

A2 Macro: Economic Growth

IMF

World Economic Outlook

Uneven Growth
Short- and Long-Term Factors

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	2013	2014	Projections	
			2015	2016
World Output²	3.4	3.4	3.5	3.8
Advanced Economies	1.4	1.8	2.4	2.4
United States	2.2	2.4	3.1	3.1
Euro Area ³	-0.5	0.9	1.5	1.6
Germany	0.2	1.6	1.6	1.7
France	0.3	0.4	1.2	1.5
Italy	-1.7	-0.4	0.5	1.1
Spain	-1.2	1.4	2.5	2.0
Japan	1.6	-0.1	1.0	1.2
United Kingdom	1.7	2.6	2.7	2.3
Canada	2.0	2.5	2.2	2.0
Other Advanced Economies ⁴	2.2	2.8	2.8	3.1
Emerging Market and Developing Economies⁵	5.0	4.6	4.3	4.7
Commonwealth of Independent States	2.2	1.0	-2.6	0.3
Russia	1.3	0.6	-3.8	-1.1
Excluding Russia	4.2	1.9	0.4	3.2
Emerging and Developing Asia	7.0	6.8	6.6	6.4
China	7.8	7.4	6.8	6.3
India ⁶	6.9	7.2	7.5	7.5

Short and Long Run Growth

Short term growth



- ☐ Cyclical changes in real GDP
- ☐ Changes in AD
- ☐ Changes in short run AS
- ☐ Short term external shocks
- ☐ Short term macro policy changes

