



MACRO ECONOMICS

A Level Economics Revision (2019)

Key Macro Diagrams for Economics Papers

Key words of advice on diagrams



Gone are the days when you could simply provide a memorised diagram in your exam answers.



Diagrams score few marks unless they are used to contribute to analysis.



You need to understand the diagrams (the lines, the areas) and apply them dynamically to the context provided.



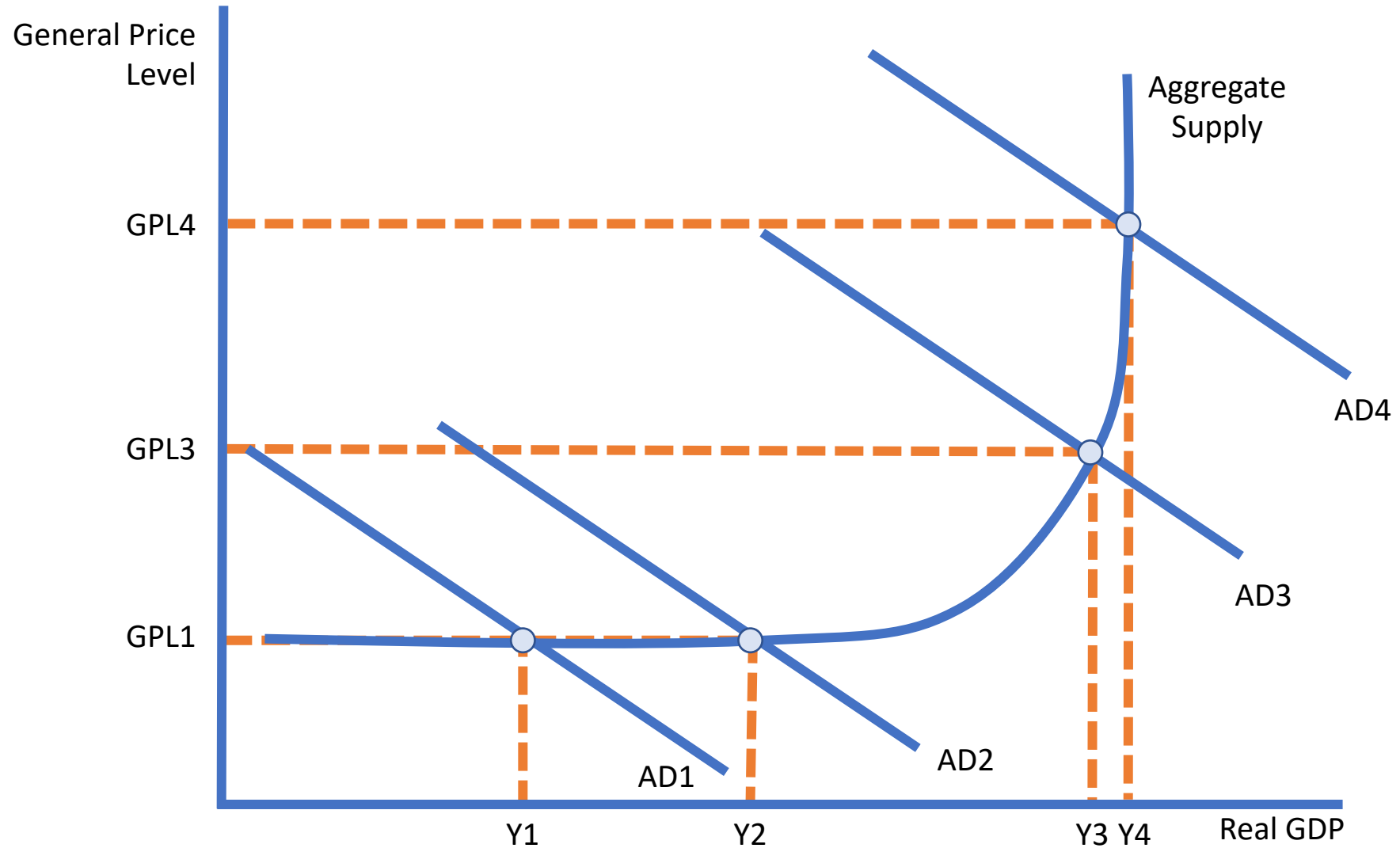
This means that lines on diagrams need to be shifted in response to the given scenarios, new areas shaded, and revised equilibrium points noted.



You may also be asked to interpret unusual or unexpected areas on diagrams - examiners do not always ask the obvious 'textbook' questions!

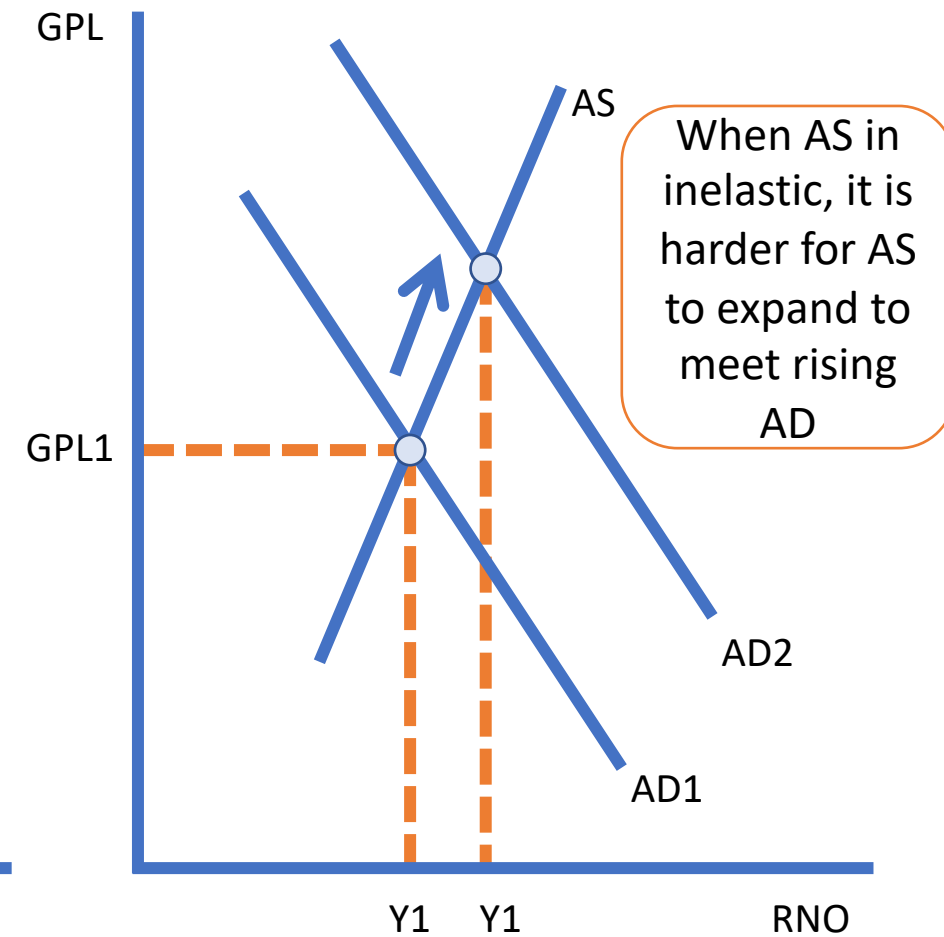
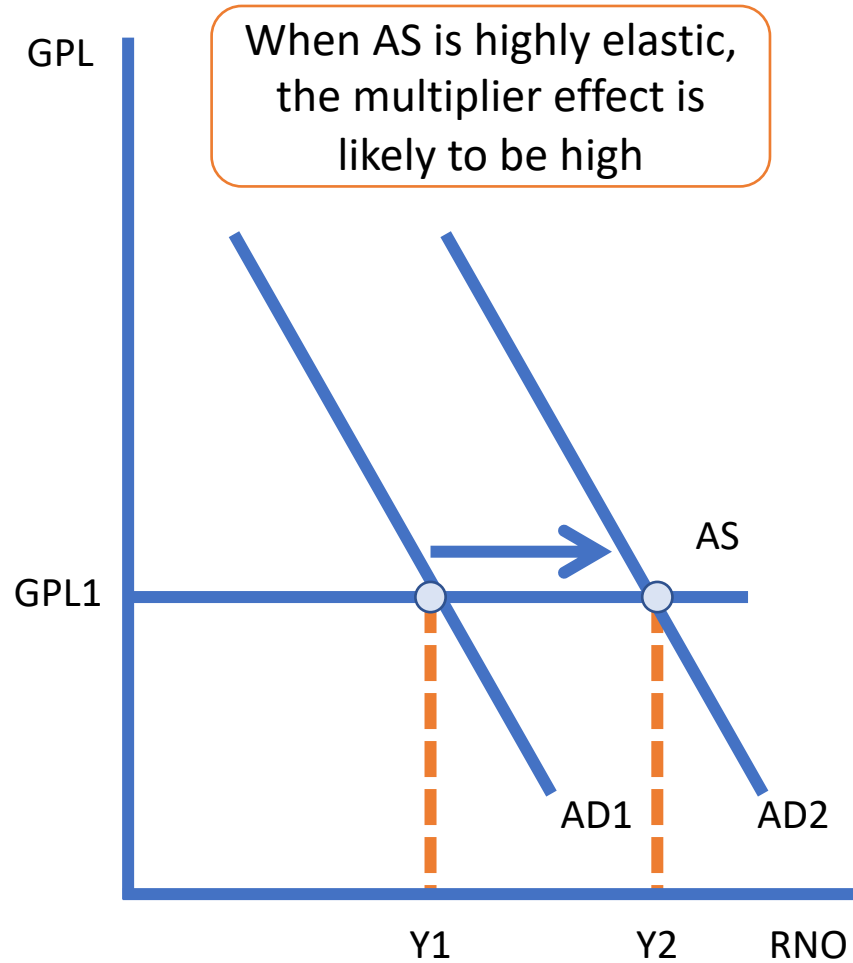
HOW THE MACRO ECONOMY WORKS

