

Macroeconomic Objectives

Growth

3.3



What are the 3 main objectives of an economy?



3 Macro Objectives

1. Economic Growth
2. Low Unemployment Rate
3. Low and Stable Inflation



Possible additional goals: Sustainable Debt, Equity, and Income Distribution

Definition

Economic Growth

Increase in real GDP over time



Growth

Growth can be represented using a PPC or AD/AS diagram.

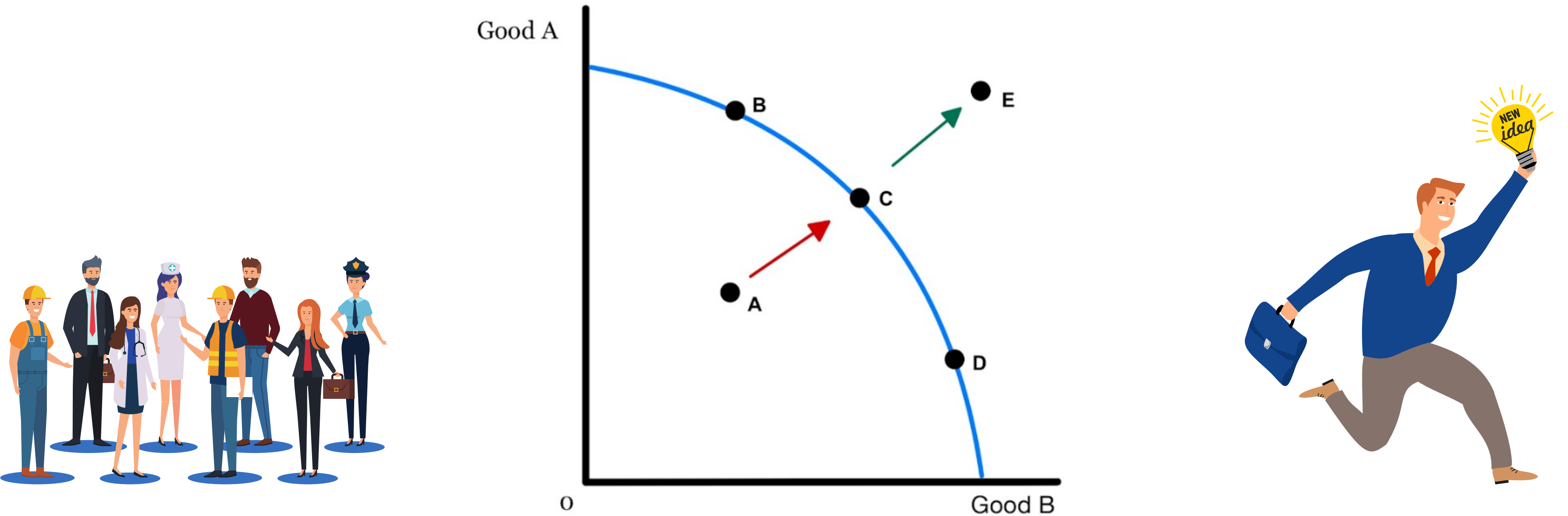
Short-term growth is an increase in actual output while long-term growth is an increase in potential output.



Short-Term Actual Growth

A movement from point A to Point C illustrates **ACTUAL GROWTH**.

ACTUAL GROWTH - When growth/efficiency is achieved by making better use of resources.



This is growth that can **ACTUALLY** happen given current resources.