Short and Long Run Growth

Short term growth

Long run growth



☐ Cyclical changes in real GDP

☐ Potential output / trend growth

☐ Changes in AD

☐ Productivity of labour & capital

☐ Changes in short run AS

☐ Technological progress

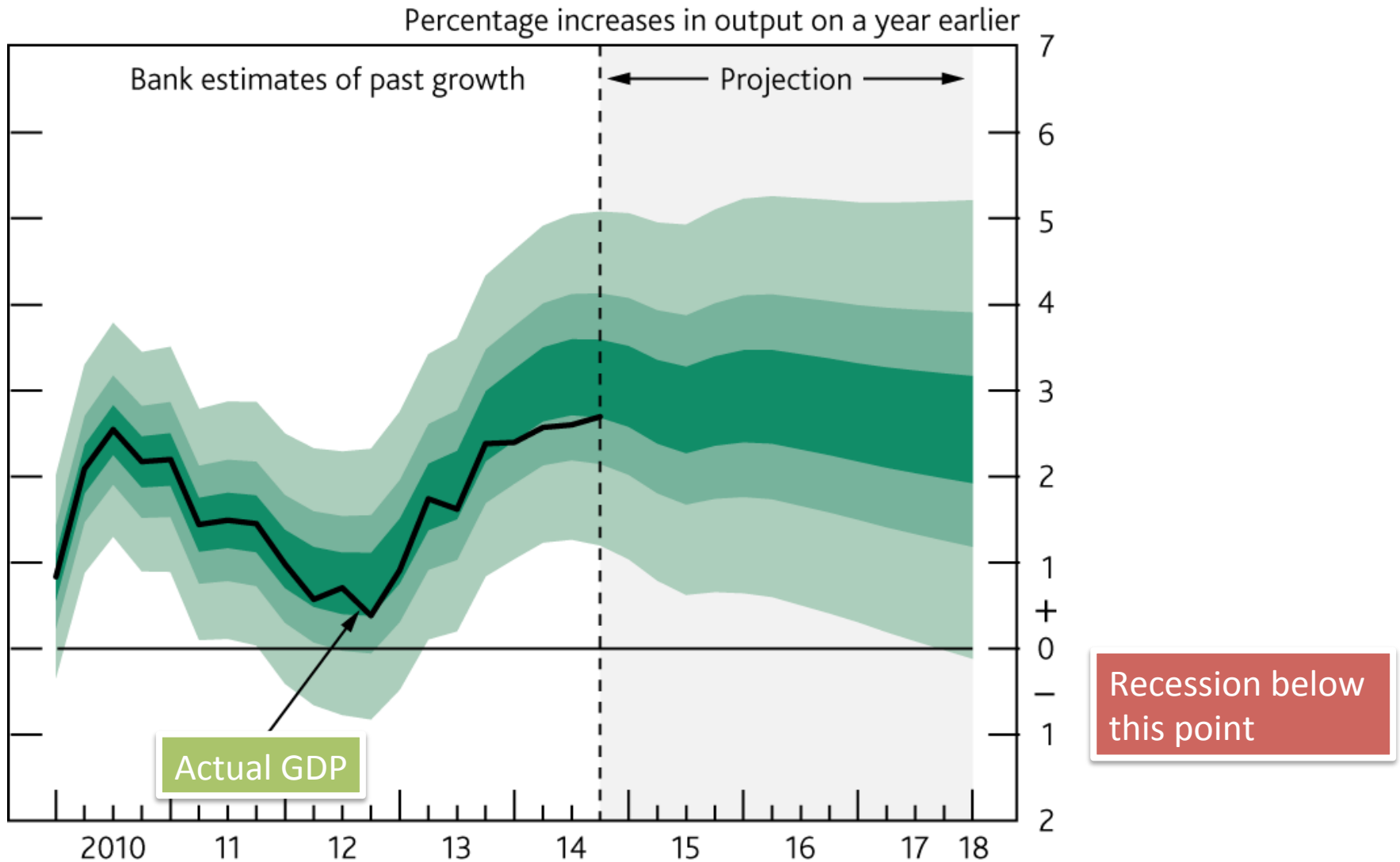
☐ Short term external shocks

☐ Changes in the labour force

☐ Short term macro policy changes

☐ Investment rates

Short term growth of the UK



Some Short Term Growth Factors



Interest rates

Some Short Term Growth Factors

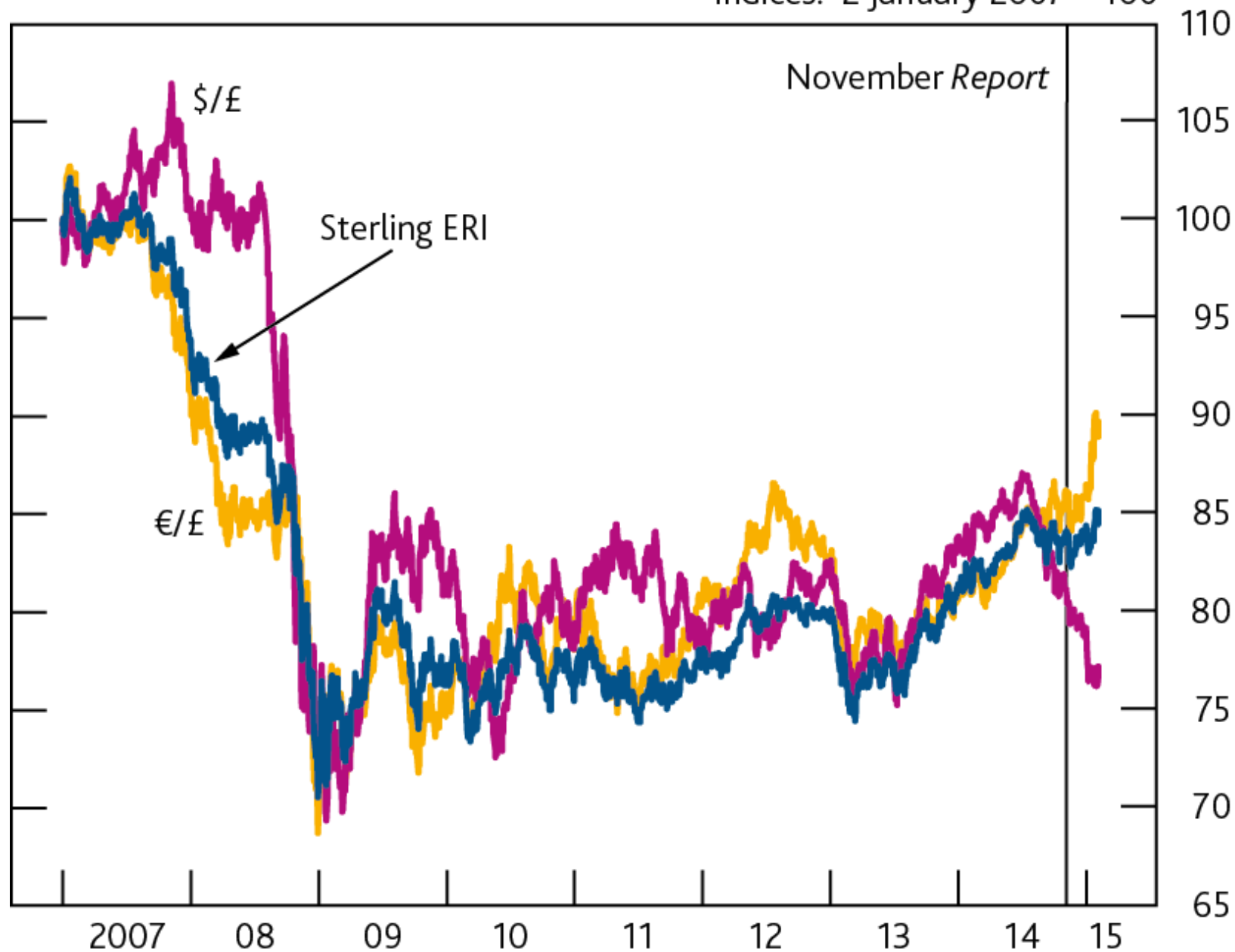


Interest rates



Exchange rates

Indices: 2 January 2007 = 100