KEYNESIAN AGGREGATE SUPPLY CURVE

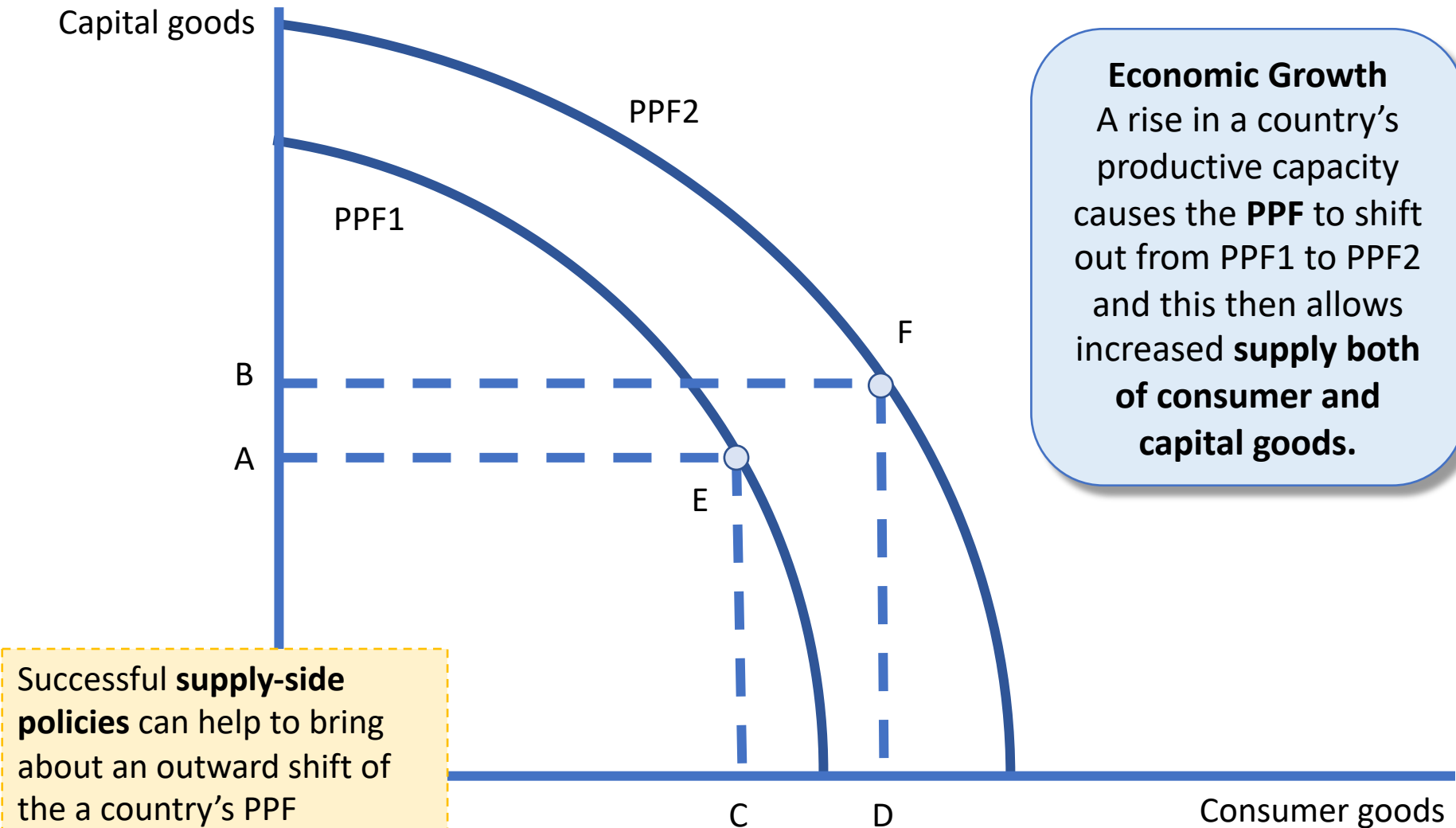


HOW THE MACRO ECONOMY WORKS

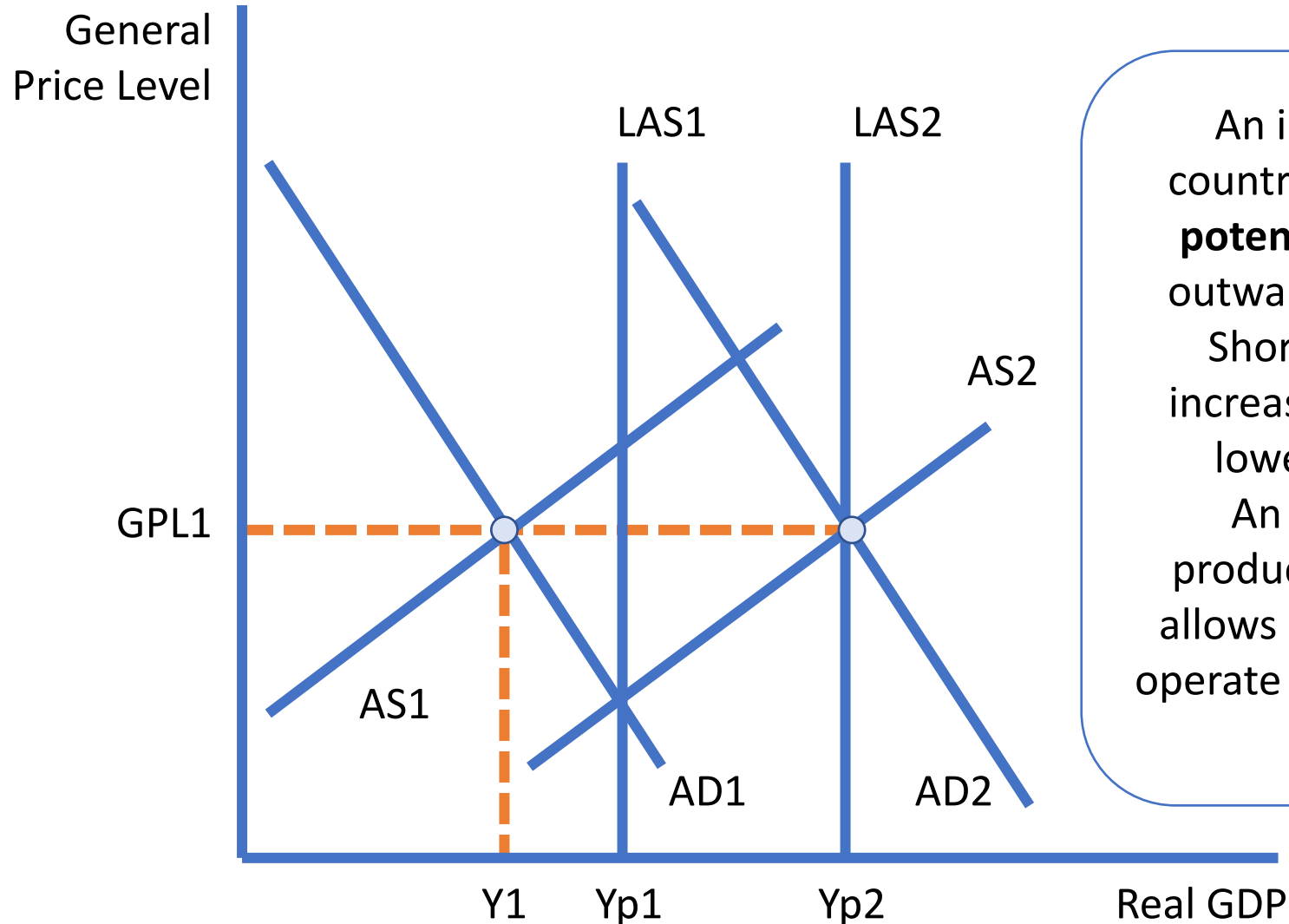
FACTORS AFFECTING SIZE OF THE MULTIPLIER



ECONOMIC GROWTH AND THE PPF



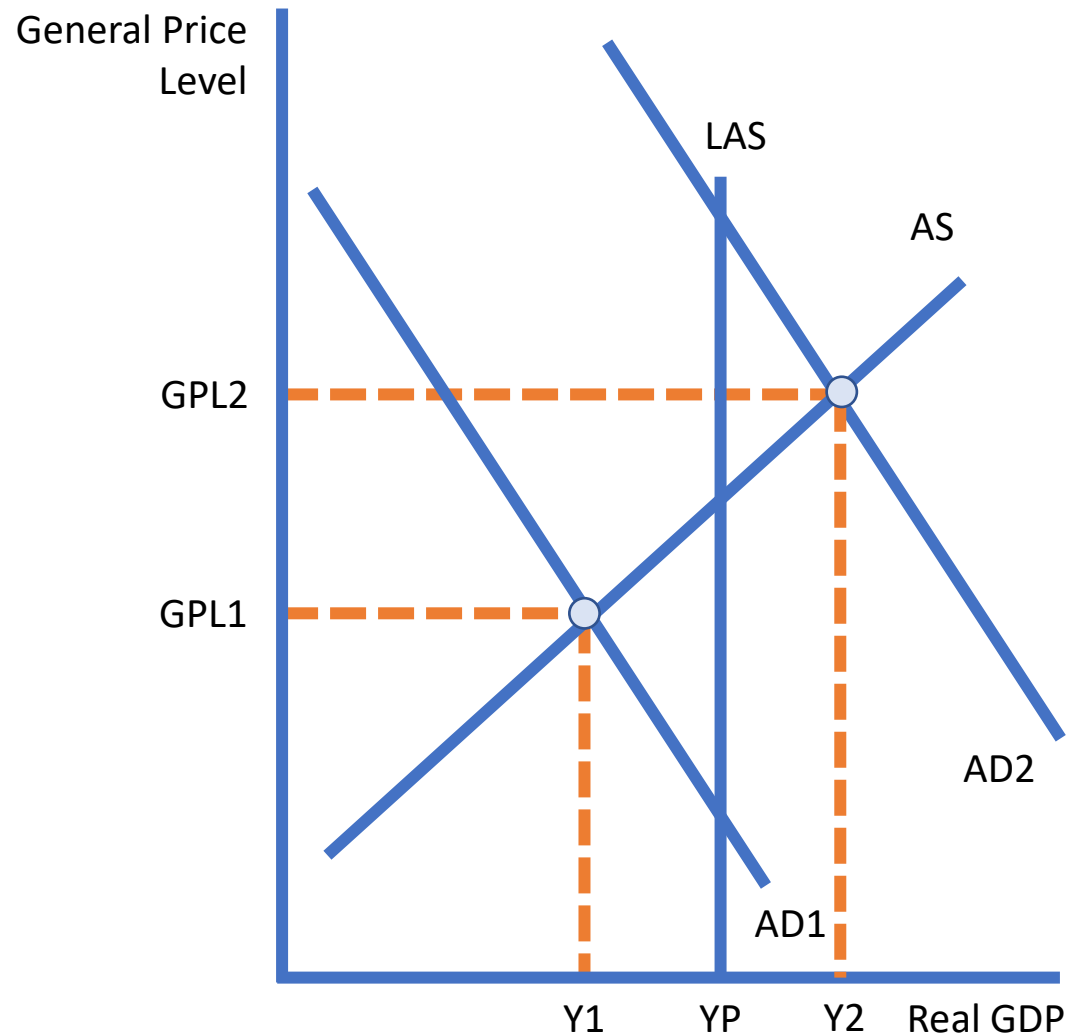
ECONOMIC GROWTH AND LRAS



An increase in a country's **productive potential** causes an outward shift of LAS. Short run supply increases because of lower unit costs. An increase in productive potential allows an economy to operate at a higher level of AD.

ECONOMIC PERFORMANCE

OUTPUT GAPS

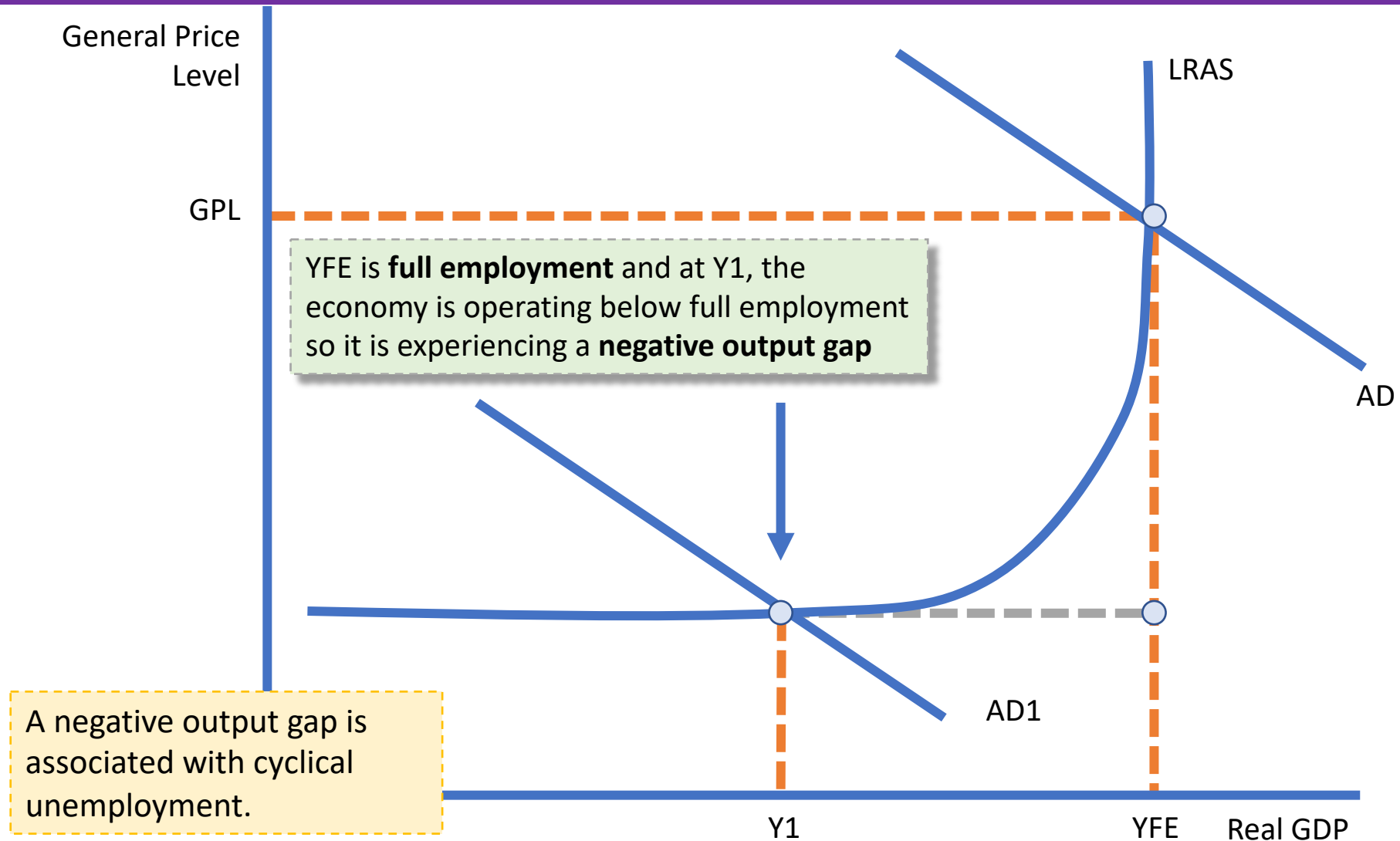


The **output gap** is the difference between the **actual level of GDP** and its **estimated potential level**. It is usually expressed as a percentage of the level of potential output.

