



Edexcel A - AS Level Economics

Theme 2 – The UK economy – performance and policies

2.5 Economic Growth

Worked Examples

Contents

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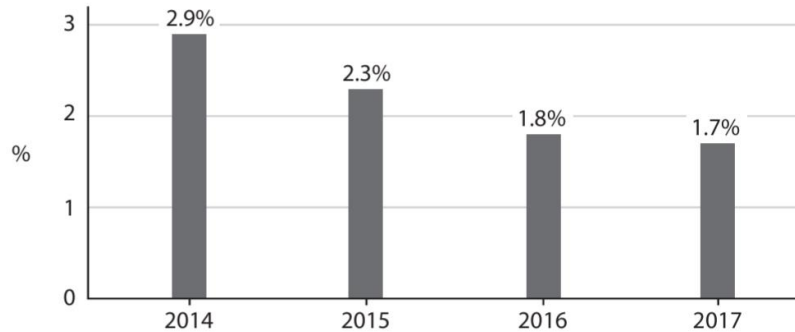
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- Economic growth

2.5 Economic growth

Exam Style Question 1

UK real Gross Domestic Product (GDP), annual percentage change 2014-2017.



(Source: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna>)

- (a) Total real UK GDP in 2016 was £200,000 million. With reference to the chart above, calculate the total real UK GDP for 2017. You are advised to show your working. [2]
- (b) Explain the term 'real gross domestic product'. [2]
- (c) With reference to the chart on page 2, which **one** of the following is correct over the period shown? [1]
- A GDP per capita was highest in 2014
 - B Inflation rose in 2015
 - C The UK economy grew at the fastest rate in 2014
 - D The UK economy was in recession in 2015

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Exam Style Question 1

Answer:

(a) Calculate the total real UK GDP for 2017.

We know that the real UK GDP in 2016 was £200,000 million, and the GDP growth rate for 2017 is 1.7%. To calculate the GDP for 2017, we apply the formula:

$$GDP \text{ for 2017} = GDP \text{ for 2016} \times (1 + \text{growth rate})$$

First, convert the growth rate to decimal form (1.7% becomes 0.017), then multiply:

$$GDP \text{ for 2017} = 200,000 \times (1 + 0.017) = 200,000 \times 1.017 \text{ [1]}$$
$$GDP \text{ for 2017} = 203,400$$

So, the total real UK GDP for 2017 is **£203,400 million**. [1]

(b) Explain the term 'real gross domestic product':

"Real gross domestic product" (real GDP) refers to the total value of all goods and services produced in a country (total output of the economy), adjusted for inflation. [2]

(c) With reference to the chart, which one of the following is correct over the period shown?

Answer: C – The UK economy grew at the fastest rate in 2014.

Option A – Incorrect, we do not have any data on population

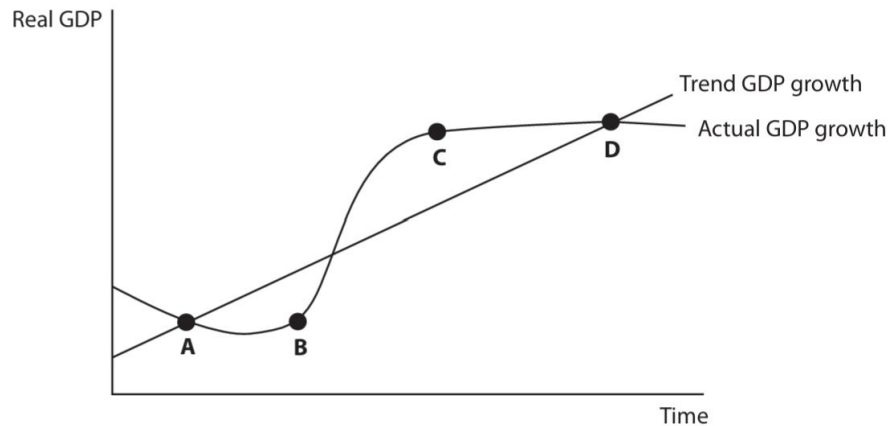
Option B – Incorrect, we do not have any data on inflation

Option D – Incorrect, economic growth is positive in 2015

2.5 Economic growth

Exam Style Question 2

- (a) Define the term 'recession'? [1]
- (b) Explain one characteristic of a recession. [2]
- (c) Which point on trade cycle diagram illustrates a negative output gap? [1]



- A
- B
- C
- D



2.5 Economic growth

Exam Style Question 2

Answer:

(a) Define the term 'recession':

A **recession** is a period of economic decline, typically marked by a decrease in the real GDP of a country for at least two consecutive quarters (6 months). [1]

(b) Explain one characteristic of a recession:

One characteristic of a **recession** is a **decrease in consumer spending**. [1] During a recession, people often feel less confident about their financial future and may reduce their spending on goods and services. This decline in demand can lead to lower business profits, higher unemployment, and further economic contraction. [1]

(c) Which point on the trade cycle diagram illustrates a negative output gap?