Some Short Term Growth Factors



Interest rates



Fiscal policy
decisions



Exchange rates

Some Short Term Growth Factors



Interest rates



Fiscal policy
decisions



Exchange rates



Trading
conditions

Some Short Term Growth Factors



Interest rates



Fiscal policy
decisions



Commodity
prices

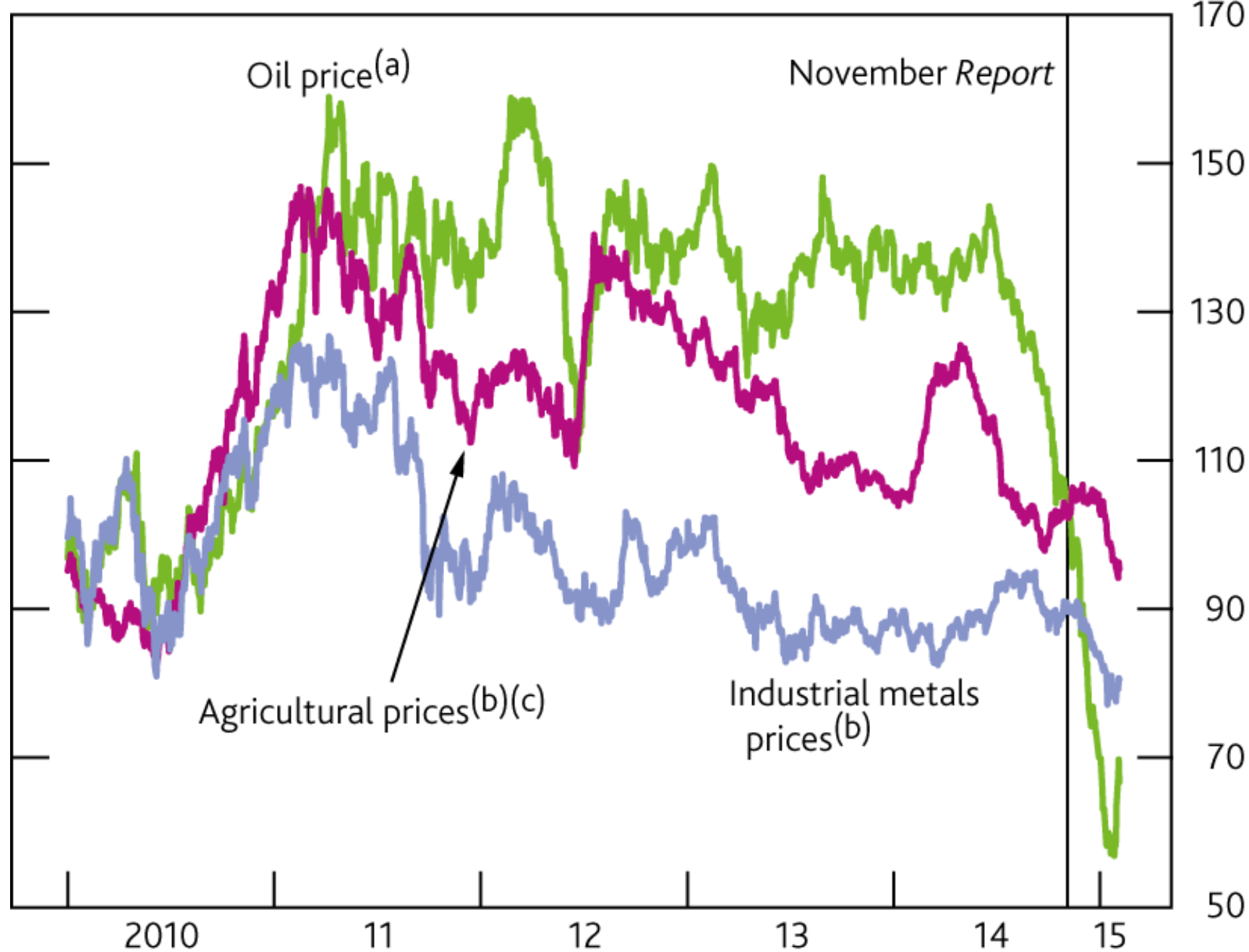


Exchange rates



Trading
conditions

Indices: 2010 = 100



Some Short Term Growth Factors



Interest rates



Fiscal policy
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Commodity
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Exchange rates