In the diagram on the left, the equilibrium level of national income GDP (Y_1) is less than long run potential output (Y_P) – therefore the output gap is **negative**.

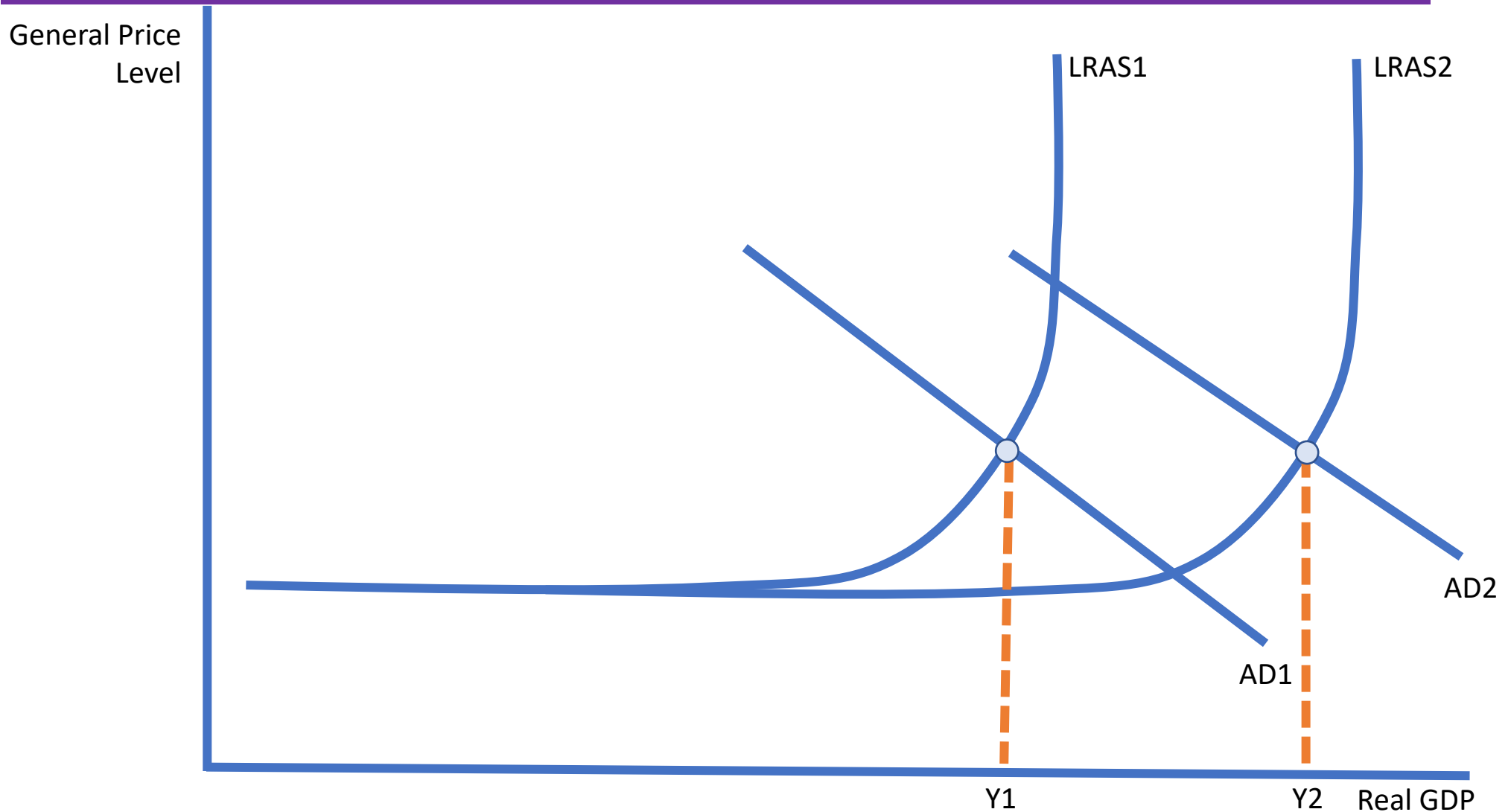
ECONOMIC PERFORMANCE

OUTPUT GAPS / KEYNESIAN AGGREGATE SUPPLY



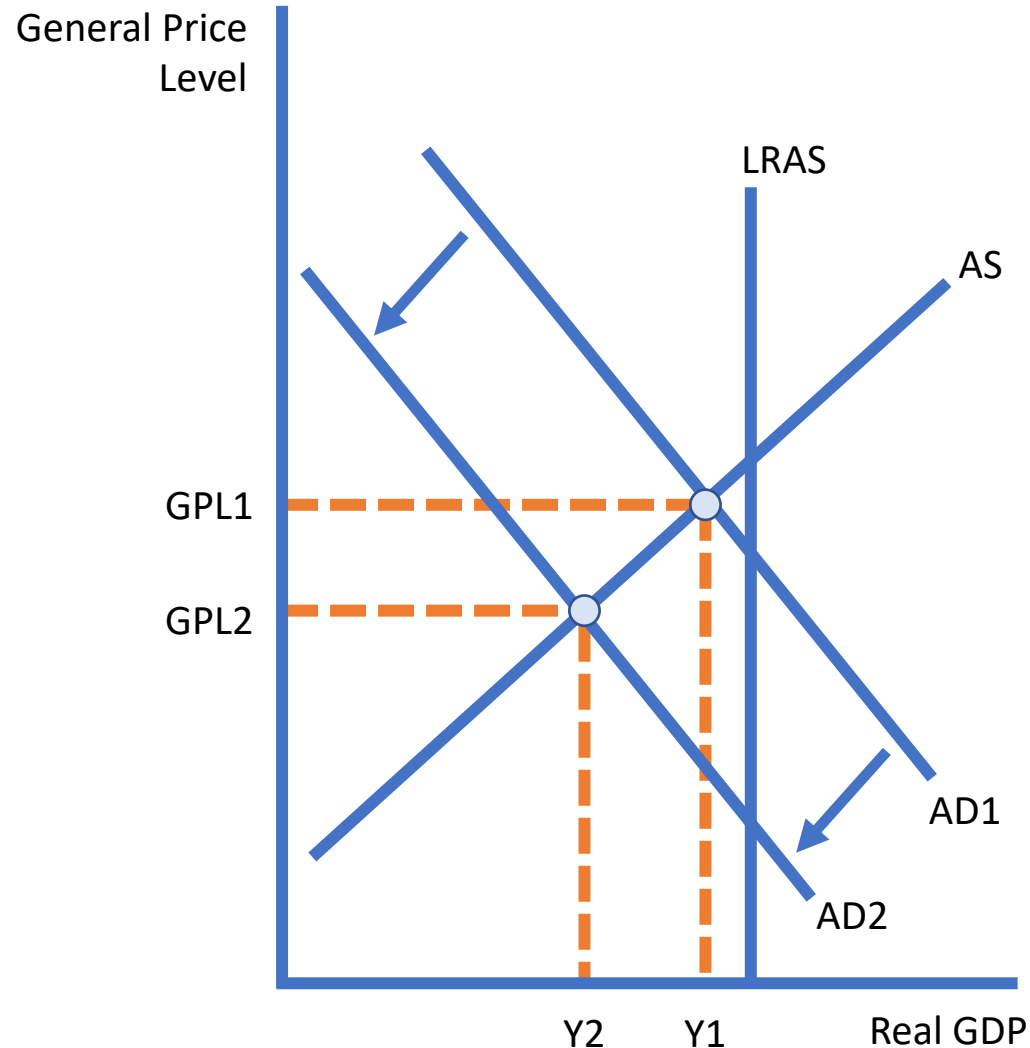
ECONOMIC PERFORMANCE

LONG RUN GROWTH WITH KEYNESIAN AGGREGATE SUPPLY



ECONOMIC PERFORMANCE

CAUSES OF RECESSION



A **demand-induced recession** causes a contraction of real GDP and leaves the economy with an increasing amount of spare capacity.

If national income (GDP) is less than long run potential output – therefore the output gap is **negative** – which can lead to deflationary pressures

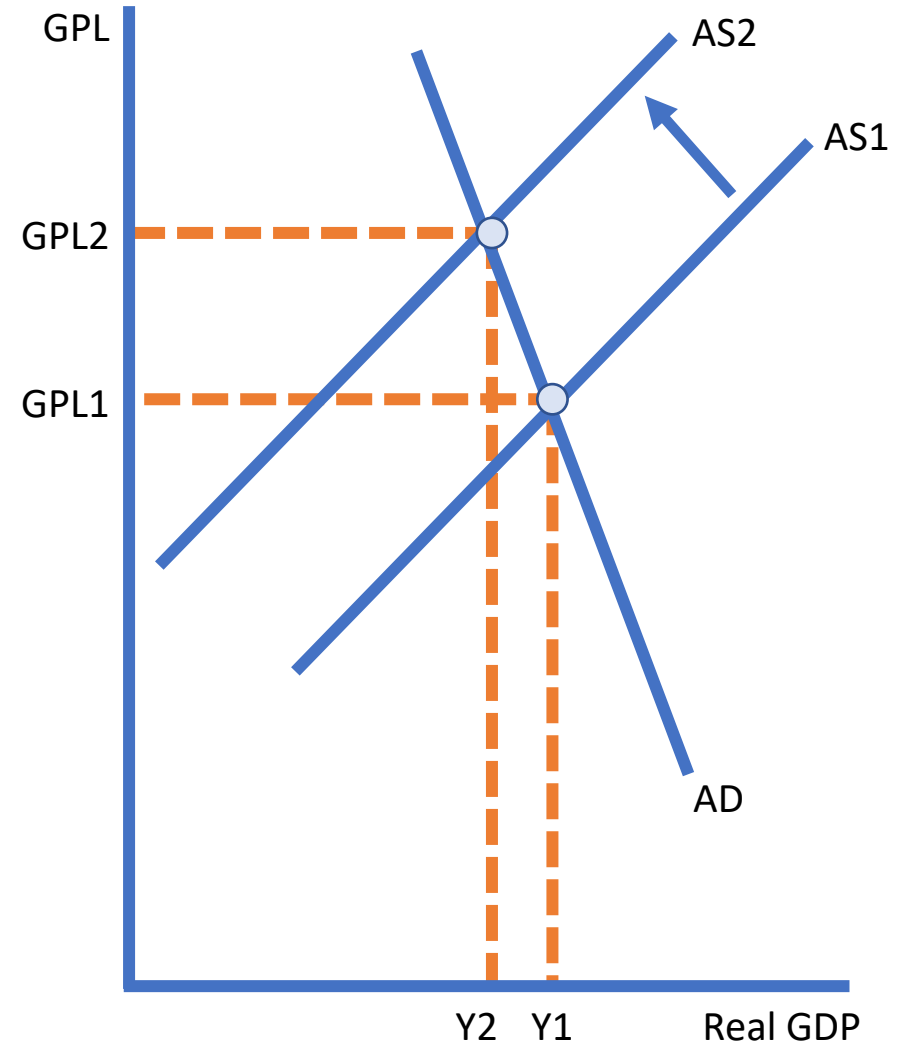
ECONOMIC PERFORMANCE

COST-PUSH INFLATION

Cost-push inflation occurs when firms respond to **rising costs** by increasing consumer prices to **protect their profit margins**