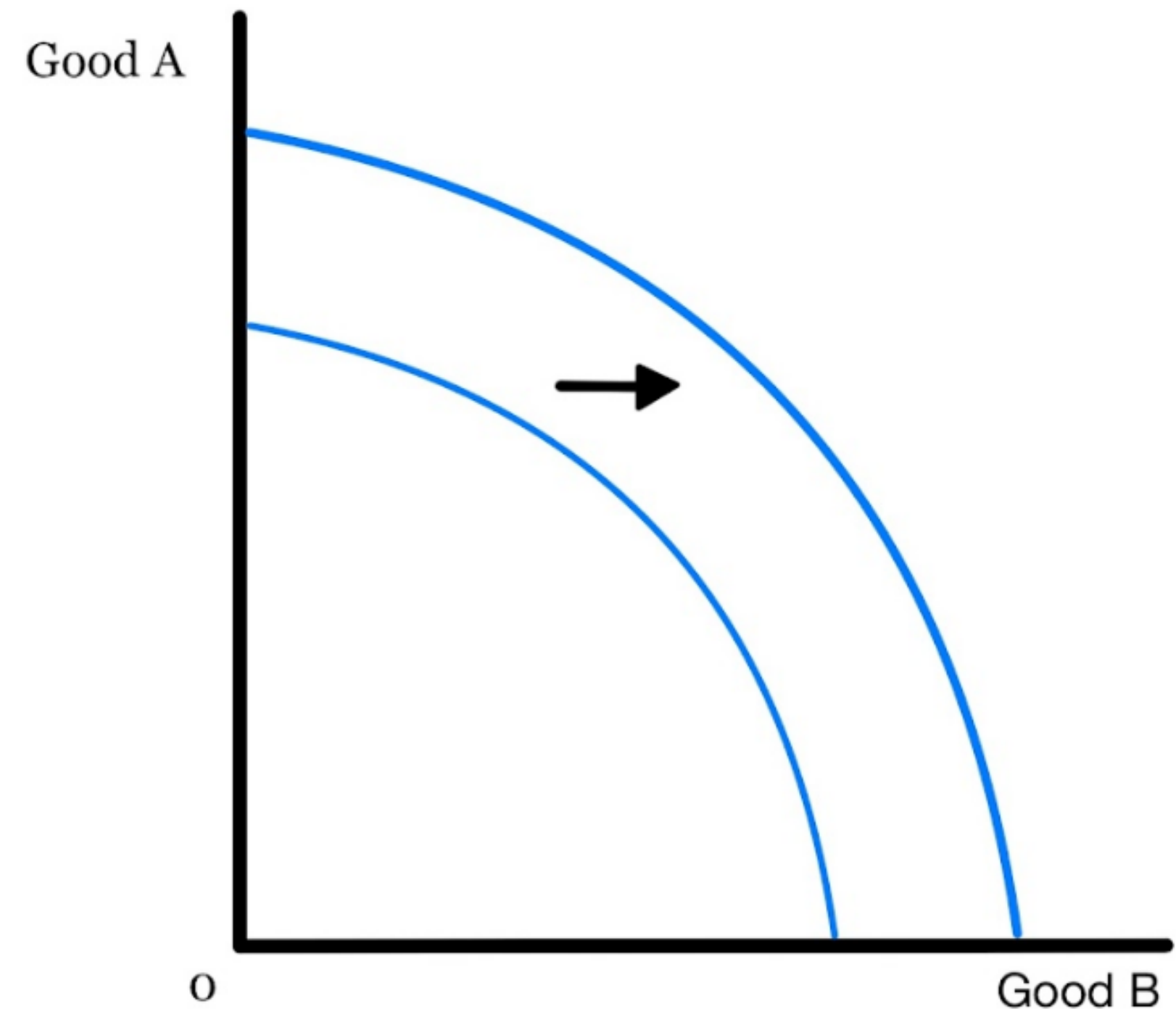
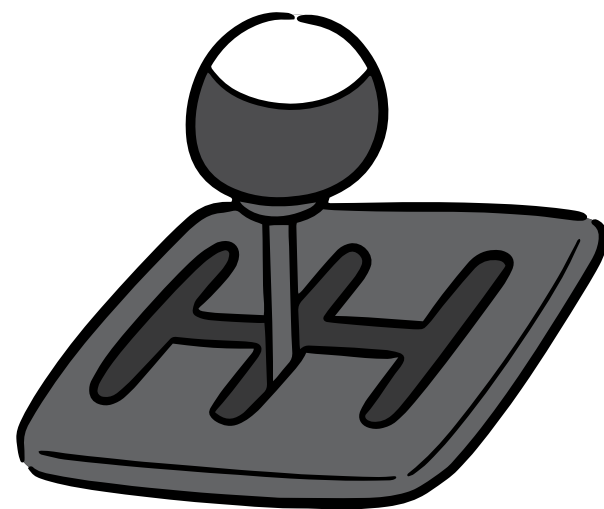
Long-Term Potential Growth

An increase in the maximum amount that can be produced is **POTENTIAL GROWTH**.