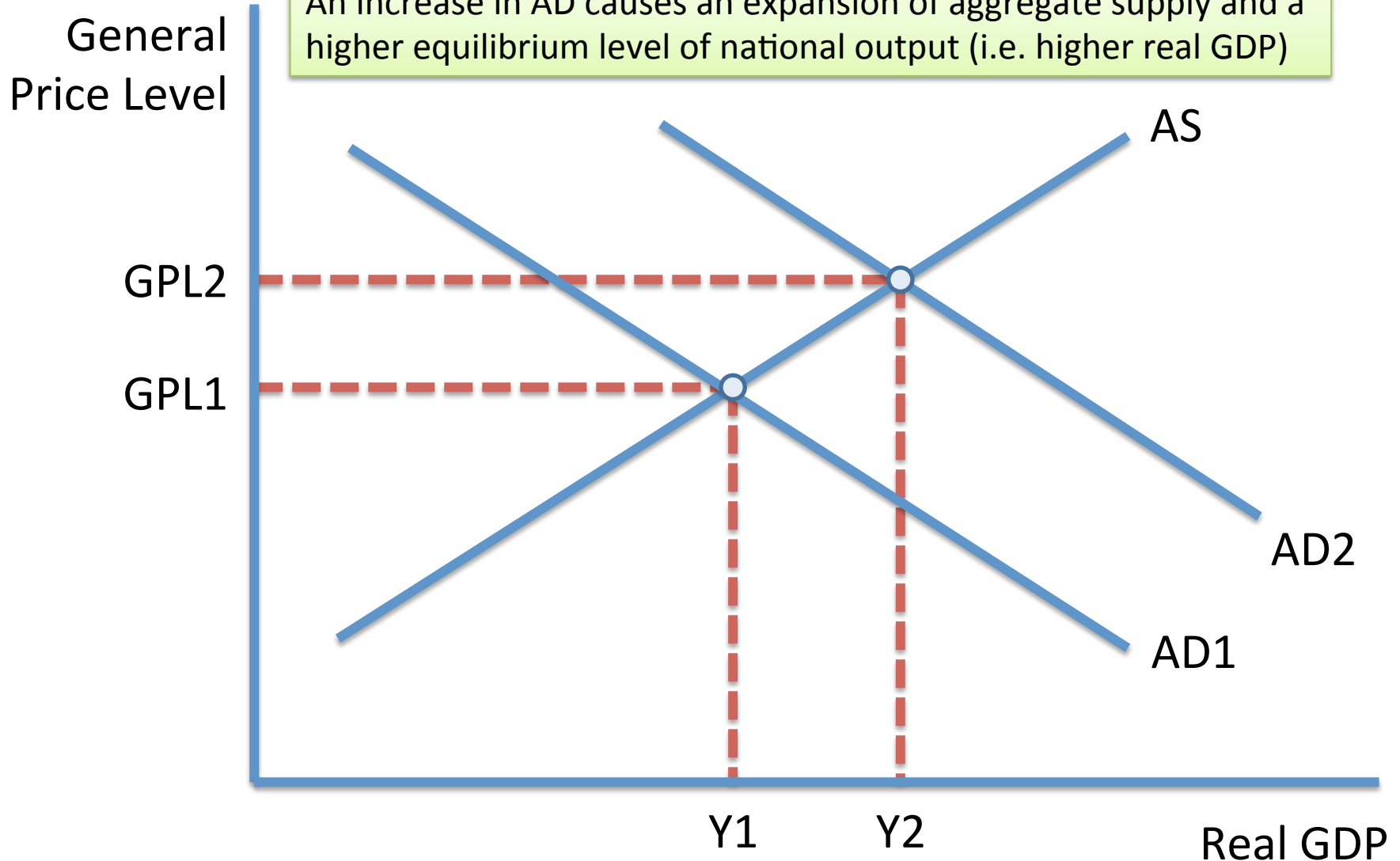
Trading
conditions



Economic
confidence

Impact of an increase in Aggregate Demand

An increase in AD causes an expansion of aggregate supply and a higher equilibrium level of national output (i.e. higher real GDP)