It can be caused by:

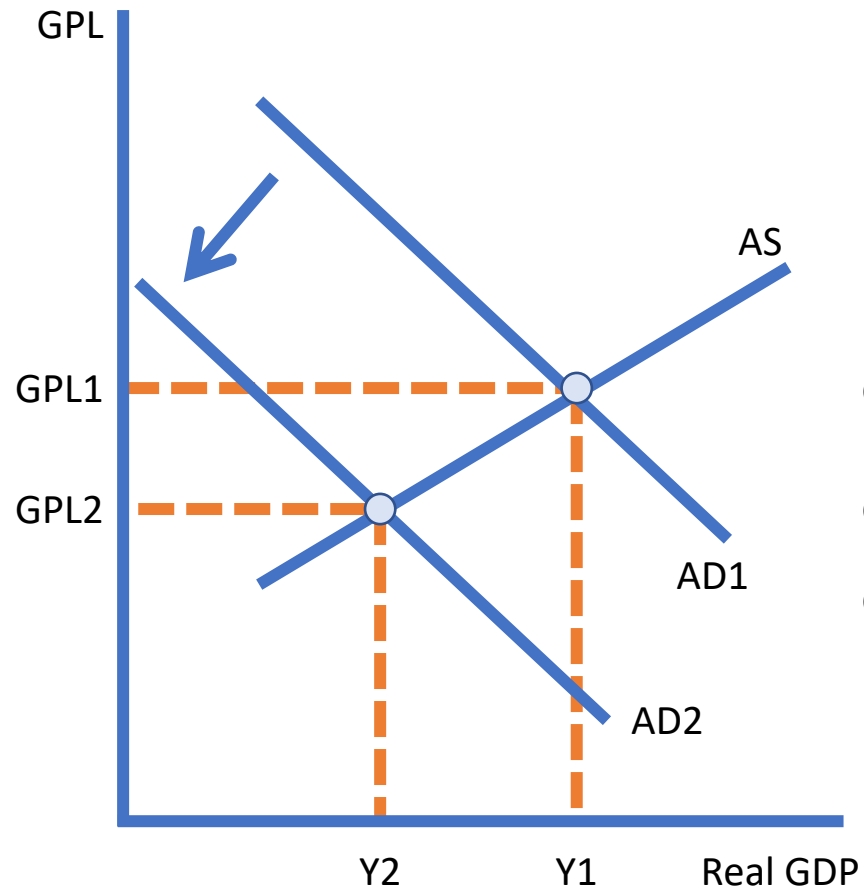
1. Rising unit wage costs
2. Higher global prices for components and raw materials
3. A depreciation in the exchange rate which causes a rise in import prices
4. An increase in business taxes e.g. higher VAT or environmental taxes such as a carbon tax or congestion charge



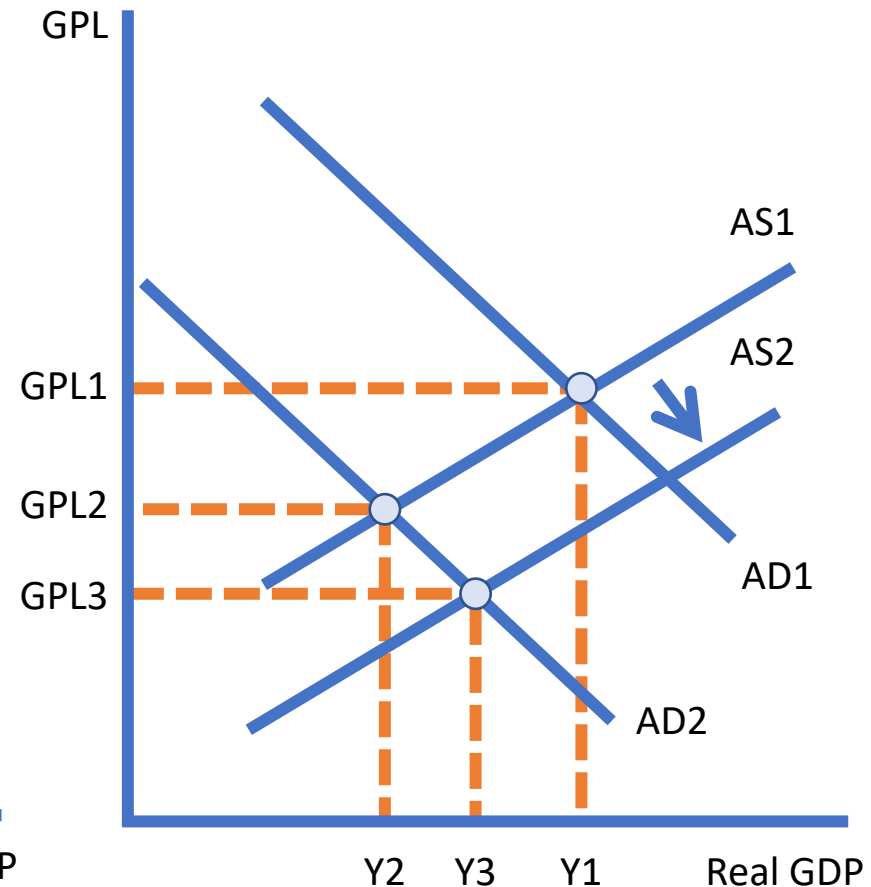
THE INTERNATIONAL ECONOMY

EFFECTS OF A CURRENCY APPRECIATION

A currency appreciation makes exports more expensive & likely to lead to an inward shift of AD

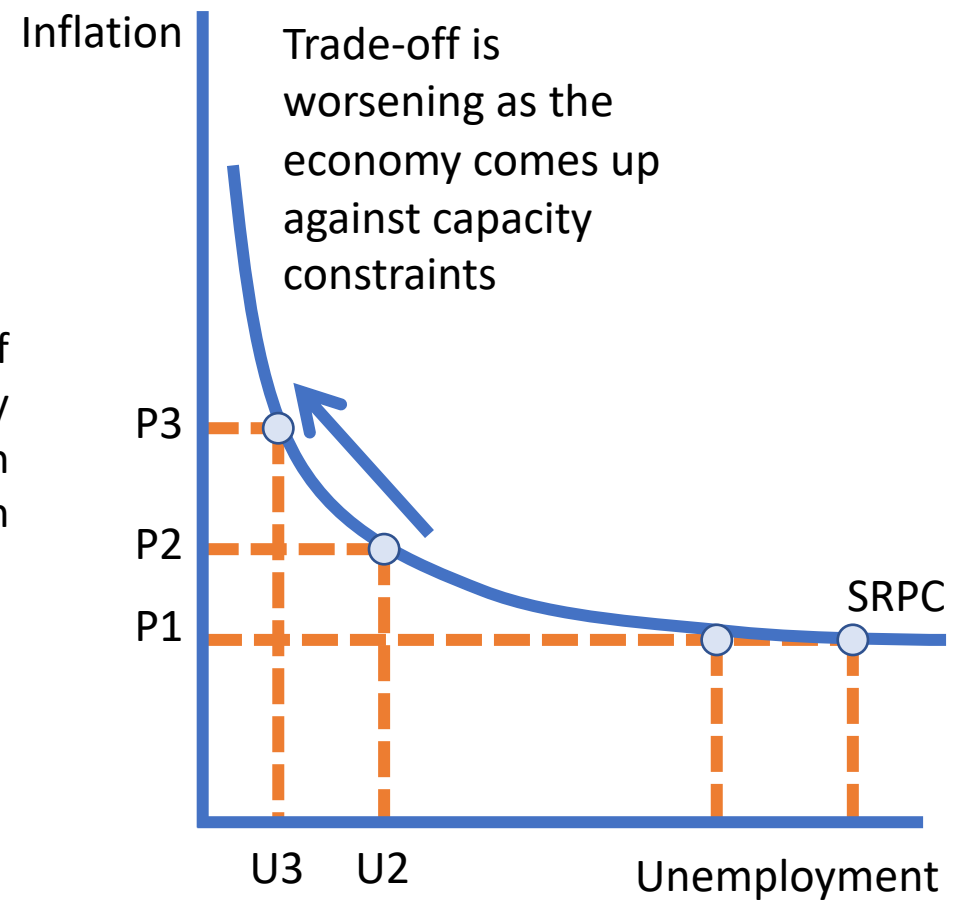
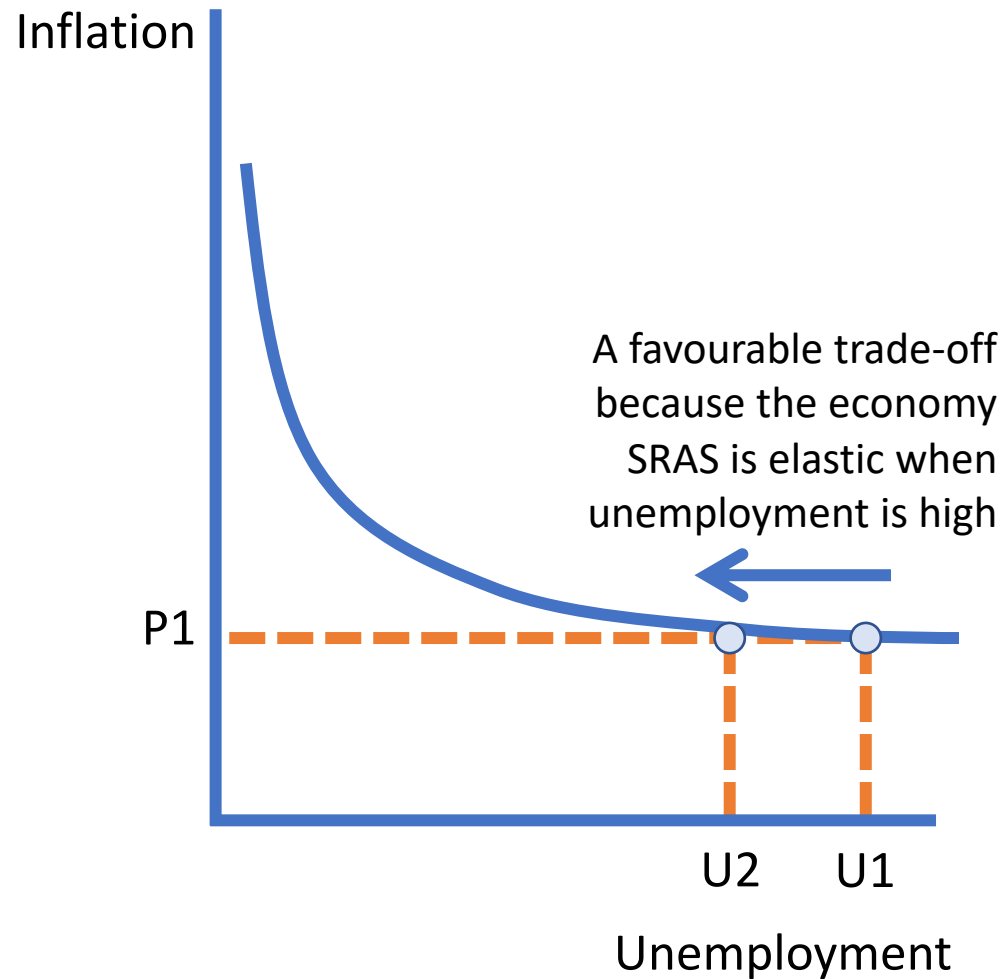


A currency appreciation makes imports cheaper & likely to cause an outward shift of AS



