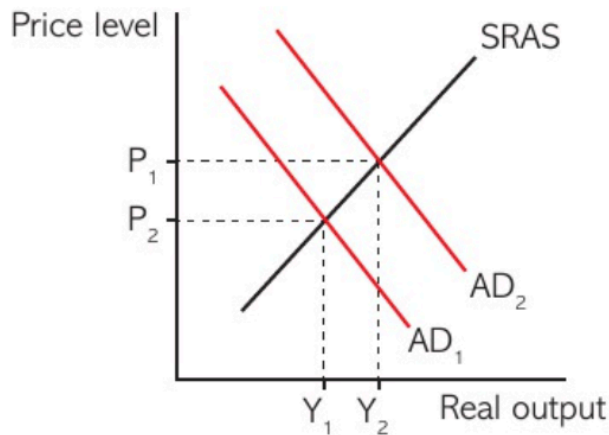


CHAPTER 35 : Causes of economic growth and output gaps

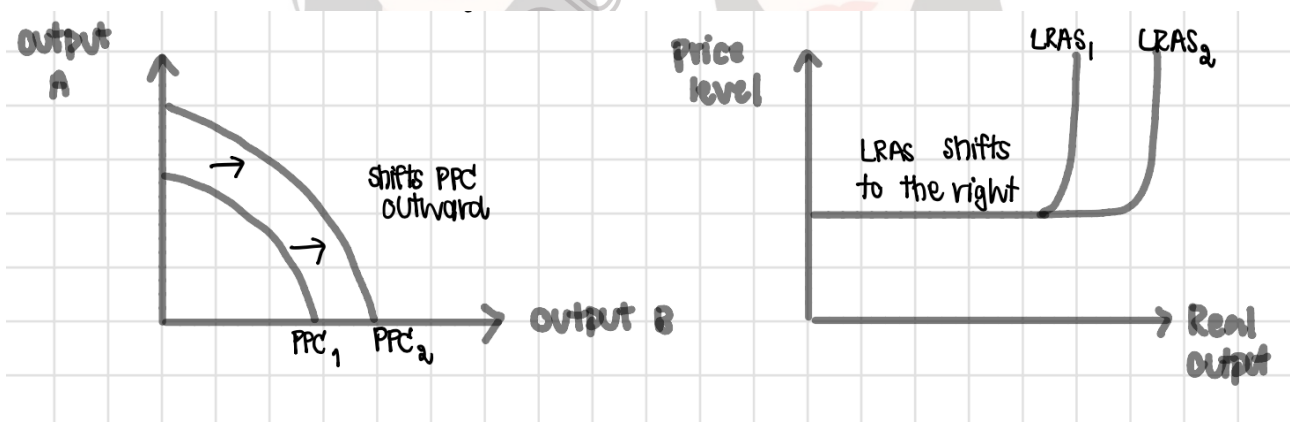
Key terms

1. Actual growth : economic growth as measured by recorded changes in real GDP over time
2. Economic growth : a rise in output in an economy that can be either actual growth or potential growth
3. Export-led growth : a rise in aggregate demand caused by a rise in exports
4. Foreign direct investment : flows of money between countries where one firm buys or sets up another firm in another country
5. GDP per capita : GDP divided by the number of people in the population
6. Output gap : the difference between actual level of GDP and the productive potential of the economy
7. Potential growth : economic growth as measured by the changes in the productive potential of economy over time

1. **Actual growth** : means that real output has increased. It therefore also means that spending in the economy, or AD, has increased since national output must equal national expenditure. Or $AD = C + I + G + NX$ has increased.



2. **Potential growth** : measures the increase in the productive capacity of an economy over a year. It directly links with the Production possibility curve (PPC)



Factors that cause potential growth

- FDI
- More innovation
- Growth in labour force including higher no. of net migration
- Degree of competition

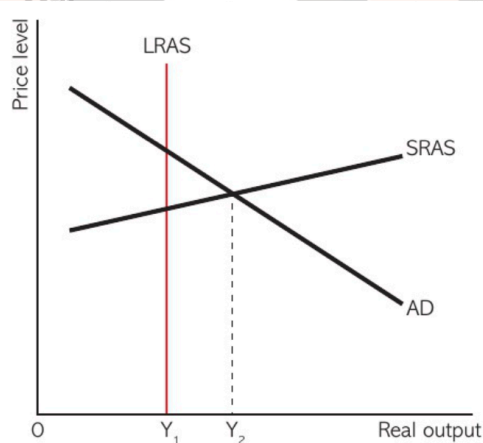
3. The important of international trade for export led economic growth

: Export led growth occurs when countries open up their economies to international market eg. China/Thai

Advantages	Disadvantages
<ol style="list-style-type: none"> 1. Countries can use their comparative advantages to generate revenue / GDO 2. It can bring to the trade surplus (Export > Outflow) , more inflow in the economy 	<ol style="list-style-type: none"> 1. Some countries may rely on other countries : There will be higher risk and uncertain 2. Export led growth can bring to currency appreciated : There will be less competitive in long run

4. Output Gap

4.1 Positive output gap : Actual real GDP > Potential GDP



4.2 Negative output gap : Actual real GDP < Potential GDP

