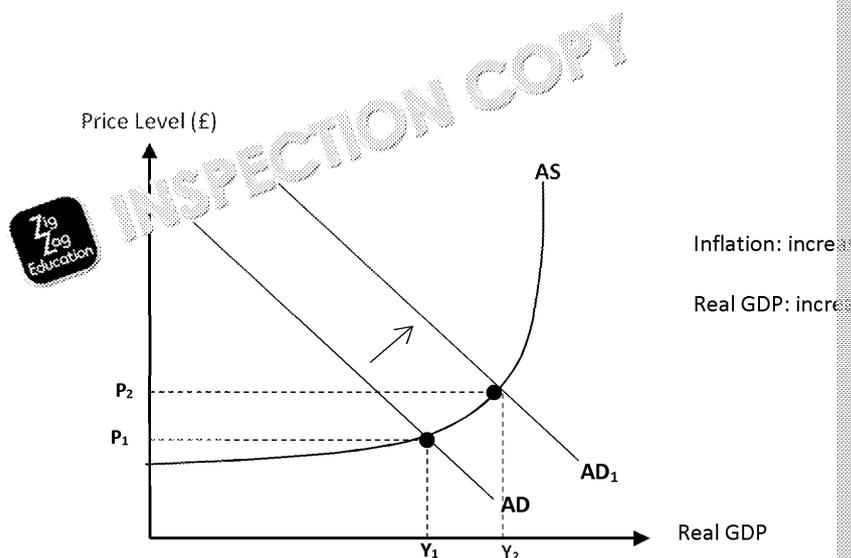
1. a)



b)

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>Shorter time lags</li> <li>Welfare spending reduces poverty</li> </ul>	<ul style="list-style-type: none"> <li>Can cause inflation</li> <li>Slow and inaccurate data collection</li> <li>Raising taxes will lower disposable income</li> <li>Excessive government spending can lead to a budget deficit</li> <li>Spending on welfare will not add to the economy's productive capacity</li> </ul>

2.



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