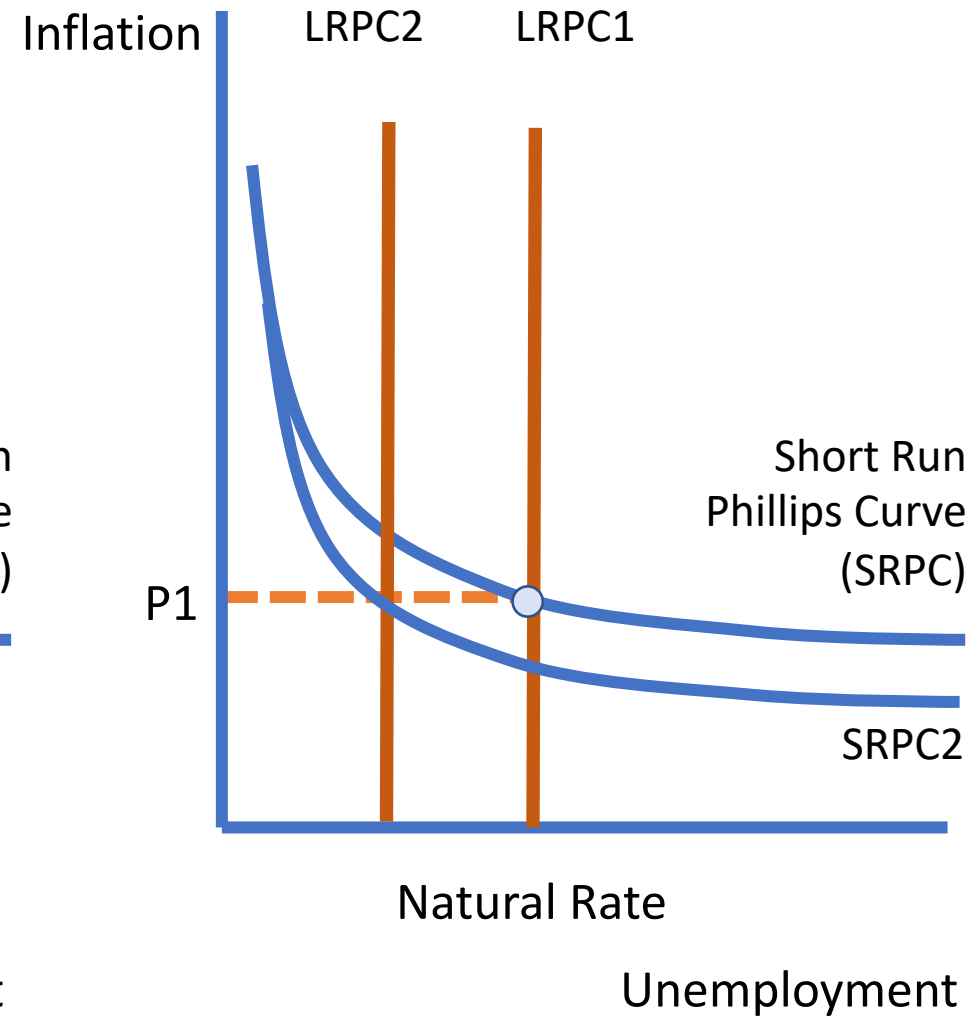
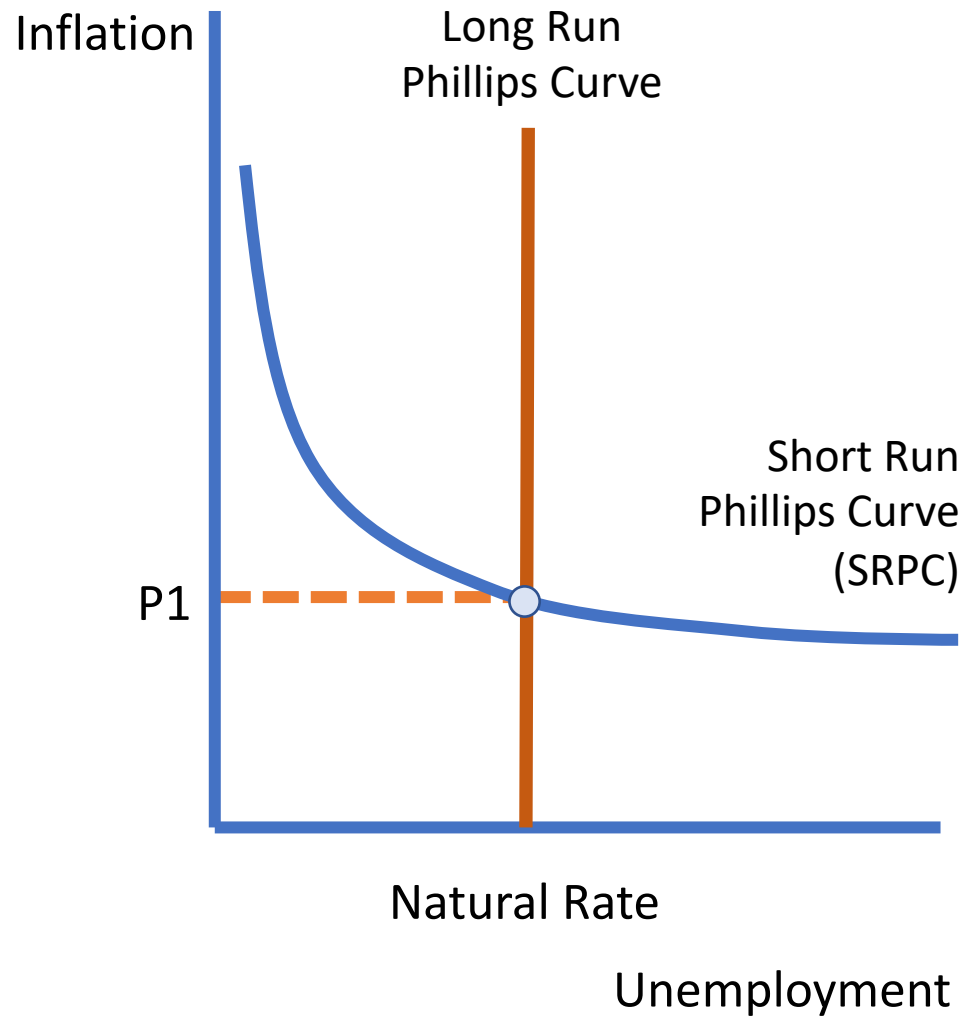
ECONOMIC PERFORMANCE