Answer: B [1]

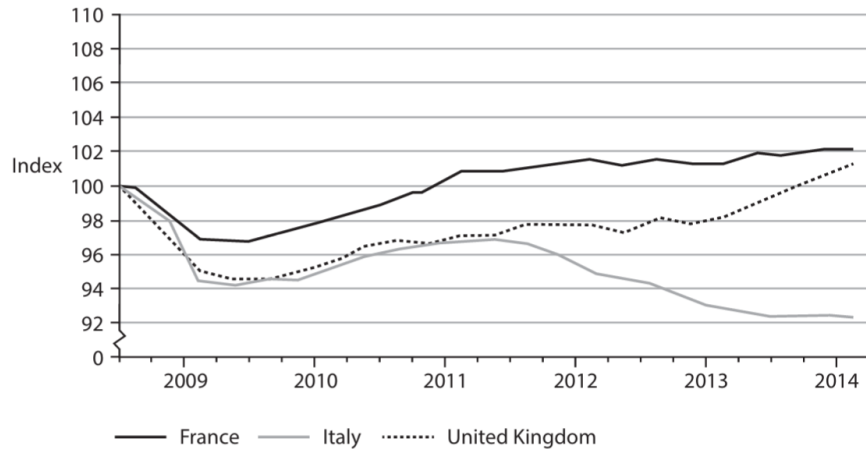
Option A and D: Incorrect. It shows actual GDP growth on Trend GDP growth, therefore no output gap.

Option C: Incorrect. It shows actual GDP growth above trend GDP growth, therefore positive output gap.

2.5 Economic growth

Exam Style Question 3

Real GDP in selected economics (the base year 2008=100)



(Source: <http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014-may-gdp-update/sty-gdp-g7-economies.html?format=print>)

(a) Which **one** of the following can be inferred from the chart? [1]

- A The UK's real GDP is smaller in 2014 than it was in 2008
- B Between 2008 and 2014 France's real GDP growth rate was higher
- C Between 2008 and 2014 inflation was lower in France than in the UK
- D France experienced a greater fall in real GDP than the UK in 2014

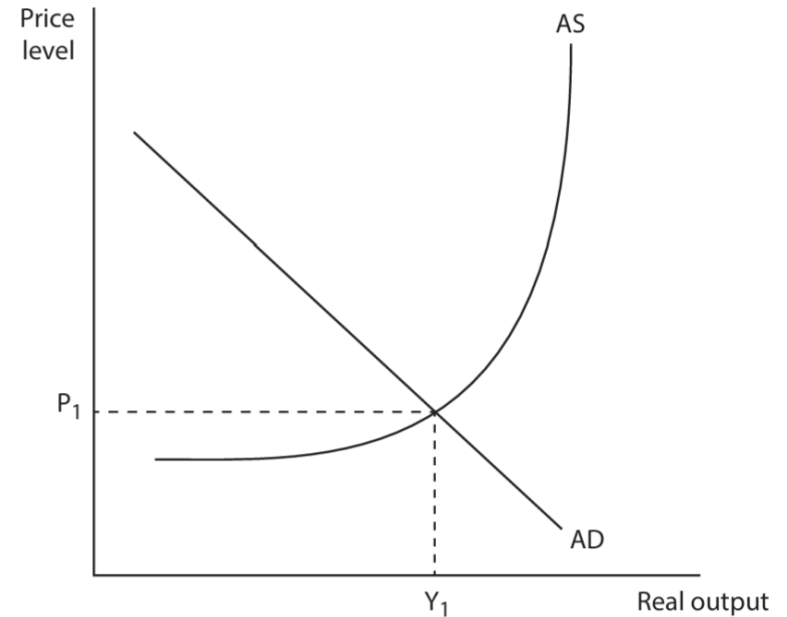


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Exam Style Question 3

(b) Define the term 'real GDP'? [1]

