CHAPTER 21 : Introduction to the measures of economic performance

Key terms

1. Balance of trade : Part of the current account. The balance of trade records the value of goods and services sold abroad (exports) and the the value of goods and services bought from abroad(Imports). A positive value shows a surplus, a negative value shows a deficit.
2. Balance of trade deficit : when the value of import is greater than exports.
3. Balance of trade surplus : when the value of exports is greater than the value of imports.
4. Current account : part of the balance of payments account. A major component of the current account is the balance of trade.
5. Economic growth : a measure of how much output has increased by over a 12-month period. It is expressed as a percentage.
6. Export : goods and services sold abroad.
7. Gross domestic product (GDP) : a standard measure of the output of an economy, used by countries around the world.
8. Imports : Goods and services bought from abroad.
9. Inflation : A continuing and general rise in price across an economy.
10. Recession : Two quarters of negative economic growth in a row.
11. Unemployment : occurs when individuals are without a job but are actively seeking work

1. Understand the measures of economic performance

1.1 Economic Growth

: This measure of output is called " Gross domestic Product" (GDP)

Why economic growth ?

: Higher economic growth / Higher GDP means people have more average income

: People have more ability to pay more goods and services

: Standard of living will be better.

Or

: Firms possible to gain more revenue.

: Firms will generate more production to respond higher demand

: So, Firms will hire more labour and hence it can reduce unemployment rate.

1.2 Inflation

: increase in average prices in an economy.

If there is high inflation, what are negative effects?

: Higher inflation means higher average price of goods and services

: People especially who have fixed income will have less purchasing power

: Standard of living will be lower.

1.3 Balance of payments

: is a major part of the current account of the balance of payments. The balance of trade Records the value of goods and services sold abroad (exports) and the value of goods and services bought from abroad (Imports) .

: If value of export > value of import : Balance of trade surplus

: If value of import > value of export : Balance of trade deficit

Why Balance of trade should be balance ?

: If balance of trade deficit : money outflow is higher than money inflow

: If balance of trade surplus : less domestic goods for domestic people, it can causes scarcity.

1.4 Unemployment

: People are willing and able to work but cannot get job.

Why unemployment should be low ?

: Since higher unemployment means people have lower income

: There will be less ability to pay goods and services

: Standard of living will be lower.

Or

: Government may need to spend higher budget for unemployed benefits

: It can lead to higher national debt or opportunity cost for other projects.