SHORT RUN PHILLIPS CURVE



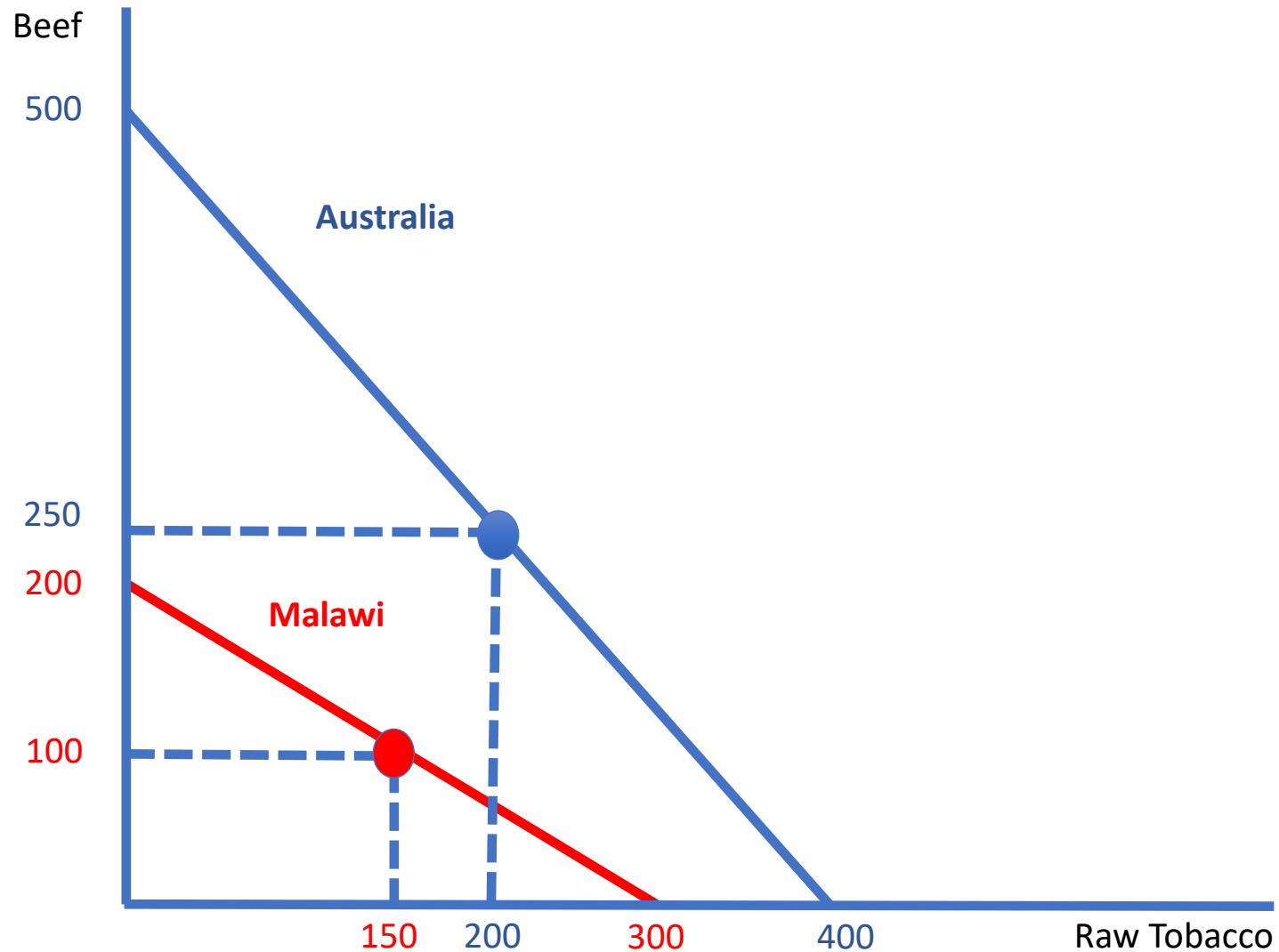
ECONOMIC PERFORMANCE

LONG RUN PHILLIPS CURVE



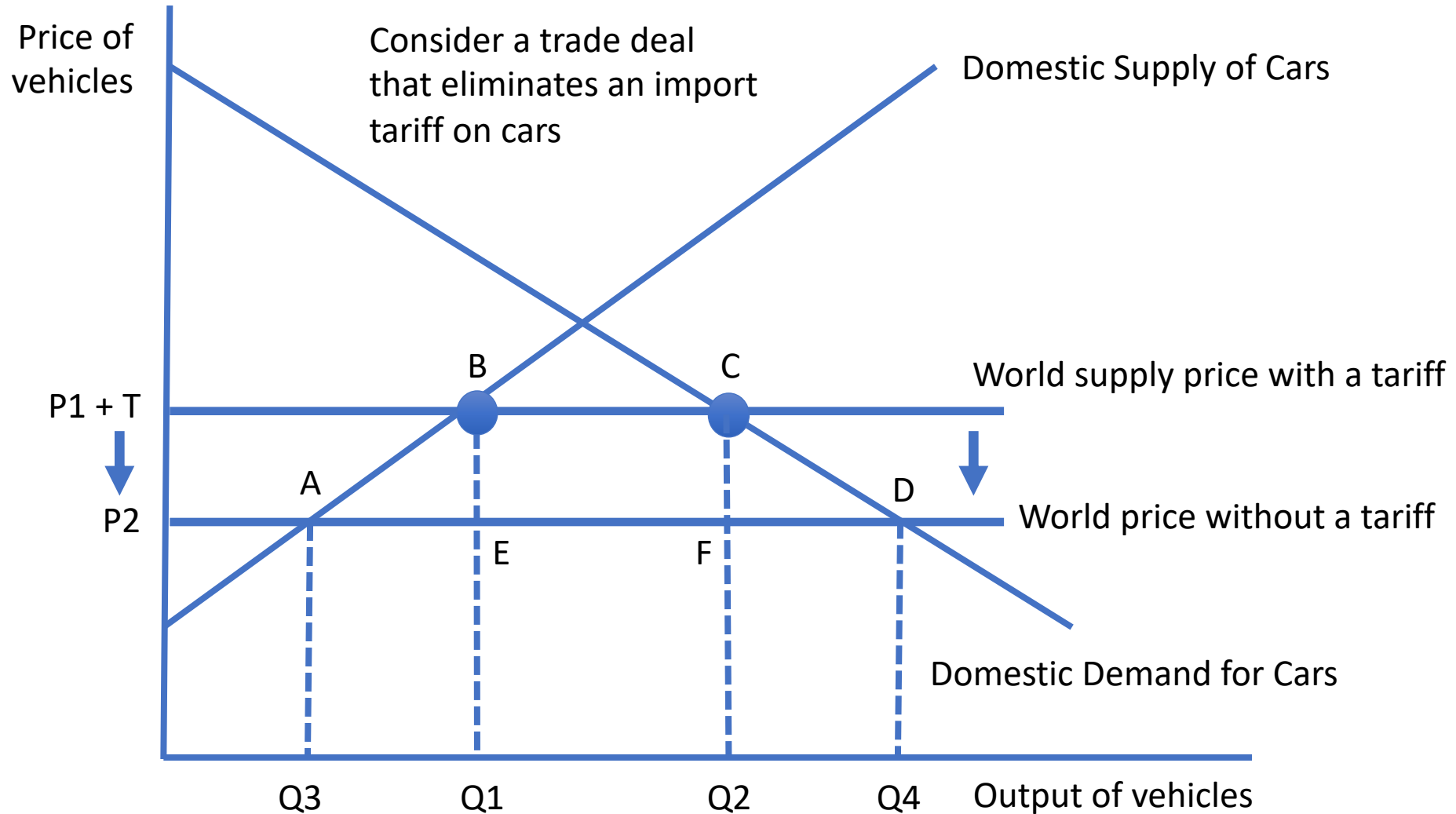
THE INTERNATIONAL ECONOMY

BENEFITS FROM SPECIALISATION AND TRADE



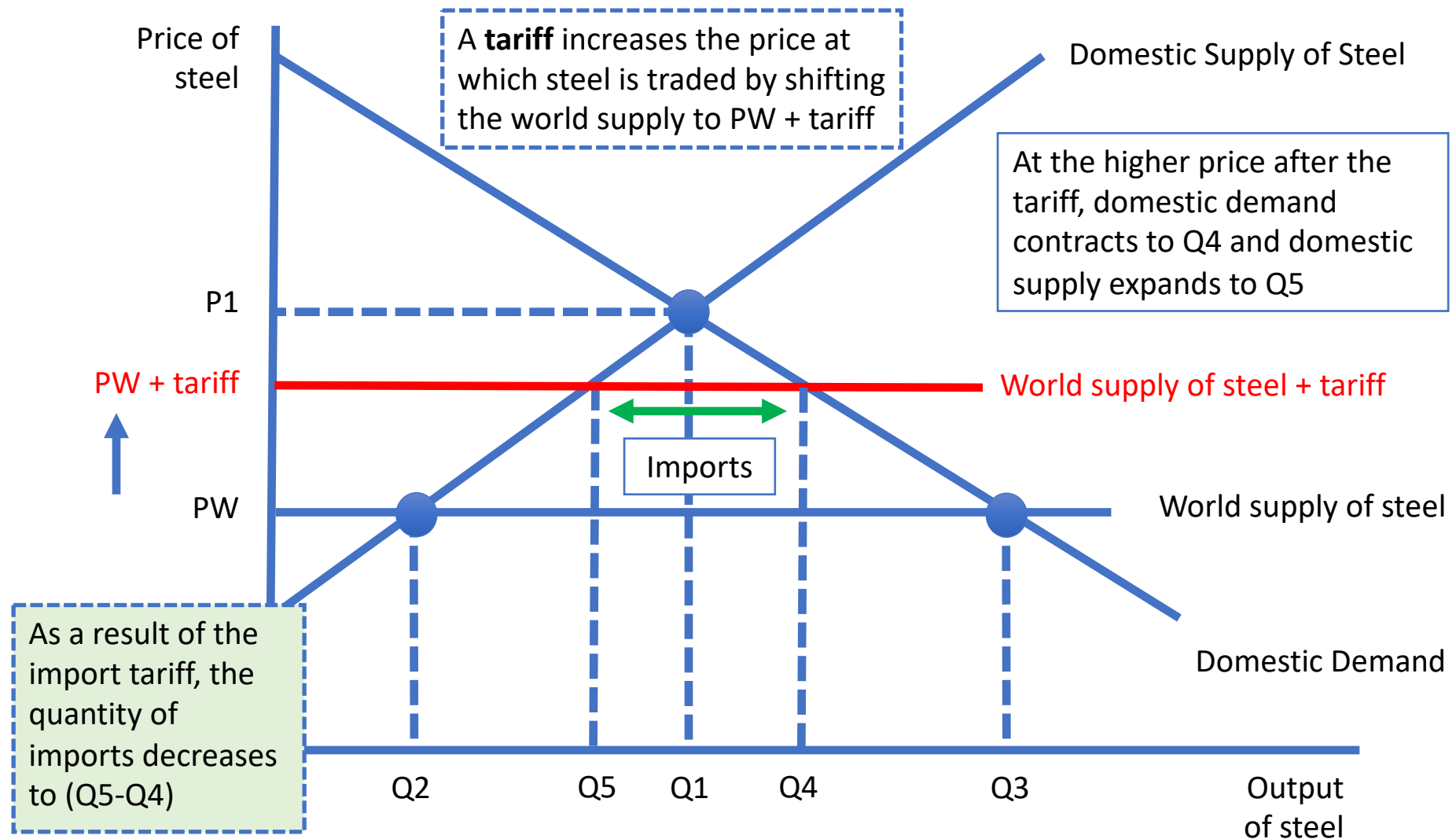
EMERGING & DEVELOPING ECONOMIES

TRADE LIBERALISATION (LOWER TARIFFS)