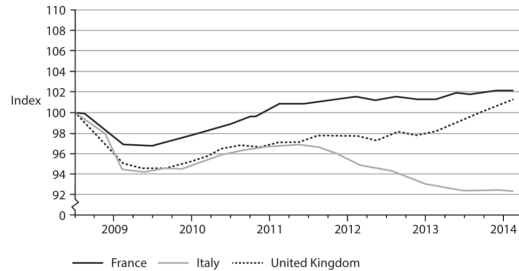
(c) Illustrate a negative output gap on the diagram below. [1]



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Exam Style Question 3

Real GDP in selected economies (the base year 2008=100)



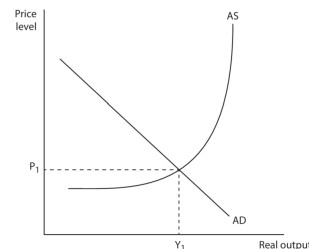
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(a) Which **one** of the following can be inferred from the chart? [1]

- A The UK's real GDP is smaller in 2014 than it was in 2008
- B Between 2008 and 2014 France's real GDP growth rate was higher
- C Between 2008 and 2014 inflation was lower in France than in the UK
- D France experienced a greater fall in real GDP than the UK in 2014

(b) Define the term 'real GDP'? [1]

(c) Illustrate a negative output gap on the diagram below. [1]



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Exam Style Question 3

Answer:

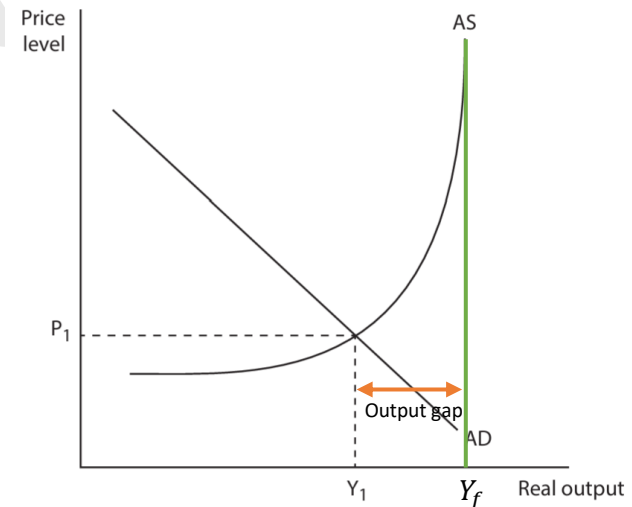
(a) Which one of the following can be inferred from the chart?

Answer: B – Between 2008 and 2014, France's real GDP growth rate was higher than Italy's. [1]

(b) Explain the term "real GDP".

Real gross domestic product (real GDP) refers to the total value of all goods and services produced in a country (total output of the economy), adjusted for inflation. [2]

(c) Which point on the trade cycle diagram illustrates a negative output gap? [1]



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2.5 Economic growth

Exam Style Question 4

The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	GDP per capita (US\$, at PPPs, 2013, rounded)
UK	38 500
Spain	33 000
Italy	35 500

(Source: <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>)

(a) Define the term 'purchasing power parities. [2]

(b) The Office for National Statistics estimates that the UK population was 64 million in 2013. Using the data, what was the UK's total GDP in 2013? [1]

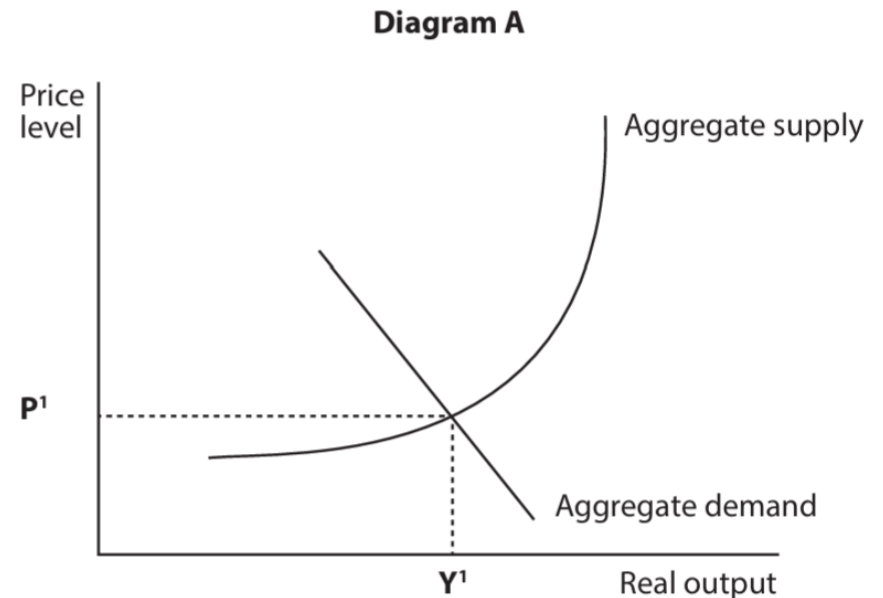
- A \$2 464 000 million
- B \$2 272 000 million
- C \$1 662 000 million
- D \$2 112 000 million