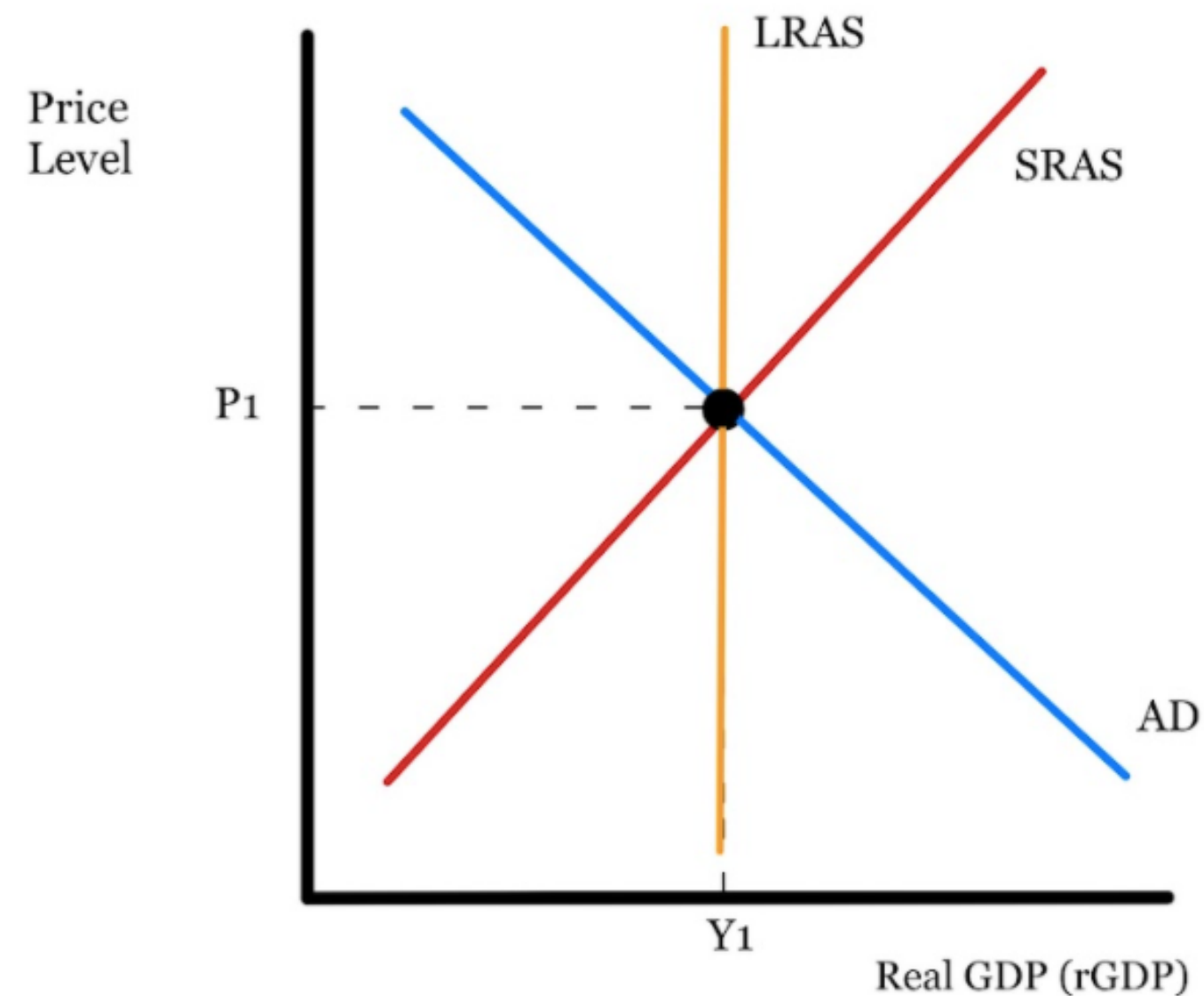
POTENTIAL GROWTH results in a shift of the PPC. A few things cause the shift of PPC.

Shifters of the PPC (Potential Growth)