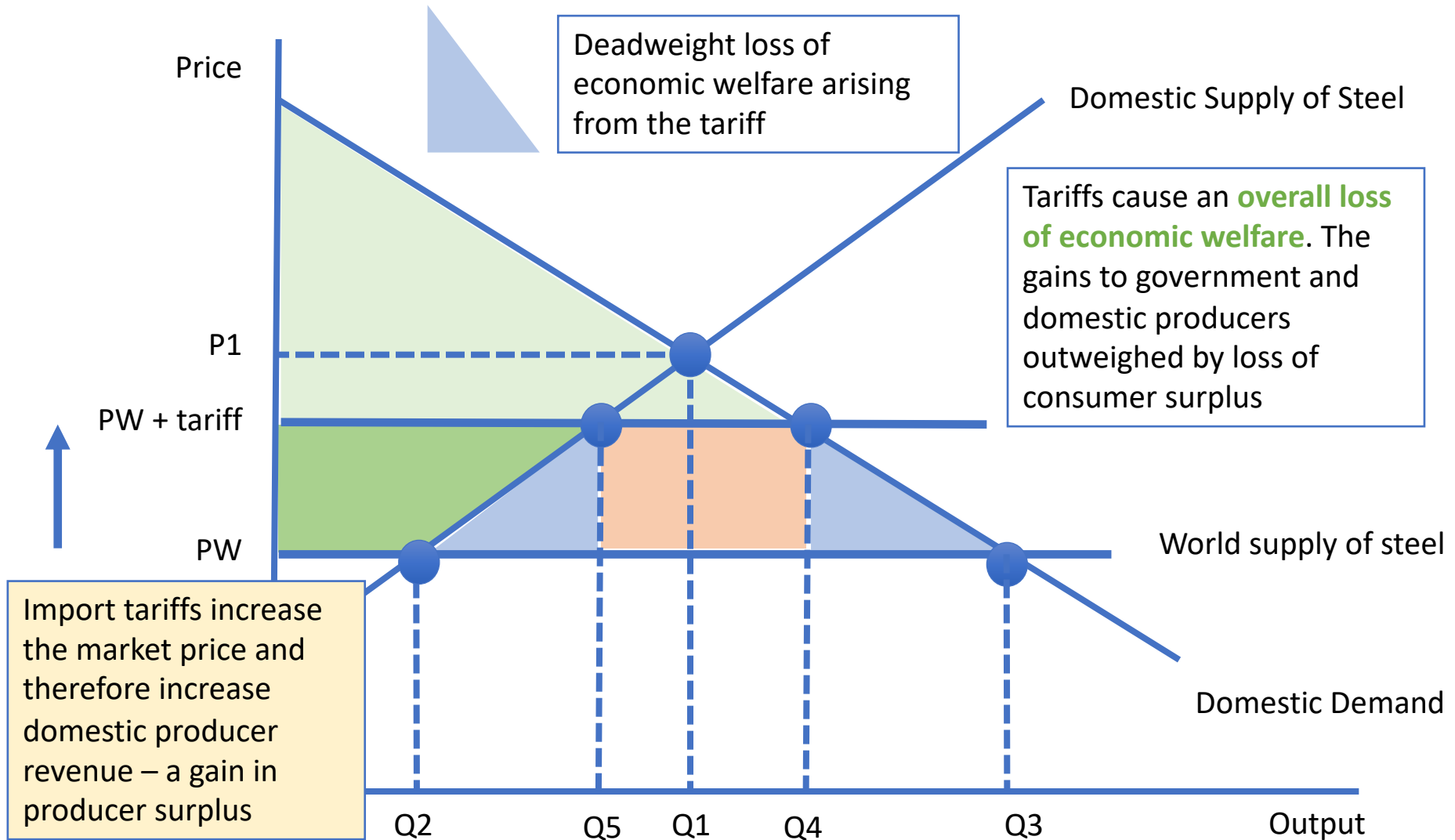


THE INTERNATIONAL ECONOMY

ANALYSIS OF EFFECTS OF AN IMPORT TARIFF

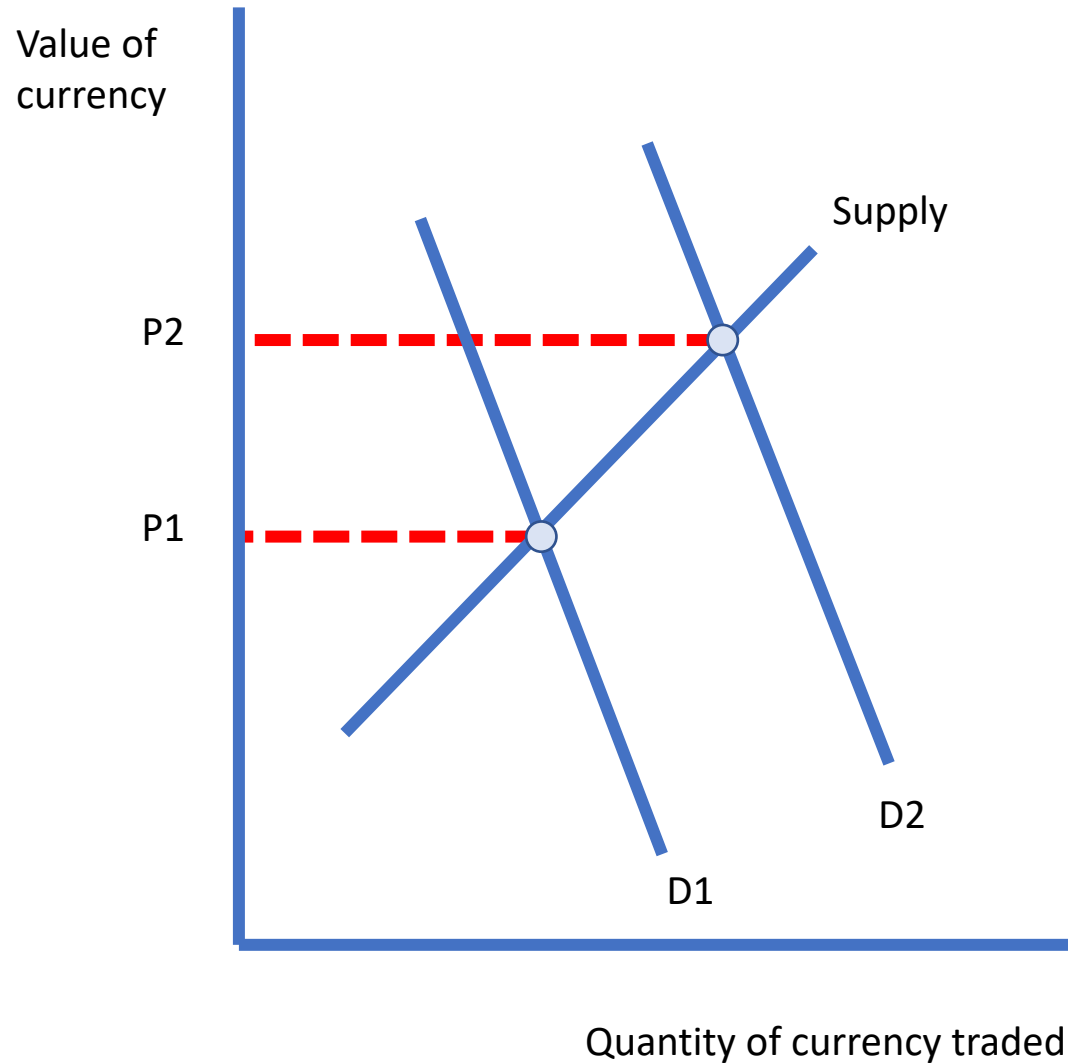


IMPORT TARIFFS – WELFARE & EFFICIENCY



INTERNATIONAL ECONOMICS

CURRENCY MARKET ANALYSIS



Rise in policy interest rates by central bank



Currency more attractive for investors



Attracts inflows of short-term hot money



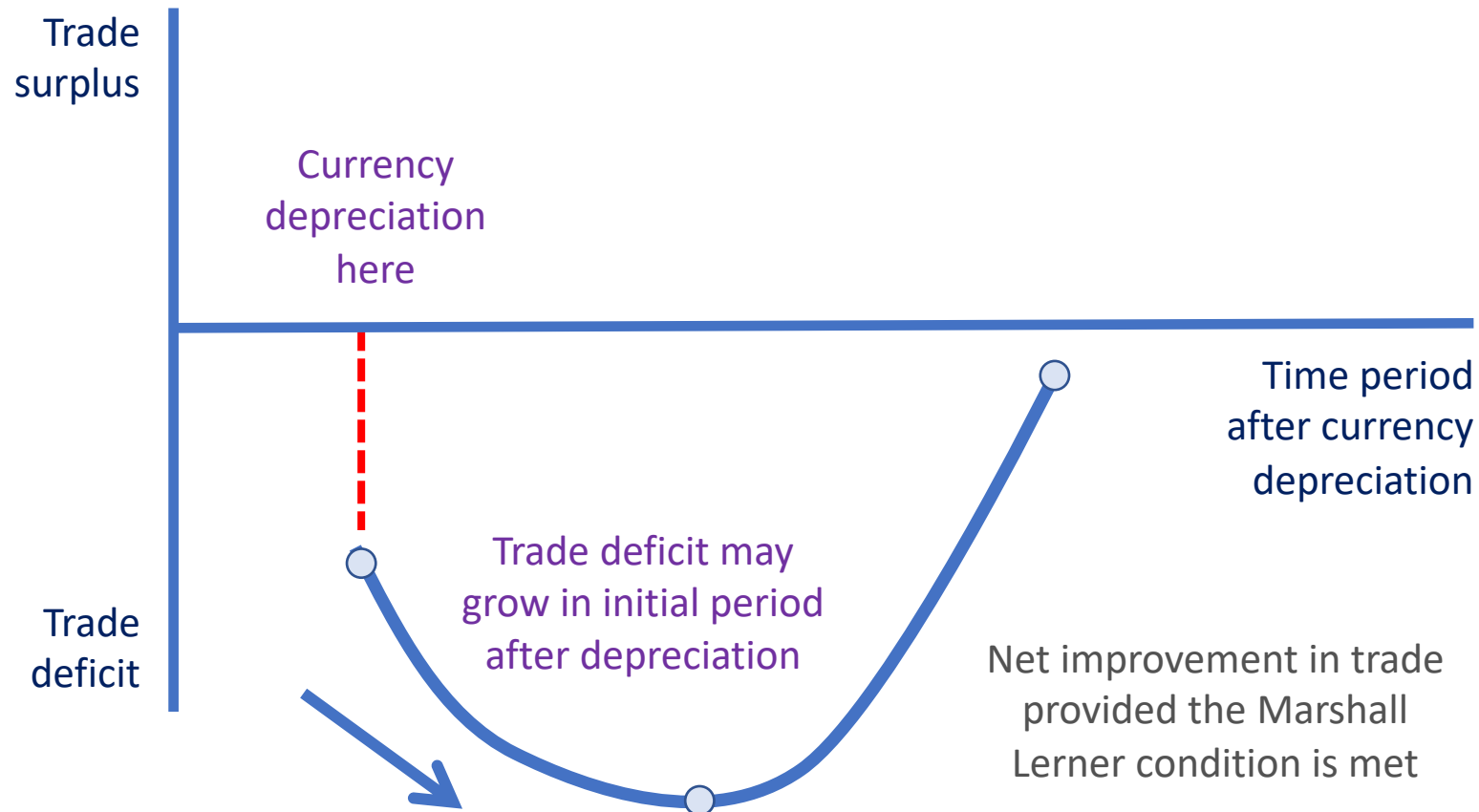
Causes outward shift in currency demand



Currency appreciates in value in a floating system

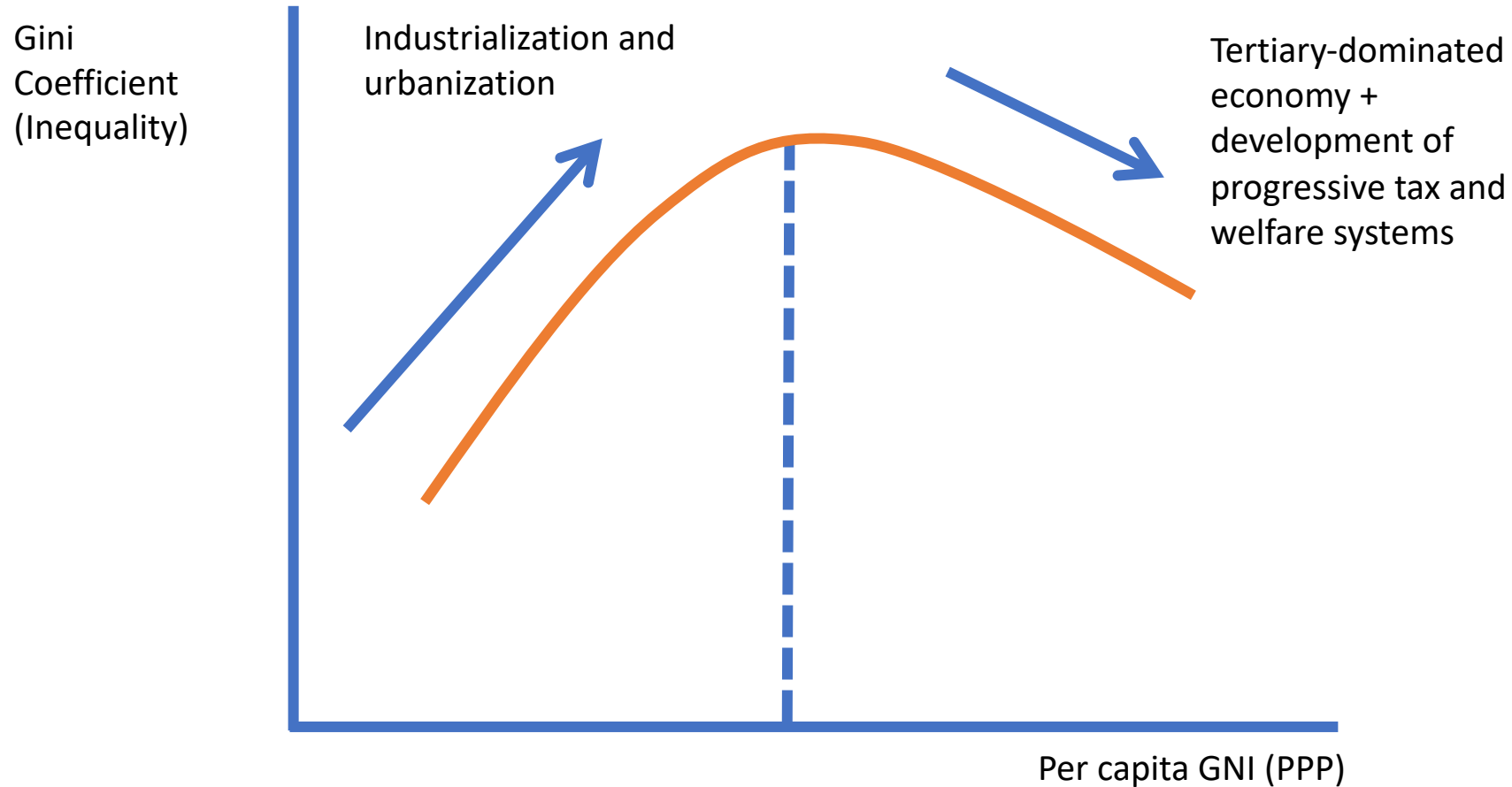
THE J CURVE

The “**J Curve effect**” shows the possible **time lags** between a falling (depreciating) currency and an improved trade balance



POVERTY & INEQUALITY

CAUSES OF CHANGES IN RELATIVE POVERTY (KUZNETS CURVE)



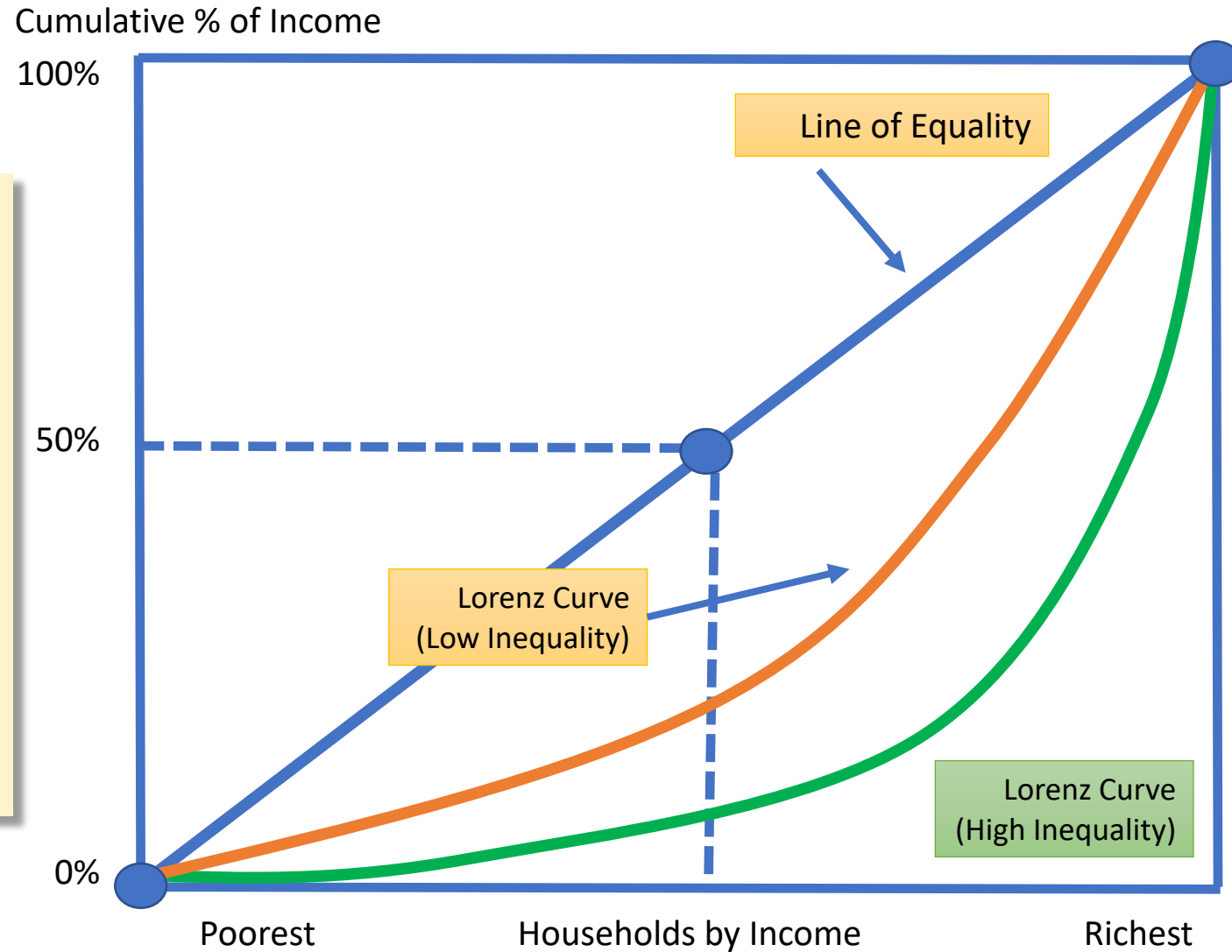
The Kuznets Curve suggests that inequality often rises during rapid industrialisation and urbanization but there may come a point when increased state welfare provision, progressive taxes and more balanced income growth across industries can lead to a fall in overall inequality at higher per capita incomes.

