

2.5.1 Causes Of Growth

Factors That Could Cause Economic Growth

- Growth occurs following a shift (increase/decrease) in AD or LRAS
 - The factors that increase these have been covered already but AD is increases in its components and LRAS is increases in quan/qual of factors

Actual and Potential Growth

- Actual growth is changes in Real GDP
 - Sum of all incomes, spending or output in a country
 - Each method gives different estimates but they can be used to

- determine a good estimate of GDP
- In COVID pandemic, lots of firms did not complete surveys, meaning that output was hard to assess
- Potential growth is the level of output that an economy could produce at full employment of resources
 - A change in potential growth is shown as an LRAS shift
 - Potential output is determined by potential size of labour force, capital stock, productivity and discovery natural resources (quantity and quality of factors plus changes in the state of technology)
- Output gap is the difference between potential growth and actual growth

The Importance of International Trade for

(export-led) Economic Growth

- An increase in exports is a shift in AD (plus multiplier)
- Export-led growth means growth as a result of improvements in the balance of payments (in the current account)
- A country may stimulate export by engineering a depreciation of the exchange rate or by adopting policies to improve productivity and efficiency in exporting sectors (e.g. subsidising technology exporters)