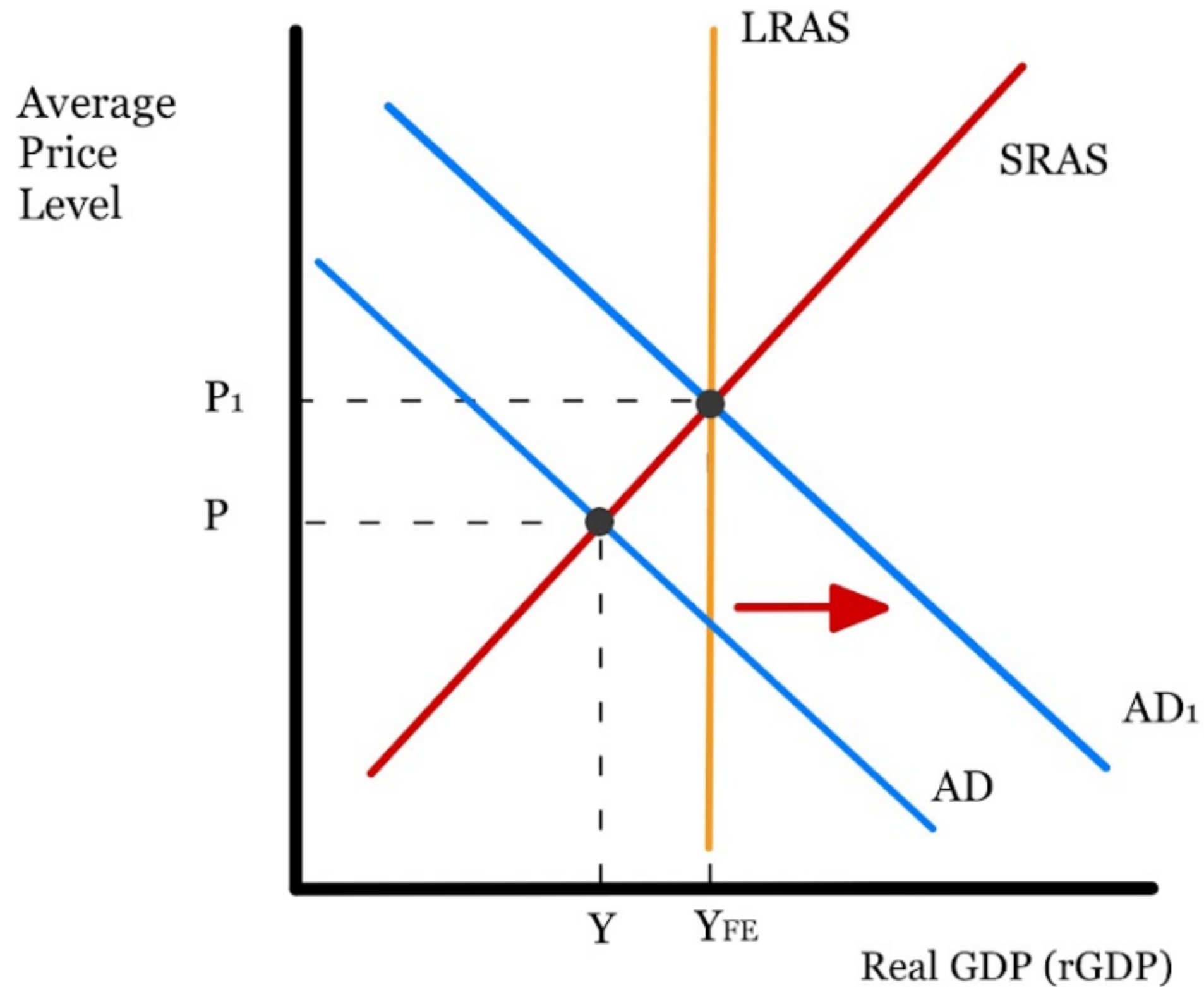
1. Change in quantity or quality of Factors of Production
2. Improvement in Technology