Some Long Term Growth Factors



Investment

Some Long Term Growth Factors



Investment



Research

Some Long Term Growth Factors



Investment



Productivity



Research

Some Long Term Growth Factors



Investment



Productivity



Research



Innovation

Some Long Term Growth Factors



Investment



Productivity



Labour supply



Research



Innovation

Some Long Term Growth Factors



Investment



Productivity



Labour supply



Research

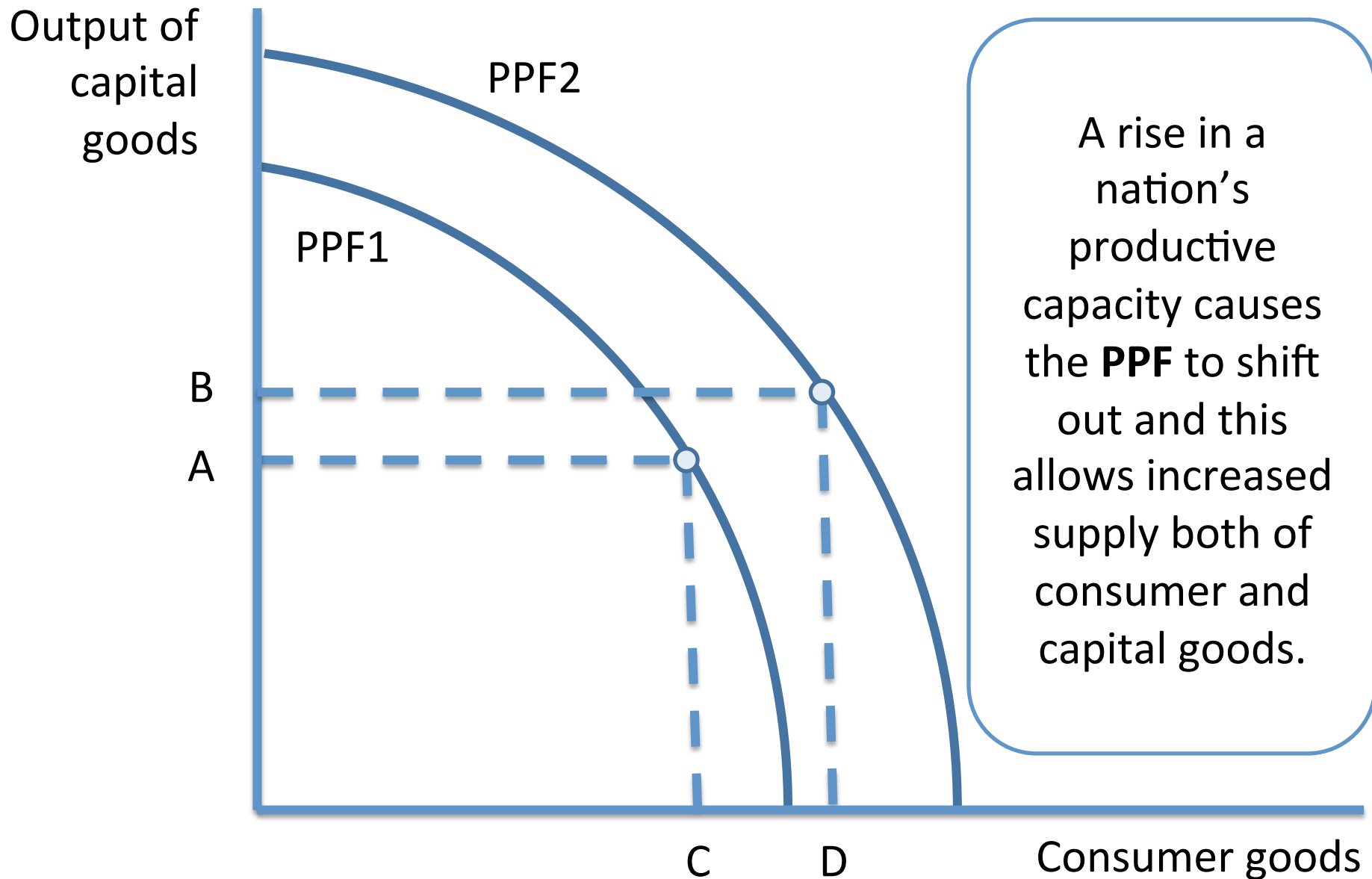


Innovation

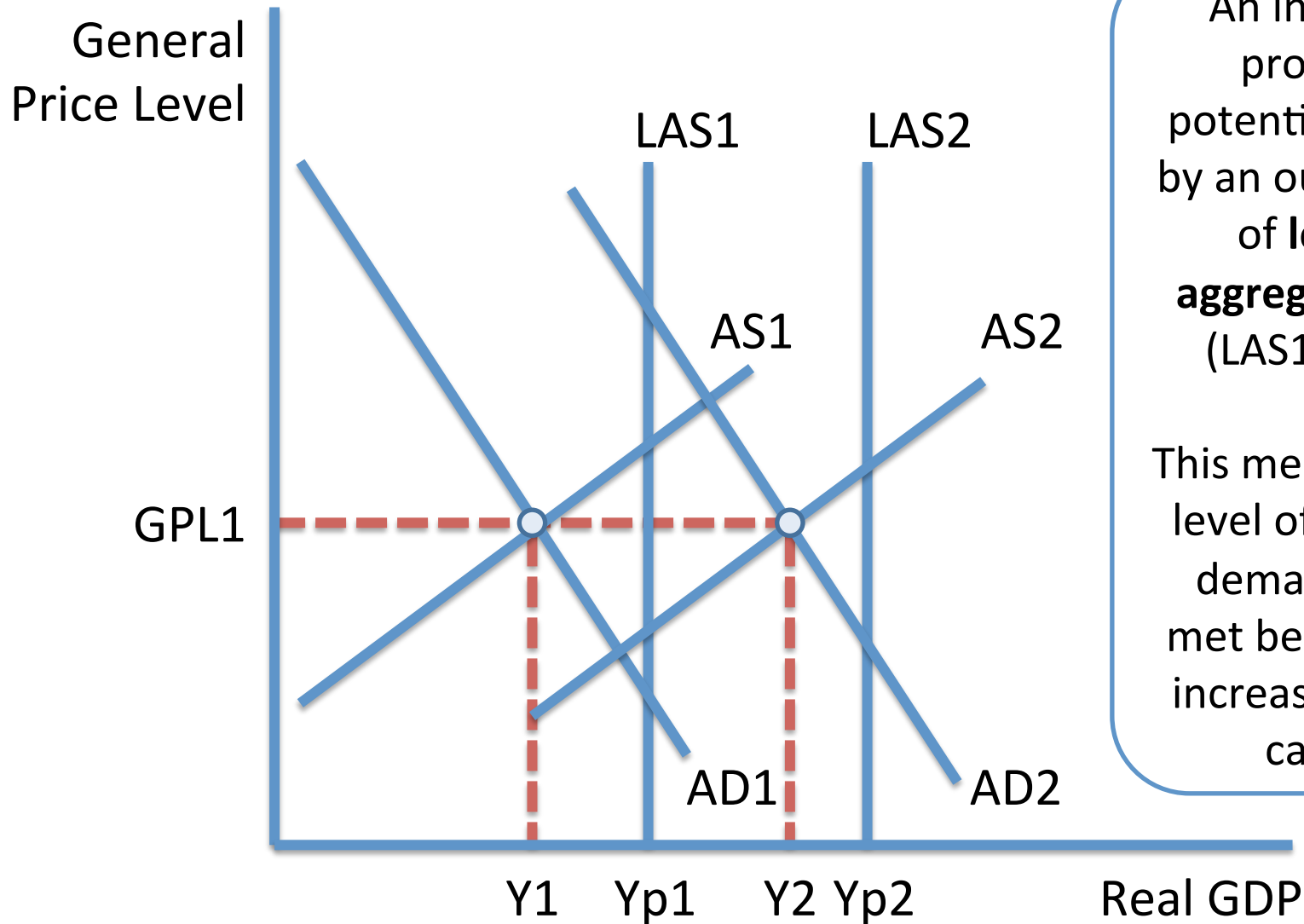


Enterprise

Economic Growth using PPF Diagram



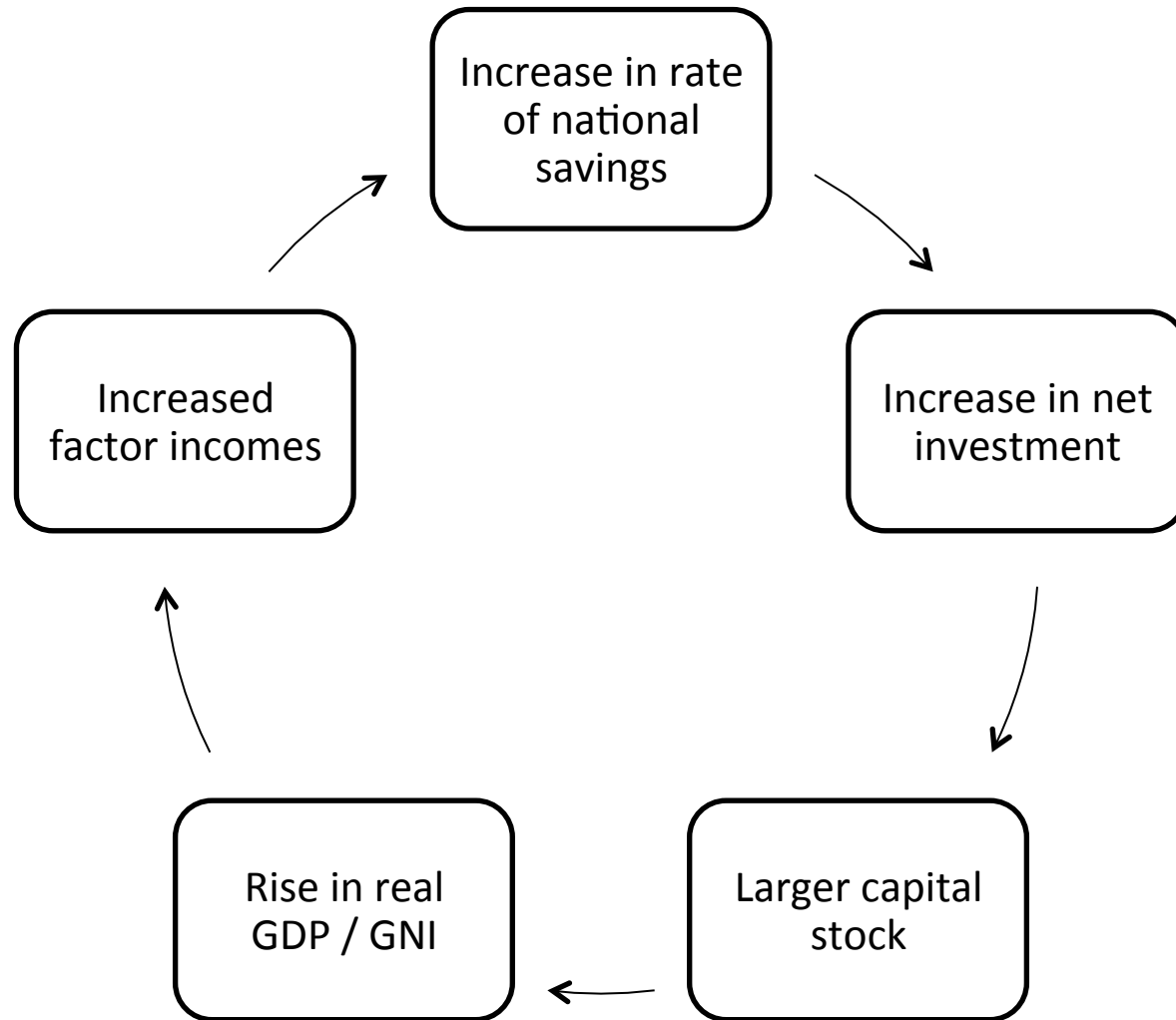
Economic Growth using AD-AS



An increase in productive potential is shown by an outward shift of **long run aggregate supply** (LAS1 to LAS2)

This means a higher level of aggregate demand can be met because of an increase in supply capacity