POVERTY & INEQUALITY

LORENZ CURVE AND GINI COEFFICIENT

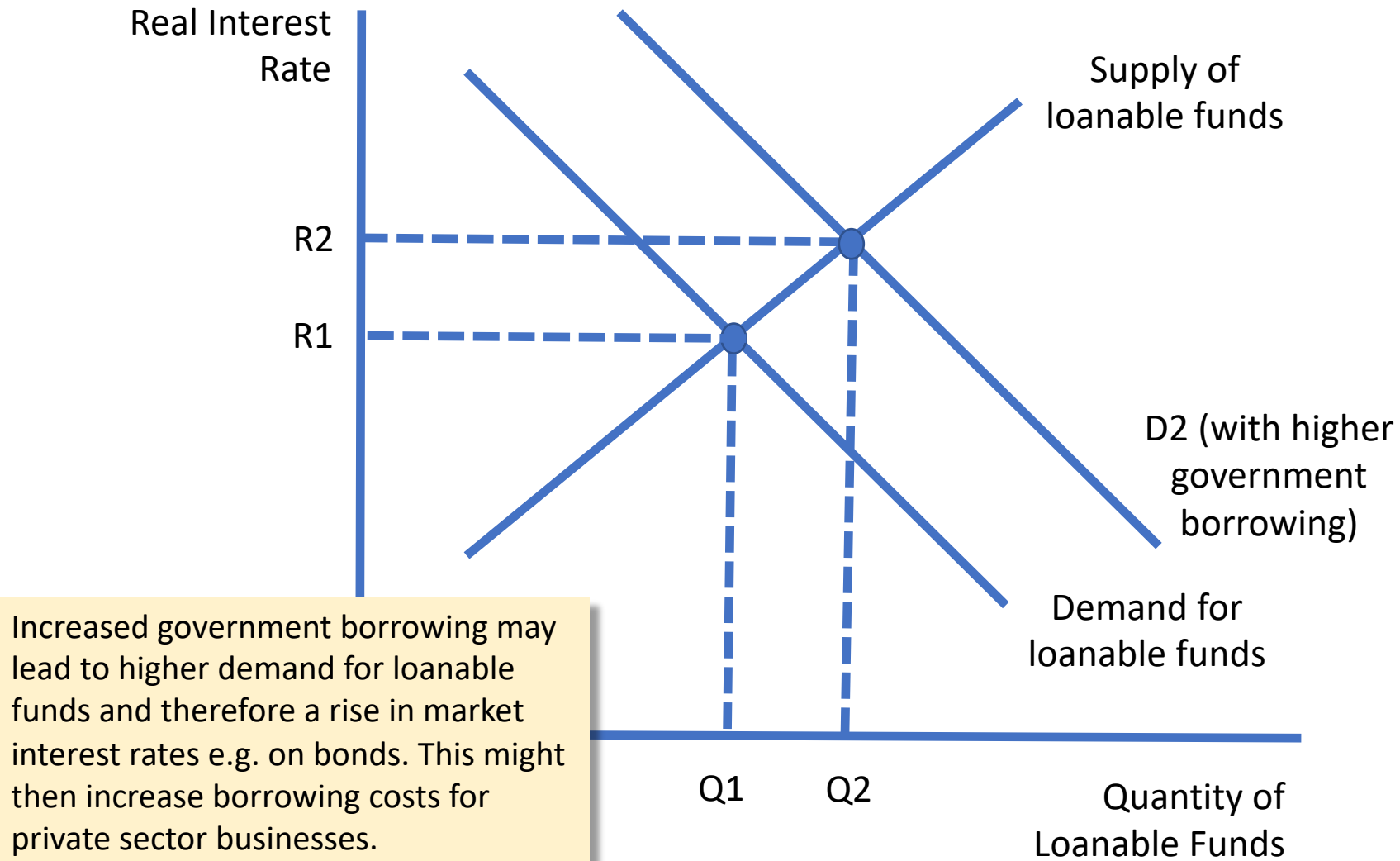
The Lorenz Curve gives a visual interpretation of income or wealth inequality.

The diagonal line shows a situation of perfect equality of income i.e. 50% of population has 50% of income



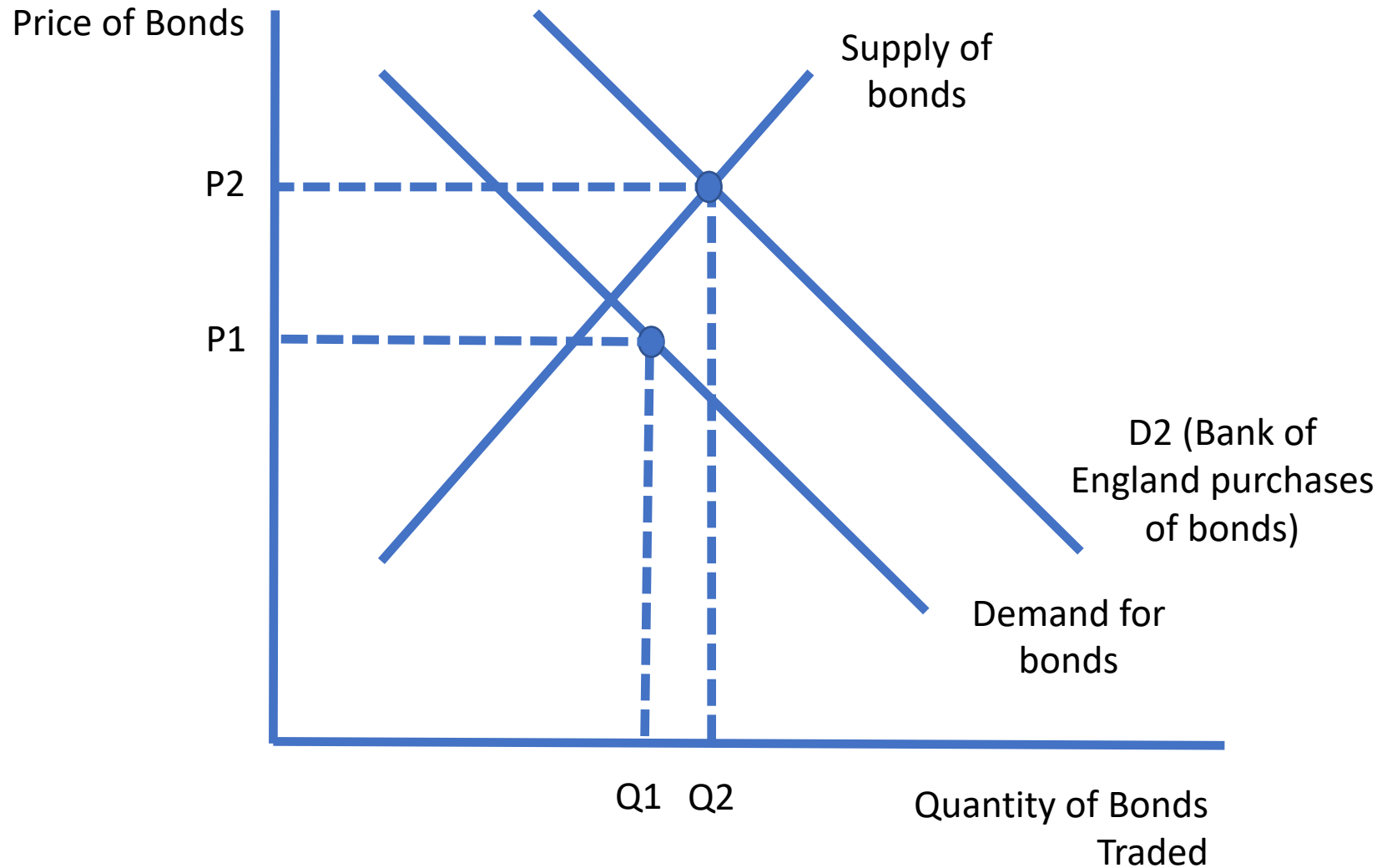
ROLE OF THE STATE IN THE MACROECONOMY

CROWDING OUT THEORY



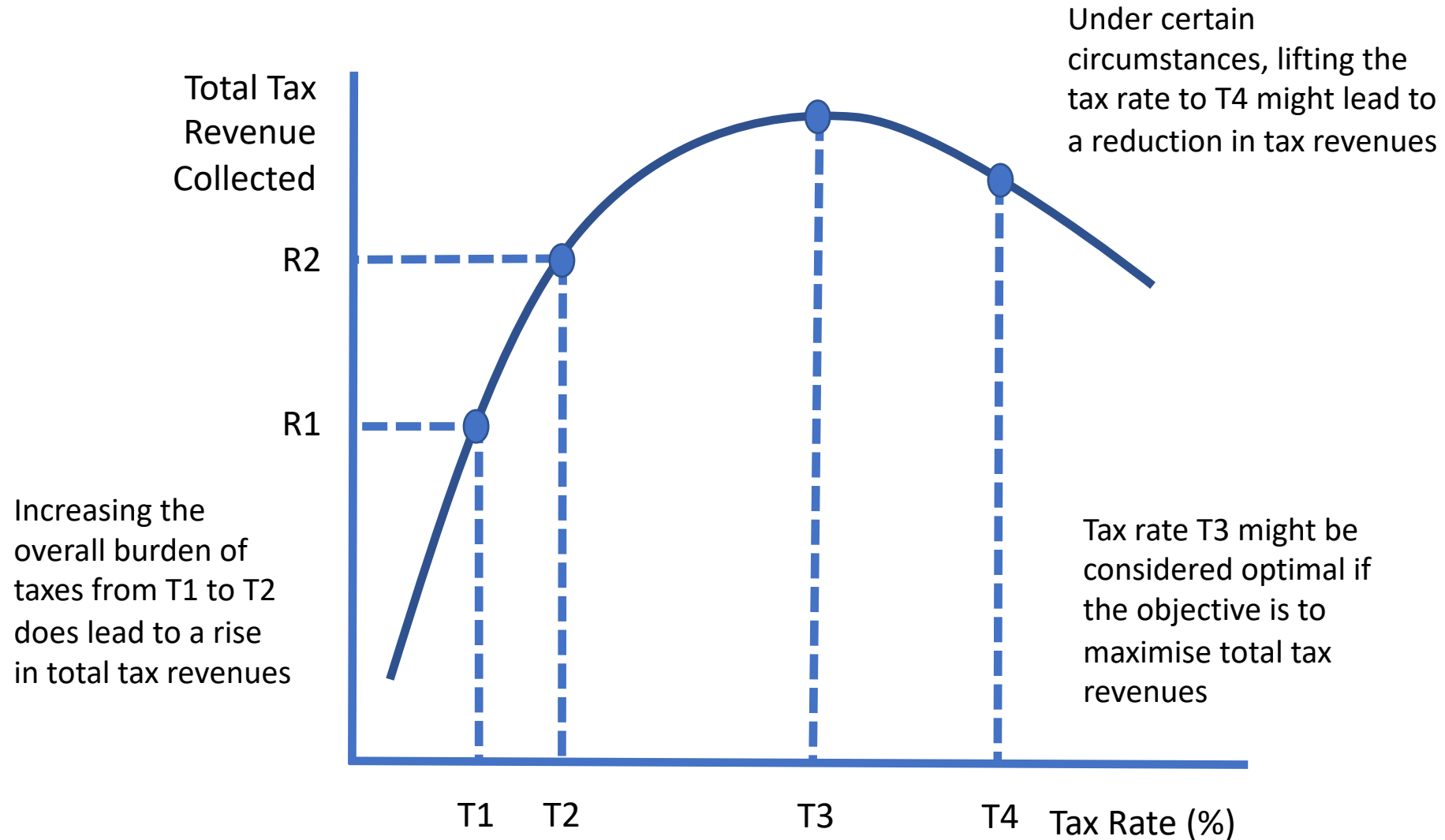
ROLE OF THE STATE IN THE MACROECONOMY

QUANTITATIVE EASING AND THE BOND MARKET



ROLE OF THE STATE IN THE MACROECONOMY

THE LAFFER CURVE





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