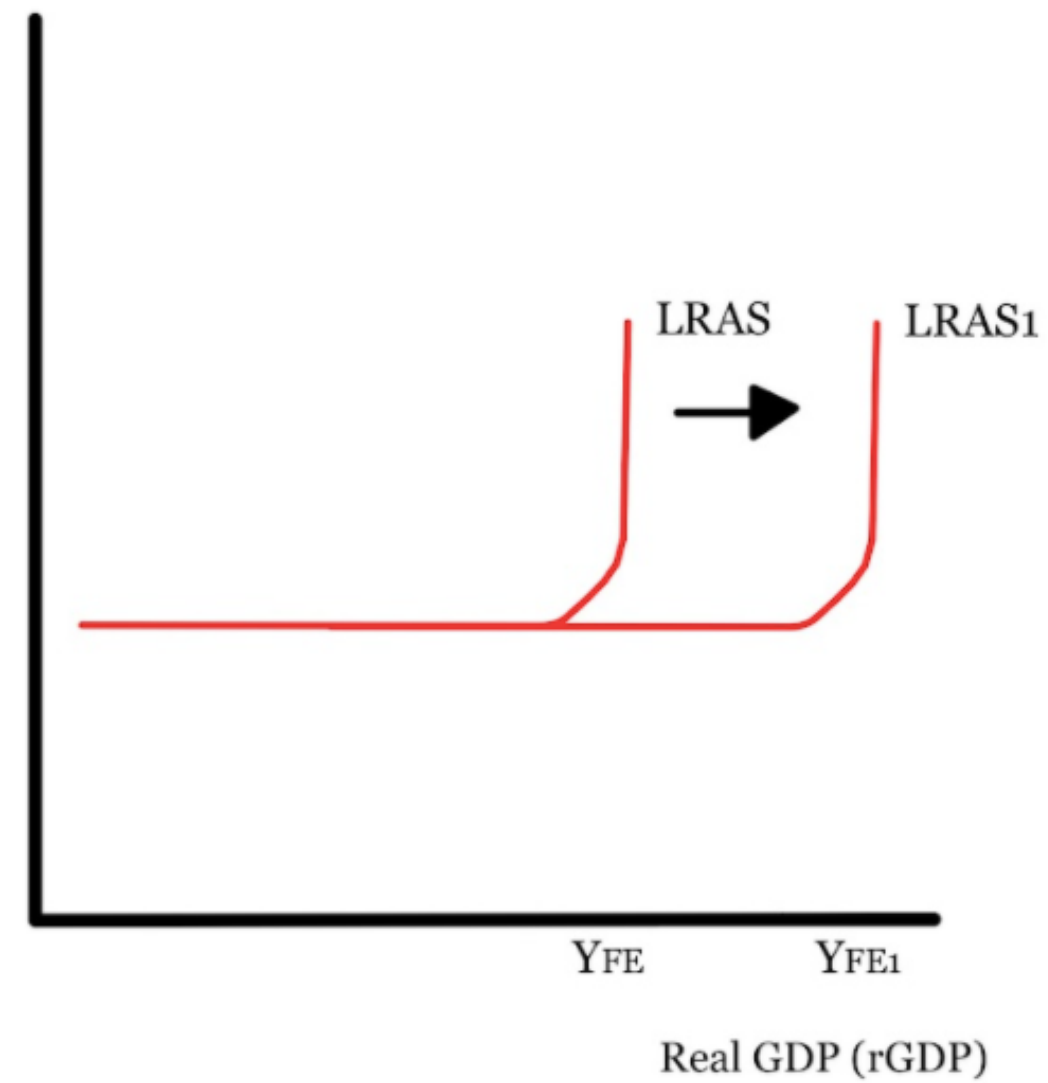
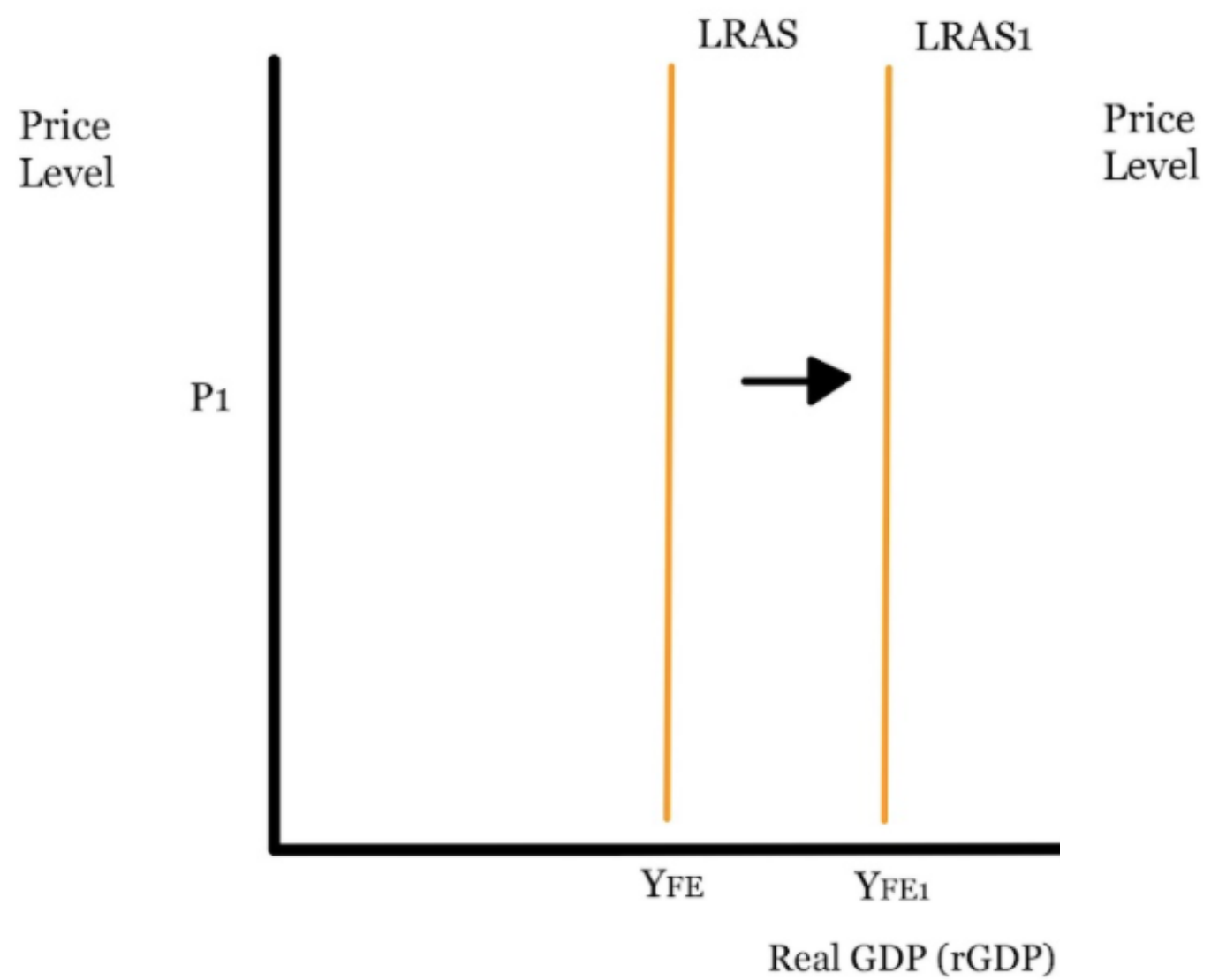
Using an AD/AS diagram draw actual vs potential growth