Harrod-Domar Model



Capital Investment and Economic Growth



Injection of demand for capital goods industries



Bigger capital stock can lift productivity / incomes



Economies of scale & better competitiveness

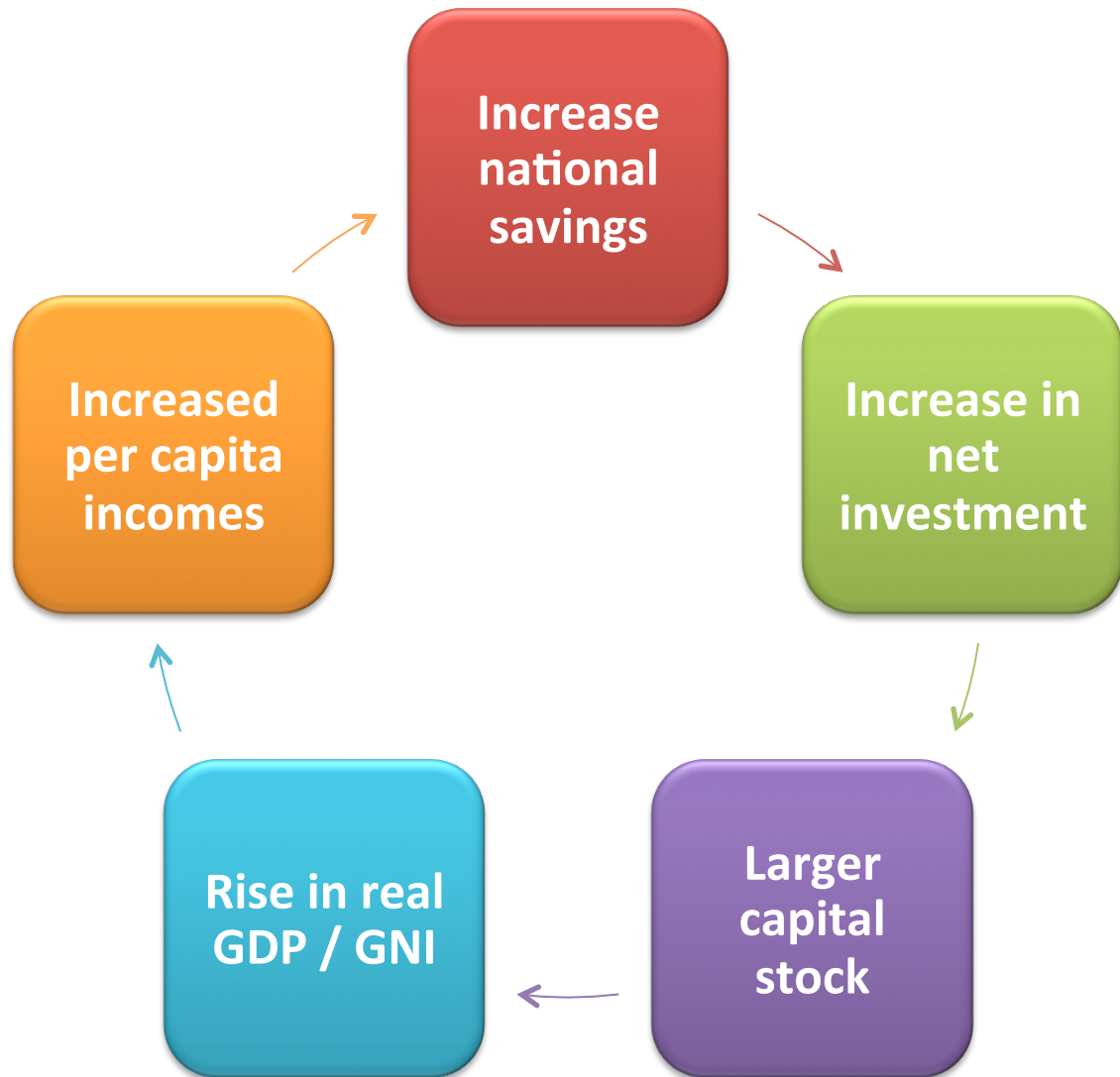


Investment helps to sustain export-led growth

Savings Gaps: Importance of Savings and Investment

How a savings gap can limit economic growth:

- In many smaller low-income countries, high levels of extreme poverty make it almost impossible to generate sufficient savings to provide the funds needed to fund capital investment projects.
- This increases reliance on **tied aid**
- Some countries borrow heavily to fund capital investment projects – this can lead to a high level of **external debt**



Deficiencies in Human Capital as Barrier to Growth

Investment in education and training to increase the quality of the labour force and make people more flexible in the labour market



Human capital weakness limits the positive impact of capital investment

Investment increases the size of the capital stock and helps to achieve “**capital deepening**” (more capital per worker) but businesses need skills and experience to make best use of new technologies

In many countries there are acute **shortages of human capital**

Some countries lose some of their skilled workforce to other countries through a **brain drain**