2.5 Economic growth

Exam Style Question 4

(c) Diagram A shows the AD and AS for a country. Illustrate actual economic growth on Diagram A. [1]



2.5 Economic growth

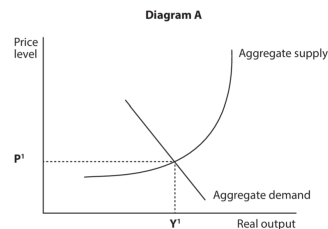
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- A \$2 464 000 million
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- D \$2 112 000 million
- (c) Diagram A shows the AD and AS for a country. Illustrate actual economic growth on Diagram A. [1]



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2.5 Economic growth

Exam Style Question 4

Answer:

(a) Define the term 'purchasing power parities' (PPPs).

Purchasing Power Parities (PPPs) are exchange rates that **adjust for differences in the cost of living between countries**, allowing for a fair comparison of **GDP per capita**. Instead of using market exchange rates, PPPs measure how much **the same amount of money can actually buy in each country**. [2]

(b) Calculate the UK's total GDP in 2013.

To find total GDP, we use the formula:

$$\text{Total GDP} = \text{GDP per capita} \times \text{Population}$$

Given data:

UK GDP per capita (PPP) = \$38,500

UK population in 2013 = 64 million

$$38,500 \times 64 = 2,464,000 \text{ million}$$

Correct answer: **A - \$2,464,000 million [1]**

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2.5 Economic growth

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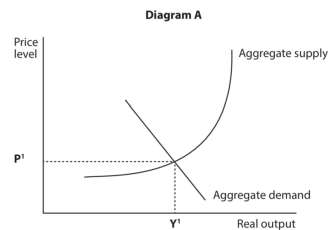
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- (c) Diagram A shows the AD and AS for a country. Illustrate actual economic growth on Diagram A. [1]

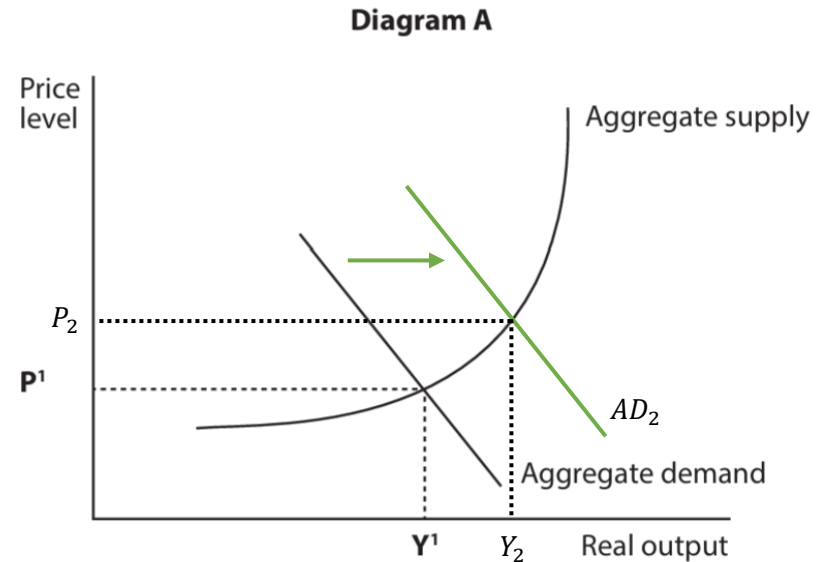


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Exam Style Question 4

Answer:

- (c) Diagram A shows the AD and AS for a country. Illustrate actual economic growth on Diagram A. [1]



Please see the '2.5 Economic Growth Revision Notes' pack for detailed notes.

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