**KEY CONCEPTS AND SKILLS: Unit 2.1 – Overall Level Economic Activity**

**Definitions:**

* **Macroeconomics**: the study of an entire economy or large sectors of an economy, and particularly such issues as unemployment, inflation and economic growth
* **Closed Economy**: an economy with no international trade
* **Open Economy:** an economy with international trade
* **Leakages** (or **Withdrawals**): In the circular flow of income model, reductions of the flow of funds corresponding to savings, taxes and imports.
* **Leakages** (or **Withdrawals**): In the circular flow of income model, additions to the flow of funds corresponding to investment, government spending and exports.
* **Factors of Production**: the resources that are necessary for production; they are usually classified into four groups – land, labour, capital, enterprise
	+ **Rent**: payments made for use of land
	+ **Wages**: payments made for use of labor
	+ **Interest**: payments made for use of capital
	+ **Profit**: payment received for entrepreneurship
* **National income statistics**: statistical data used to measure national income and output and other measures of economic performance
	+ **Gross Domestic Product (GDP)**: the value of all goods and services produced within the boundaries of a country over a particular time period, usually a year
		- **GDP per Capita**: a country’s GDP divided by its population
	+ **Gross National Income (GNI)**: the total income received by a country’s residents, regardless of the location of their factors of production
* **Nominal Value**: value measured in terms of prices that prevail at the time of measurement
* **Real Value**: value that takes into account changes in prices over time
* **Business Cycle**: Fluctuations in the growth of real output, consisting of alternating periods of **expansion** (increasing real output) and **contraction** (declining real output)
* **Recession**: six or more months of economic contraction
* **Potential Output**: the level of output that can be produced when there is full employment
* **Output Gap**: the difference (positive or negative) between potential output and actual output

**Concepts and Applications:**

1. ***Economic Activity***
2. Sketch and explain the *circular flow of income* model in a closed economy with no government.
3. Identify the four factors of production and their respective payments, and explain how these constitute the income flow in the model.
4. Outline why income flow is numerically equivalent to the expenditure flow and the value of output flow.
5. Outline how leakages and injections would modify the *circular flow model*.
6. Outline the impact on income and production if the aggregate quantity of leakages is greater than the aggregate quantity of injections (and vice versa).
7. With reference to leakages and injections in the circular flow model, explain what a government could do to prevent a recession.
8. ***Measures of Economic Activity***
9. Describe the *output approach*, *income approach* and *expenditure approach* for measuring national income.
10. Distinguish between GDP and GNI as measures of economic activity.
11. Distinguish between the nominal and real values of GDP and GNI.
12. Distinguish between total GDP and GNI and per capital GDP and GNI.
13. Evaluate the use of national income statistics, including their use for:
	* Making comparisons over time;
	* Making comparisons between countries; and
	* Making conclusions about standards of living.
14. Explain how and why Green GDP may be calculated.
15. ***(HL only) Calculations of GDP***
16. Given sets of national income data:
	* Calculate nominal GDP using the expenditure approach.
	* Calculate GNI
17. Calculate real GDP using a deflator
18. ***The Business Cycle***
19. Distinguish between a decrease in GDP and a decrease in GDP growth.
20. Explain, using a diagram, how economies tend to go through a cyclical pattern characterized by the phases of the business cycle.
21. Explain the long-term growth trend in the business cycle diagram as the potential output of the economy.
22. Explain, using a diagram, the typical goals of central banks/governments with respect to the business cycle.