Other Key Threats / Barriers to Growth

Ageing population

Financial instability / credit booms / busts

Disruptive technologies challenging advantage

Rising inflation in fast growing countries

Threat of deflation in many advanced nations

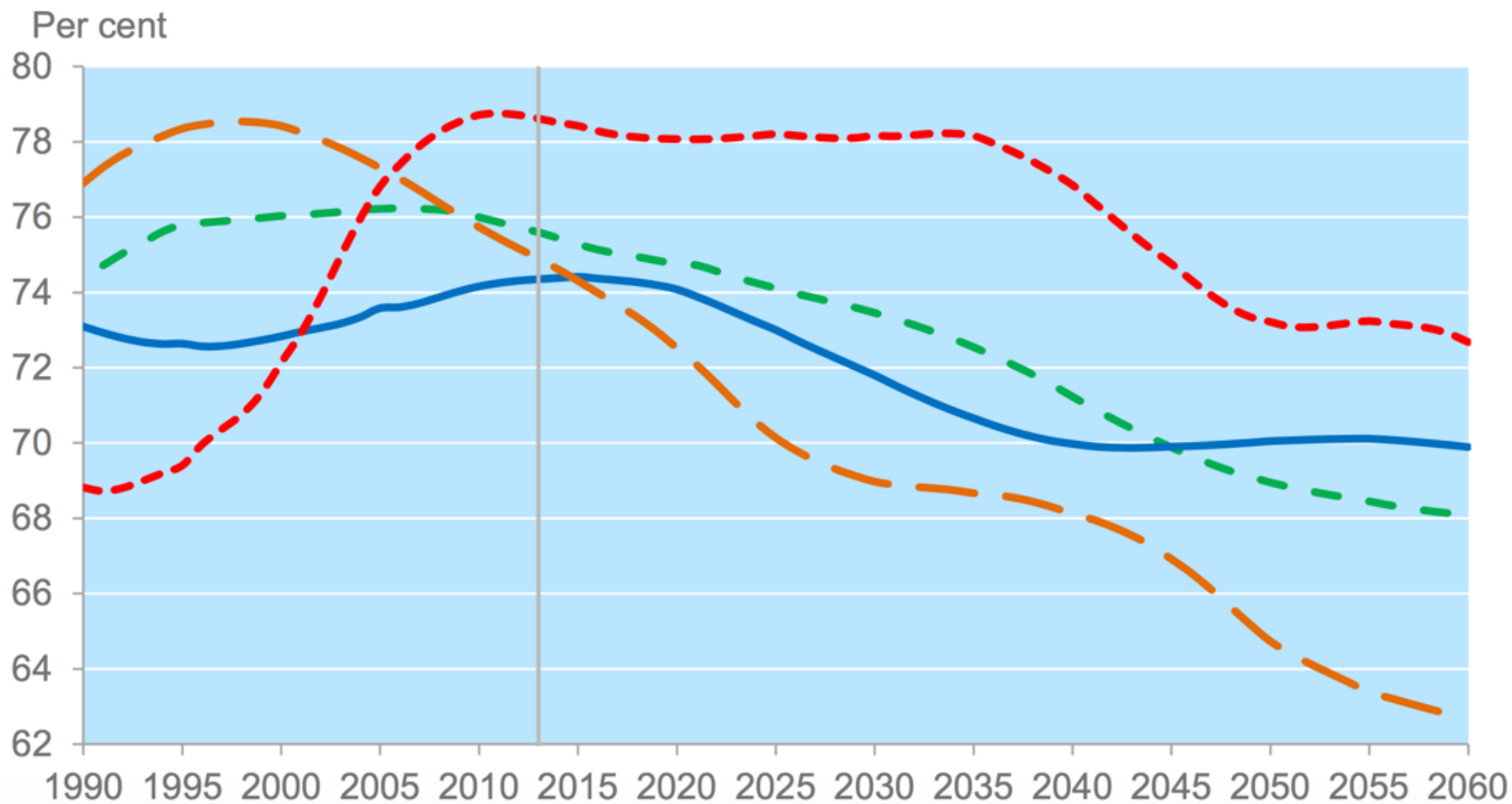
Rising inequality of income and wealth

Political instability / military conflicts

Environmental threats to the global commons

Population aged 15-74 as a share of the total

European union United States Japan China



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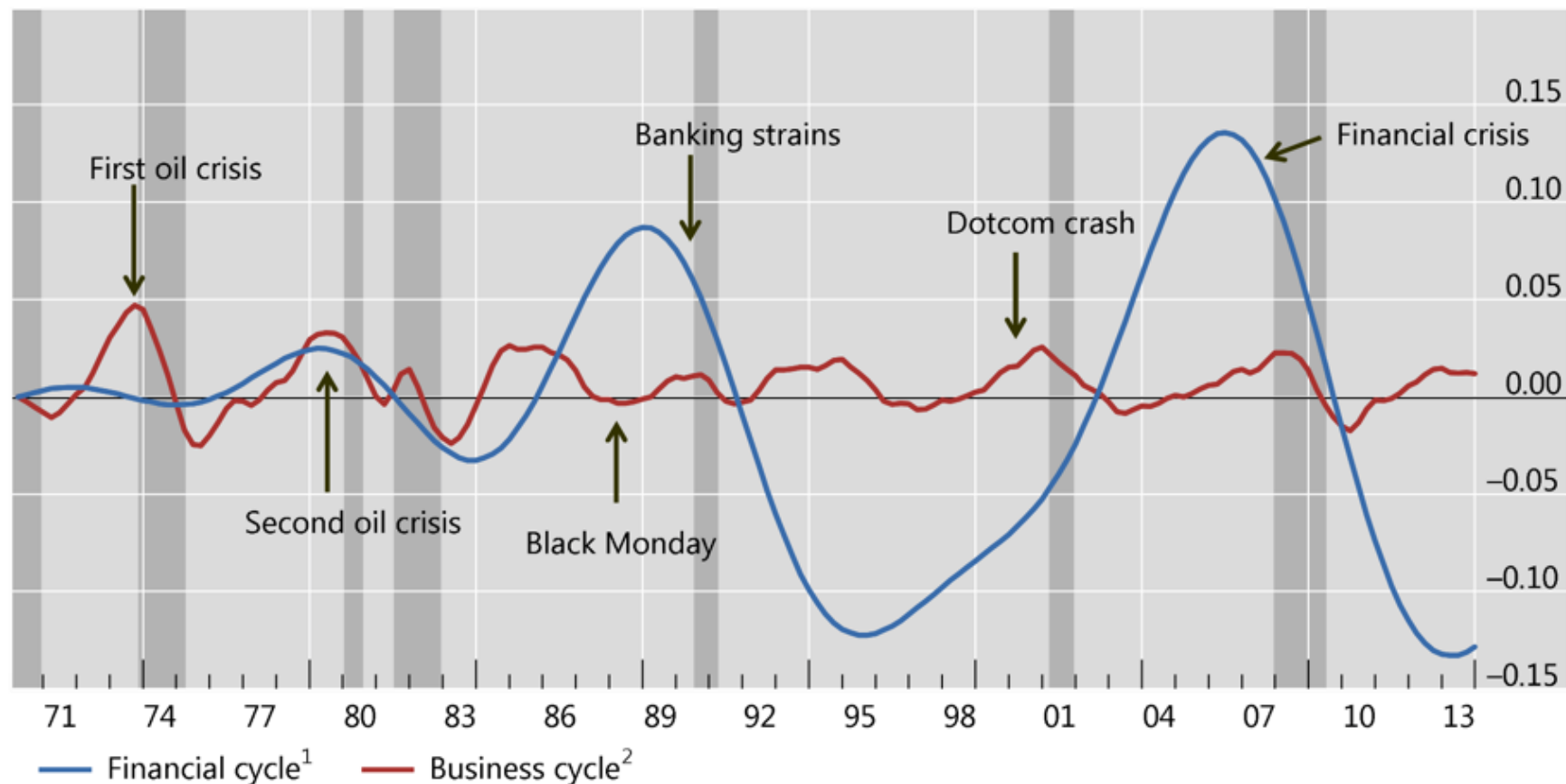
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Environmental threats to the global commons

Graph 2: The financial grows bigger (the US example)



¹ The financial cycle as measured by frequency-based (bandpass) filters capturing medium-term cycles in real credit, the credit-to-GDP ratio and real house prices. ² The business cycle as measured by a frequency-based (bandpass) filter capturing fluctuations in real GDP over a period from one to eight years.

Source: Drehmann et al (2012).

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In 2015 Uber, the world's largest taxi company owns no vehicles, Facebook the world's most popular media owner creates no content, Alibaba, the most valuable retailer has no inventory and Airbnb the world's largest accommodation provider owns no real estate.

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STUDY NOTES

Economic Growth - Advantages of Growth



Economic Growth Presentation

18th February 2011



STUDY NOTES

Economic Growth - An Introduction

A2 Macro: Economic Growth