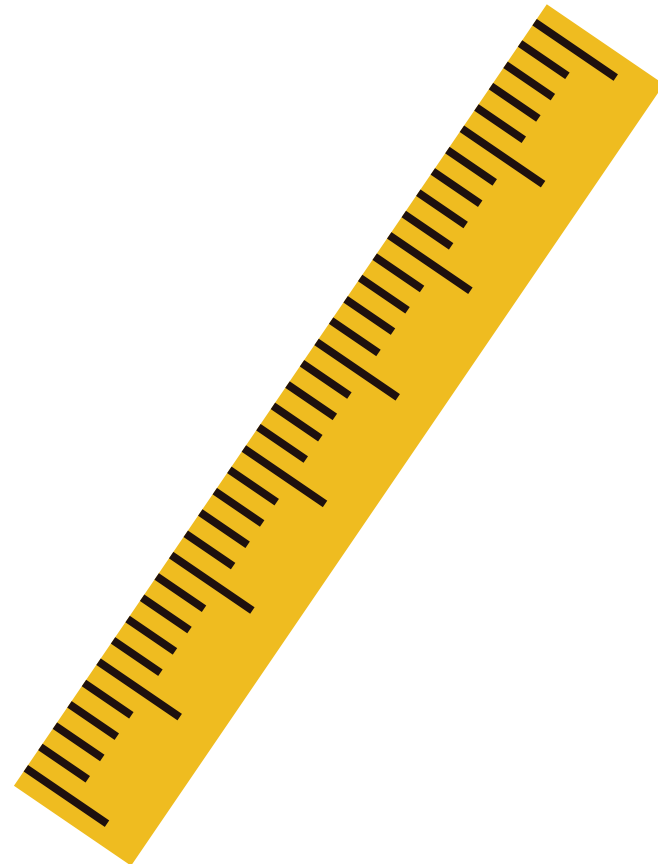
Actual Growth



Potential Growth



Measuring Economic Growth



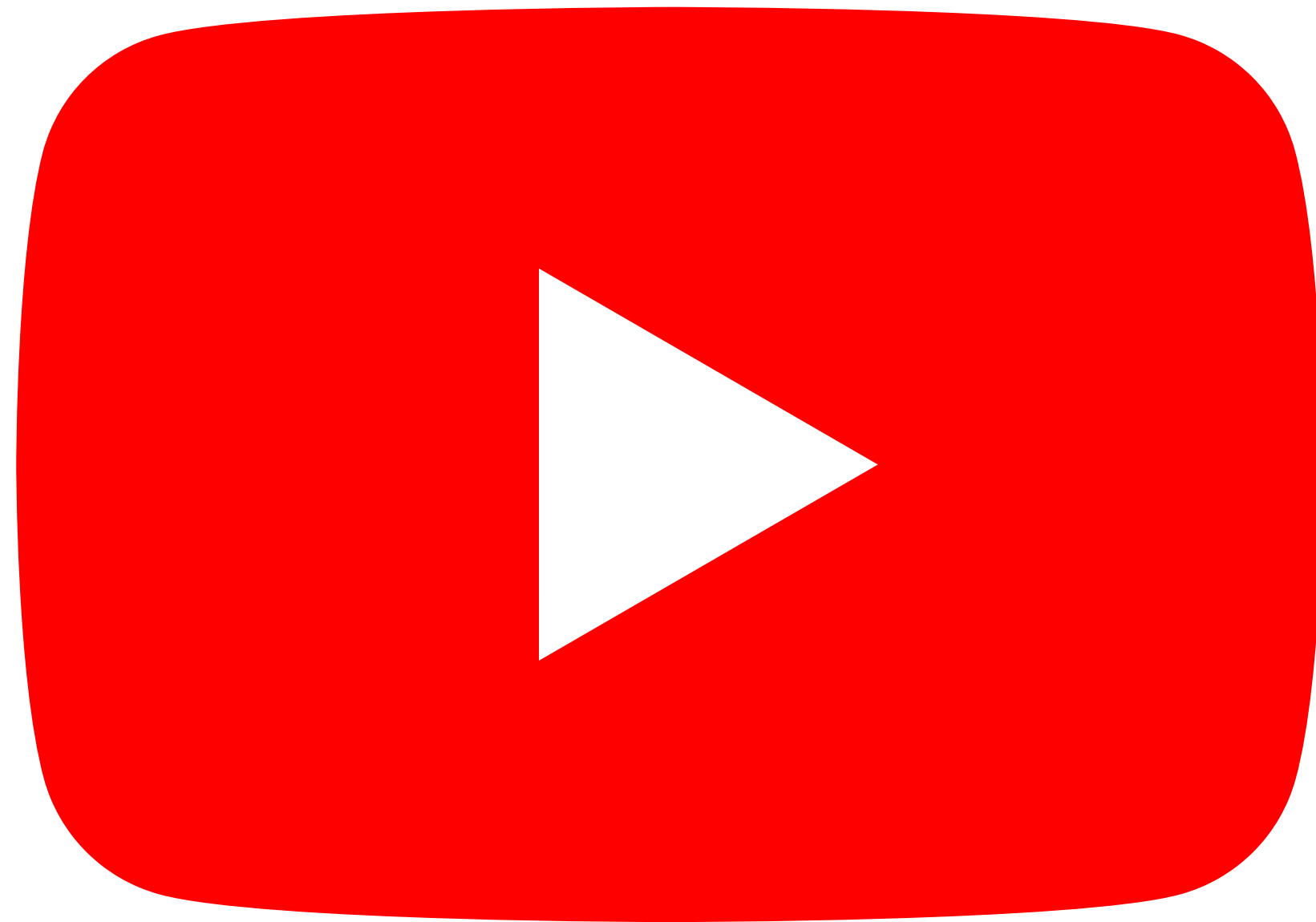
Formulas

To measure economic growth, just use percent change.

Economic Growth

$$\frac{\text{new RGDP} - \text{old RGDP}}{\text{old RGDP}} \times 100$$





UNDERSTANDING ECONOMIC GROWTH | AP MACROECONOMICS | KHAN ACADEMY

Consequences of Economic Growth

- **Impacts on Living Standards**

- An increase in RGDP typically leads to an increase in people's income leading to better living standards

- **Environmental Impacts**

- If economic growth is the primary concern of a country, sustainability typically is pushed by the wayside

- **Income Equality and Distribution**

- Depending on the status of wealth and income equality in a country, economic growth may only help certain groups of individuals such as the wealthy and elite while actually harming low-income earners



Enjoying The Content?

Visit bananaomics.com to purchase package deals with discount prices!



BANANA
OMICS